

STATE AFFAIRS COMMITTEE  
April 2, 1965

The Committee was called to order and the Chairman stated that Senate Bill 167 would be the next order of business. He then introduced Senator Sebeleus who stated that they held hearings in the Senate Committee and many of those who were in attendance had appeared as proponents in the Senate hearing. He then asked Senator Garr to make remarks concerning the proposal. Mr. Garr stated that this is a broad, general bill, similar in nature to the two local bills that have been introduced this session; that it can accomplish a big tax saving for any city that already has bonds, by permitting refunding and buying with the money received U.S. Government Securities which will pay the interest on the (i.e.) waterworks bonds already outstanding. He states that this would be a money saving statute and will not get the taxpayers in any trouble.

Mr. Mosher of the League of Kansas Municipalities presented a prepared statement (see attached) and introduced Mayor Dufek of Hutchinson, who stated that they have about a million dollars worth of bonds that they would like to handle this way, and that it would amount to about \$600,000. Mr. Gilliland, City Attorney for Hutchinson, stated that they are very anxious that this be adopted. Mr. Diehl of McPherson stated that at this time they do not need this legislation but are in favor of it (all members of the City Commission) in the event they wish to utilize the privilege at a later time. Mr. Mosher stated that in the preparation of this proposal, great care had been taken to restrict the terms so there could be no "hanky panky" and that he feels it has many safeguards.

Mr. Rittenoure of Wichita appeared in opposition to the proposal (see attached). Mr. Finney also spoke in opposition to the proposal, stating that in Kansas we have been in splendid shape on these investments and that this is because we have not abused the law in the past; that he does not believe that we should authorize governing bodies to play the money market; that he knows great pressure has been applied to pass this bill but that Congress is presently considering legislation that would put this type of state legislation in serious trouble.

Because of the short time available for meeting purposes, the meeting was adjourned.

April 2, 1965

To:  
Committee on State Affairs  
Mr. Jess Taylor, Chairman  
and Gentlemen

Re: Senate Bill 167

My name is Lawrence W. Rittenoure. I am President of The Rittenoure Investment Co., Room 2 Beacon Building, Wichita, which I incorporated in April 1933. My experience in selling, buying and issuing of Municipal Bonds of Kansas and other states started in 1917, in Wichita, therefore I feel reasonably competent to analyze and criticize Senate Bill 167.

Kansas municipal credit is outstanding, due partly to the solid character of our people, but also to the sensible laws that have been passed from time to time by our Legislatures limiting and regulating the creation of public debt.

The 1923 Legislature enacted Sec. 10-103 which required all G.O. debt to be payable in approximately equal annual installments, a very wise law that requires reduction annually of municipal debt payable from taxes. By such payment of principal true savings of interest charges are effected for our people. Since 1923 such savings would total hundreds of million of dollars by contrast with the old practice of Term Bonds, with Sinking Funds that had "sunk" away when needed to pay principal.

Another wise piece of fiscal legislation was the Cash Basis Law of 1933 and others could be cited. These sound policies improve and maintain a high standard of public credit, which benefits all of us because it keeps interest rates for borrowed money down to the minimum of cost. There should be no relaxing of the principles that have made municipal credit in Kansas comparable with the best of all the States in the Union.

Let us consider a specific example of "advance refunding," as is contemplated under S.B. 167.

ANALYSIS

K. C. EXPRESSWAY "ADVANCE REFUNDING"

Original Issue: \$19,500,000

Dated: August 1, 1957; redeemable May 1, 1967.

Sold: August 20, 1957 ) sold at time of highest  
 Net Interest Cost - 4.40611196% ) interest rates.

Refunding issue: \$18,695,000 (Ch. 340, S.L.'63)

Dated: Feb. 1, 1964; redeemable March 1, 1978

Sold: January 14, 1964

Net Interest Cost: 3.32601%

Refunding issue refunded following portion of Original Issue:

Serial Bonds due May 1, 1968 thru May 1, 1973 (\$1,985,000) and Term Bonds due May 1, 1997 (\$15,820,000) plus redemption premium	\$17,805,000 <u>890,250</u> \$18,695,250
less payment other funds	250
AMOUNT REFUNDING ISSUE	<u>\$18,695,000</u>

(Serial Bonds due 1961 thru 1963 had matured  
Serial Bonds due 1964 " 1967 left intact to be paid)

from Turnpike reports	(Net revenue from operations Expressway ( 1-1-59 to 12-31-59	\$426,556.09
	(Net revenue from operations Expressway ( 12 months ended 2/28, 1965 (gain 228%)	974,362.18
	(Net revenue by 1967 - ?	

Debt is now spread over a fortyyear period (1957 to 1997), perhaps beyond a reasonable expectancy of life of road surface.

Sound, conservative financing would dictate payment of principal as rapidly as possible to effect true savings of interest costs, especially since this debt is a lien on our State Highway Fund. Ch. 340, S.L. '63 also provides "The laws of Kansas shall not be repealed or amended so as to cause the moneys available in the state highway fund ... to be insufficient to make any such payments."

The Expressway Debt is now "locked in" until March 1978, the redeemable date on the \$18,695,000 Refunding issue.

Anticipated Gain on Government Bonds

Gain on Gov't Interest \$45,620.00 x 3 years	\$136,800
Plus discount on 3 5/8% Gov. Notes due 2/15, '67	<u>193,359</u>
Total Gain from re-investment in Gov. Notes	\$330,159
Less Issuance expense of \$18,695,000 Refunding Bonds	<u>118,310</u>
TOTAL NET GAINS TO BE REALIZED FROM REFUNDING COMPUTED TO MAY 1, 1967, THE REDEMPTION DATE ON ORIGINAL DEBT \$211,849	

The "net profit" of \$211,849 by "Advance refunding" is a mere trifle compared to savings that were possible by prudent financing on or after the redeemable date of Original Bonds, May 1, 1967. Issuance then of Refunding Bonds at 3% for example would effect a saving of \$261,730 the first year, with lessening but comparable savings each succeeding year.

Interest on Original \$19,500,000 issue 1957 thru May 1, 1967	\$8,249,287
Interest projected on \$18,695,000 Refundings 1967 thru 1997	<u>10,999,678</u>
Total Interest Cost	\$19,248,965
Less net gain from Gov. Bonds	<u>211,849</u>
Total Interest as now projected to respective maturities approaching original cost of construction	\$19,037,116

Instead of refunding, more thought should be given to paying principal and stopping interest.

The above Net Gain of \$211,849 will have been realized by May 1, 1967, redemption date on Original Issue. While making that gain, the Authority has set a new redemption date of March 1, 1978, with interest on the Refundings of 3.326% and sacrificed any opportunity of borrowing at a lesser rate on or after May 1, 1967.

Sources for above computations:

- (1) Monthly reports of Turnpike Commission
- (2) Brochure, Refunding Bond issue
- (3) Report, Dec. 31, 1964, Brelsford, Hardesty and Batz, C.P.A. Topeka

My Conclusion:

There should have been no "advance refunding," The Turnpike Authority should have awaited the redemption date May 1, 1967. Then, after 8 years of operation of the Expressway, the Pike Authority would have had some surplus cash, plus 8 years experience with which to figure ways and means of paying the principal as fast as possible, not extending it. The Expressway credit would have been enhanced, and the cheapest money possible for shorter time refunding would have become eagerly available. The Pike Authority would have been able to exercise its rights of redemption and refunding at lower interest on May 1, 1967 or any May 1 or November 1 thereafter.

"Advance refundings" like the K.C. Expressway should not be repeated under S.B. 167. Senate Bill 167, if enacted, would be a long step backward. It would encourage extending of principal payments with ultimate increases in cost of interest.

Stripped of its sugar coating as a "revenue bond refunding" Bill, S.B. 167 applied to Wichita is a proposal to borrow new money with which to buy Government Bonds bearing a higher rate of interest and thereby skimming off the difference as a profit making venture. Current publicity is claiming a profit for Wichita of "5 or 6 million dollars." In my opinion this is gross misrepresentation and deception. To comprehend the facts requires study, but any intelligent high school student can grasp the basic truth that sound public finance requires (1) payment of principal rapidly as possible, and (2) exercise of the right of redemption when most favorable interest rates are obtainable.

# DEBT SERVICE SCHEDULES CITY OF WICHITA - WATER DEPARTMENT

\$41,327,000 WATERWORKS REVENUE BONDS, 1957 AND \$8,475,000 WATERWORKS REVENUE BONDS, 1962

YEAR	SERIES 1957		SERIES 1962		TOTAL
	PRINCIPAL	INTEREST AND COMMISSIONS	PRINCIPAL	INTEREST AND COMMISSIONS	
1965	\$ 920,000	\$ 1,793,740		\$ 339,424	\$ 3,053,164
1966	960,000	1,747,733		339,424	3,047,157
1967	1,000,000	1,699,723		339,424	3,039,147
1968	1,040,000	1,649,710		339,424	3,029,134
1969	1,085,000	1,597,702		339,424	3,022,126
1970	1,125,000	1,543,434		339,424	3,007,858
1971	1,180,000	1,487,182		339,424	3,006,606
1972	1,230,000	1,437,032		339,424	3,006,456
1973	1,285,000	1,384,761		339,424	3,009,185
1974	1,335,000	1,330,142		339,424	3,004,566
1975	1,390,000	1,273,403		339,424	3,002,827
1976	1,455,000	1,214,335		339,424	3,008,759
1977	1,515,000	1,152,495		339,424	3,006,919
1978	1,580,000	1,085,833		339,424	3,005,257
1979	1,630,000	1,016,289		339,424	2,985,713
1980	1,709,000	944,578		339,424	2,993,002
1981	1,758,000	867,638		339,424	2,965,062
1982	1,850,000	788,544		339,424	2,977,968
1983	1,945,000	705,309		339,423	2,989,732
1984	2,025,000	617,774		339,423	2,982,197
1985	2,100,000	526,629		339,423	2,966,052
1986	2,205,000	432,142		339,423	2,976,565
1987	7,325,000	339,193		339,423	8,003,616
1988			\$ 2,100,000	342,048	2,442,048
1989			2,100,000	257,944	2,357,944
1990			2,100,000	173,839	2,273,839
1991			2,175,000	89,827	2,264,827
	<u>\$39,647,000</u>	<u>\$26,635,321</u>	<u>\$ 8,475,000</u>	<u>\$ 8,670,405</u>	<u>\$83,427,726</u>

*redemption date*

Notice the Wichita Debt Service Schedule recently published.

Our computation shows that by the redemption date (see dotted line) the City will have expended for Principal \$6,130,000 for Interest 12,068,586

Senate Bill 167 would continue the imbalance of Interest to Principal shown above.

The interest costs to the City (app. 4.50% on the 1957 issue and 4% on the 1962 issue) are firm and fixed until the redemption date, October 1, 1970. The City should cling to its right to refund to the best advantage of the City on October 1, 1970 or any coupon date thereafter.

Now notice the right hand column of "Debt Service Schedules", showing \$3,000,000 approximately for annual requirements. The next page shows this same \$3,000,000 approximately annual requirements, beginning 1971 with interest reduced to 3%, could wipe out the debt by 1988.

Figures 1965 to 1970 from Debt Service Schedule  
Series 1957 Series 1962

<u>Year</u>	<u>Principal</u>	<u>4.5% Interest</u>	<u>4% Interest</u>	<u>Total</u>
1965	\$920,000	\$ 1,793,740	\$ 339,424	\$3,053,164
1966	960,000	1,747,733	339,424	3,047,157
1967	1,000,000	1,699,723	339,424	3,039,147
1968	1,040,000	1,649,710	339,424	3,029,134
1969	1,085,000	1,597,702	339,424	3,022,126
1970	<u>1,125,000</u>	<u>1,543,434</u>	<u>339,424</u>	<u>3,007,858</u>
Subtotals to 10/1/70	\$6,130,000	\$10,032,042	\$2,036,544	\$18,198,586

Assuming refunding at 3% in 1970

1971	\$1,800,000	\$ 1,259,760		\$ 3,059,760
1972	1,855,000	1,205,760		3,060,760
1973	1,910,000	1,150,110		3,060,110
1974	1,973,000	1,092,810		3,065,810
1975	2,032,000	1,033,620		3,065,620
1976	2,093,000	972,660		3,065,660
1977	2,156,000	909,870		3,065,870
1978	2,220,000	845,190		3,065,190
1979	2,292,000	778,590		3,070,590
1980	2,362,000	709,830		3,071,830
1981	2,432,000	638,970		3,070,970
1982	2,504,000	566,010		3,070,010
1983	2,520,000	550,890		3,070,890
1984	2,661,000	415,290		3,076,290
1985	2,740,000	335,460		3,075,460
1986	2,822,000	253,260		3,075,260
1987	2,908,000	168,600		3,076,600
1988	<u>2,712,000</u>	<u>81,360</u>		<u>2,793,360</u>
totals	\$41,992,000	\$12,968,040		\$54,960,040
TOTALS	\$48,122,000	\$25,036,626		\$73,158,626

Anyone who has ever experienced the burden of interest charges knows that the best way to reduce such burden is by paying the principal as rapidly as possible and stopping interest. S.B. 167 would not be used for this purpose and therefore would not be to the benefit of water customers of Wichita or any other city.

If any future emergency arises necessitating reasonable extension of principal, existing statutes will take care of it, but S.B. 167 would only encourage lax and reckless financing.

A portion of p. 4, the same 1964 Annual Report recently published, speaks for itself:

experienced personnel, the existence of an adequate water supply, sufficient pumping capacity and a dependable, well maintained distribution system.

#### **Consulting Engineers Find Condition and Operation of Utility System Excellent**

The biennial review of the utility by an engineering firm was performed near the end of 1964. The condition and operation of the utility were found to be excellent.

Projections of revenue and expenditures revealed revenues, barring unusual circumstances, would satisfactorily meet operating expenses, debt service and capital improvement requirements.

To meet future service requirements, Wilson & Company recommended feeder main improvements be made amounting to \$2,734,000 during the next five years. Revenue and expenditure projections indicate these improvements can be made with the existing rate structure.

#### **Economic Activity on Upswing**

Wichita's economy experienced a rapid growth in the 40's and early 50's reaching a peak

in 1957, after which followed a period of adjustment. Since 1961 the local economy has experienced a steady, moderate growth. Despite large reductions in Boeing employment during the past five years all economic indicators, including employment, in the community have continued to rise. Unemployment in 1964 was a low 3.3%. This is indicative of the increasing diversification in the area's economy and of the lessening dependency on defense industries.

A growing population, increasing employment, increases in retail sales, construction of new dwelling units, bank deposits and an increase in per capita water consumption indicate the water utility will continue to grow and expand in 1965.

*Robert H. Hess*

ROBERT H. HESS *Director of Water*

*T. J. Scanlon*

T. J. SCANLON *Director of Administration*

WILSON  
& COMPANY  
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& ARCHITECTS

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14 January 1965



As mentioned before, current publicity for S.B. 167 (and H.B. 788) claims "profits for Wichita of 5 to 6 million dollars." Even if this were true, which I dispute, it is "chicken feed" compared to real savings that can be effected by refunding at the proper time and in the conventional manner as of Oct. 1, 1970 or any interest date thereafter of the City's choice.

Money then may be cheaper than 3%, but if dearer the City can well afford a little patience. The history of interest rates is one of ups and downs.

Compare the <u>grand totals</u> of Principal and Interest shown in present Wichita DEBT SERVICE SCHEDULES	\$83,427,726
preceding page " " (refunding 1970)	<u>73,158,626</u>
TRUE SAVING anticipated - Refunding 1970	\$10,269,100

As a long time dealer in Municipal Bonds of our State, I do object to a measure like S.B. 167 which I believe if enacted will result in an abuse of our public credit, and will be harmful to the business of investment banking in spite of the immediate generous profits to brokers.

There is no need to amend or repeal existing K.S.A10-1211.

I believe that the best interest of our people will be served by keeping K.S.A10-1211 and by killing Senate Bill 167.

Lawrence W. Rittenoure