

MINUTES OF THE SENATE COMMITTEE ON LOCAL GOVERNMENT

The meeting was called to order by Sen. Don Montgomery at
Chairperson

9:00 a.m./~~p.m.~~ on April 2, 1991 in room 531-N of the Capitol.

All members were present except:

Committee staff present:

Theresa Kiernan, Revisor of Statutes
Mike Heim, Legislative Research
Shirley Higgins, Committee Secretary

Conferees appearing before the committee:

Anne Smith, Kansas Association of Counties
Ray Trail, Assistant City Manager & Director of Finance, Wichita
Ernie Mosher, League of Kansas Municipalities

HB 2188 - Authorizing cities and counties to issue general obligation bonds for the payment of the cost of public facilities or improvements, authorizing the pledge of revenues received from a countywide or city's retailers' sales tax for the payment thereof.

Anne Smith, Kansas Association of Counties, testified in support of the bill. (Attachment 1). Mr. Heim answered questions regarding what bonds are subject to protest petitions.

Ray Trail, Assistant City Manager and Director of Finance for the City of Wichita, gave further testimony in support. (Attachment 2).

Sen. Daniels began a discussion as to the meaning of "improvements" in the bill. Staff explained that "improvements" includes several things. Sen. Daniels expressed her concern that this might cause more taxes which the public finds objectionable. Mr. Trail responded that HB 2188 creates no new taxes. The bill says that if there is a local sales tax in existence, any portion of it can be used for the issuing of bonds. The bill includes no additional authority to raise taxes, and he feels it will place less demand for increased taxes. He also noted that no money will be taken away from anything else.

Sen. Gaines felt that tax money would be used for other than what the voters approved if this bill were passed. For example, he feels there would be nothing to prevent the money from being used for improvements of downtown Wichita. Mr. Trail disagreed, noting that in Sedgwick County, the local option taxes involved are constrained for road use only.

Sen. Steineger felt that the bill would allow 50% of the sales tax revenues to be put in Wichita's debt retirement fund. Mr. Trail answered that it is his feeling that bond rating agencies would count this against the city.

The hearing continued with the testimony of Ernie Mosher, League of Kansas Municipalities. (Attachment 3). Mr. Mosher chose not to read his written testimony but to address questions raised by committee members. He clarified that this bill is just a financing device and has no new bond authority; it is simply a device to finance the bonds. This method of financing the bonds can save the public a substantial amount of dollars. He emphasized that the bill is not in any way giving authority that is not already in existence.

Mr. Trail and Mr. Mosher answered further questions from Sen. Steineger and Sen. Daniels regarding the effect of the bill on bond financing.

Sen. Gaines stated that he interprets the language in New Section 2 on page 4 of the bill to be new authority. Staff explained that it does not include new authority. The Chairman asked staff to look further into this aspect and report later. This concluded the hearing, and the bill was taken under advisement.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON LOCAL GOVERNMENT,
room 531-N, Statehouse, at 9:00 a.m./~~p.m.~~ on April 2, 1991.

The Chairman called the committee's attention to HB 2194 concerning the Wichita Airport Authority which had been previously heard. He informed the committee that he had received confirmation that the Board of Education is in support of the bill. Also, he called attention to information furnished by The Wichita Airport Authority about the breakdown of the appraised values of airport properties as had been requested by Sen. Lee at the hearing. (Attachment 4).

Sen. Gaines made a motion to report HB 2194 favorable for passage, Sen. Frahm seconded, and the motion carried.

Sen. Petty suggested that an interim study be requested as to the impact that airport authorities' property tax exemptions has on the school finance formula. The committee was in agreement.

Discussion began on HB 2450 concerning public improvements in Sedgwick County which had been previously heard.

Sen. Gaines made a motion to report HB 2450 favorable for passage, Sen. Frahm seconded, and the motion carried.

The minutes of April 1 were approved.

The meeting was adjourned at 10:00 a.m.



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April 2, 1991

To: Senate Local Government Committee
Chairman Don Montgomery

From: Anne Smith
Director of Legislation

Re: HB 2188

The Kansas Association of Counties supports HB 2188 and we appreciate the House Local Government Committee amending the bill to include cities and counties.

The KAC hopes to be able to use sales tax as a revenue source as a guarantee for the payment of bonds. The ability to use sales tax would allow the counties an alternative to the use of property tax as a revenue source.

With the effort to restrict or reduce dependance on property tax, alternatives are needed to the existing statutes for guaranteeing general obligation bonds.

Thank you for allowing our association to testify today. We urge your favorable consideration of this legislation.

Senate L.G.,
4-2-91
Attachment 1

TESTIMONY BEFORE THE SENATE LOCAL GOVERNMENT COMMITTEE
RE: HOUSE BILL 2188
April 2, 1991

Chairman Montgomery, and members of the Senate Local Government Committee, I am Ray Trail, Assistant City Manager and Director of Finance for the the City of Wichita. On behalf of the City, I appreciate the opportunity to appear before you today in support of House Bill 2188 which has been referred for your consideration after favorable action by the Kansas House.

The City of Wichita originally sought the authorization contained in this bill as an enhancement to bond financing options for use of local sales tax proceeds to fund the local (City) share of freeway construction costs. In 1985, the voters of Wichita and Sedgwick County, by referendum, approved a one cent local sales tax. The City's share of the local sales tax exceeds \$26 million annually. One-half of the proceeds of the tax is dedicated for property tax relief. The other half supports a road construction program, most particularly freeways.

The total road construction program is approximately \$390 million (1990 dollars), of which approximately \$63 million will be paid from Federal/State funds and the remaining \$327 million financed locally. Since 1987, the City has been financing freeway improvements on a pay-as-you-go cash basis.

Accumulated sales tax cash revenues are insufficient to fund the magnitude of projects the City will undertake in the next eighteen years, and it is now necessary to issue bonds. The City currently has authority to issue sales tax revenue bonds for debt financing; however, this bonding tool has requirements that do not maximize the use of public dollars:

- [1] The City must keep a ten percent reserve (i.e., for every \$1 million in bond issuance \$100,000 is set aside in a reserve account). The total amount of the reserve varies based on the bonds outstanding peaking at \$35.7 million. If not for this reserve requirement, these moneys could be applied to the actual cost of construction, and thereby reduce the City's total debt.
- [2] The City must also maintain a 100% "coverage" beyond the actual bond payment in the form of a pledge of all local sales tax revenue (including the one half which is dedicated to property tax relief). For example, if the City's bond payment is \$1 million per year including principal and interest, then annual sales tax revenues would have to be \$2 million -- the first \$1 million for the bond payment and the additional \$1 million for the 100% "coverage" over and above the debt service requirement. This has been the general consensus of the credit agencies who were consulted.

In consultation with finance specialists (Springsted, Incorporated), the City has been exploring the best possible debt financing structure. Our goal is to finance the greatest amount of roadway construction within the funds projected to be available. Based on the revenue projections and the engineering cost estimates, the City must spread the total construction program into two phases -- one phase through the year 2000 with a pause until 2007 and a second phase beginning in 2007 and through 2009.

Senate L.G.
4-2-91
Attachment 2

It appears the best financing method would be to issue General Obligation (GO) bonds with a pledge of debt retirement from local sales tax revenues -- a General Obligation (GO) Sales Tax Revenue Bond. The following illustrates the difference between sales tax revenue bonds and GO Sales Tax Revenue Bonds for the \$327 million (1990 dollars) in local project costs:

SALES TAX REVENUE AND GO SALES TAX REVENUE BOND COMPARISON
 (in millions of dollars)

	<u>Sales Tax Revenue Bonds</u>	<u>GO Sales Tax Revenue Bonds</u>
1st Phase Construction	\$237	\$251
2nd Phase Construction	\$ 90	\$ 76
Total Bonds Issued	\$478	\$423
Total Debt Service Through 2012	\$567	\$514

- Notes: [1] "Total Bonds Issued" reflects a 4% inflation/growth factor from the 1990 base year estimate of \$327 million applied to the project costs and revenues for the year in which the project is completed and bonding is required.
- [2] "Total Debt Service" includes interest costs in addition to principal payment.
-

The GO Sales Tax Revenue Bond option provides a "double barrel" guarantee for bondholders (general obligation and sales tax revenues), and allows the City to debt finance \$14 million more in freeway construction by the Year 2000. This is because interest rates for a GO-backed Revenue Bond are moderately lower, and the City does not have the 10% reserve. The total bonds required for the program is \$55 million less for a GO Sales Tax Revenue Bond. The total debt service (through 2012) is \$53 million less. In other words, the GO support for a sales tax revenue bond allows more work to be done sooner and at less debt financing cost to the City and taxpayer.

Senate Local Government Committee
RE: HB 2188
April 2, 1991
Page 3

The City is mindful of the need to maintain reserve funds to cover debt service payments in the event of fluctuations in sales tax revenues. To protect against short-term sales tax revenue shortfalls not providing sufficient revenues to meet bond payments (and impacting local property taxes), the above projection for a GO Sales Tax Revenue Bond issuance provides a \$10 million reserve fund (accumulated at the rate of \$2.5 million per year for the first four years of the program). This reserve will meet the City's need for a reasonable reserve, but is far less than the 10% required by sales tax revenue bonds.

In sum, except for a technical change in the structure of debt financing this proposal makes no material change in the City's liability for bonded indebtedness. The proposed bill does reduce the cost to our taxpayers.

Subsequent to Wichita's submittal of special legislation for the specific needs identified in financing our freeway construction program, the League of Kansas Municipalities and the Kansas Association of Counties appeared in support of HB 2188 with an amendment to make the same authority available to all cities and counties in the State. We are supportive of the broader scope of the bill as it passed the House and is before you today.

This bill is a very good bill from the perspective of options for debt financing. It allows the use of two guarantees (general obligation and sales tax revenues) for bond issues to secure the best possible bond rating and interest rate. It is a win/win bill. The bond buyers win because they purchase more highly secured bonds. The issuing city or county wins because it can issue bonds at lower interest rates. The bill also includes a very good assurance of the soundness of this debt financing mechanism in the form of a requirement for a comprehensive financial feasibility study for any bond issuance done under this statute. The bond rating agencies and bond buyers will also insist on such information and a concrete demonstration of the ability to make principal and interest payments from sales tax revenues.

The City of Wichita would urge your support of HB 2188. At a time when taxation has come under such close scrutiny and vigorous public debate, both in the State Capital and in local city halls and county courthouses, there are few opportunities to pass legislation which can actually save taxpayers money. This is one of those opportunities. For Wichita, this legislation is especially crucial because we plan to be in the bond market this Fall (1991) and can demonstrate real savings of tens of millions of dollars in our freeway financing program. Other local governments may have similar opportunities and should also be afforded the flexibility to get the most out of sales tax dollars used for debt financing.

Thank you for affording this time for me to speak on this matter.



**League
of Kansas
Municipalities**

**MUNICIPAL
LEGISLATIVE
TESTIMONY**

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 W. 7TH TOPEKA, KS 66603 (913) 354-9565 FAX (913) 354-4186

TO: Senate Committee on Local Government
FROM: E.A. Mosher, Executive Director, League of Kansas Municipalities
RE: HB 2188--Local Sales Tax--General Obligation Bonds
DATE: April 2, 1991

The League supports the passage of HB 2188.

Under the existing sales tax bond law, cities and counties are authorized to issue revenue bonds for public improvements, with the money received from city or countywide local sales taxes pledged to pay the principal and interest on the bonds. New Section 2 would authorize cities and counties to issue general obligation bonds for improvements, pledging the revenue from local sales taxes, but guaranteeing the payment of principal and interest with property taxes if the revenue available from local sales taxes proves insufficient. In effect, this kind of sales tax bonds would have the advantages of general obligation bonds, including a significant advantage in interest cost compared to pure sales tax bonds or pure revenue bonds.

There are several provisions of new Section 2 that deserve special note.

--Under subsection (8), beginning on line 12, this kind of bond could only be issued for those purposes for which the city or county is authorized to issue general obligations bonds.

--Under subsection (a), beginning on line 23, page 4, a feasibility study is required, which must show that predicted future revenues from local sales taxes would be sufficient to retire the bonds.

--Under subsection (c), beginning on line 35, the bonds would be exempt from state and local taxes, except inheritance taxes, in the same manner that other local government bonds are now exempt.

--Under subsection (d), beginning on line 39, the amount of the bonds would be outside of any statutory bonded debt limit, in the same manner that sales tax bonds are exempt from debt limits. (Lines 2:4).

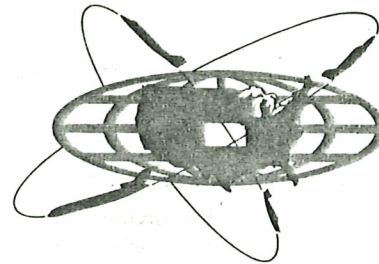
--Under subsection (e), beginning on line 38, the issuance of sales tax--general obligation bonds would be subject to a petition for a referendum. A referendum would be required on petition of 5 percent of the number of electors who voted at the last general election.

*Senate L.G.
4-2-91
Attachment 3*

President: Frances J. Garcia, Commissioner, Hutchinson * **Vice President: Bob Knight**, Mayor, Wichita * **Past President: Irene B. French**, Mayor, Merriam * **Directors: Michael A. Conduff**, City Manager, Manhattan * **Ed Ellert**, Mayor, Overland Park * **Harry L. Felker**, Mayor, Topeka * **Greg Ferris**, Councilmember, Wichita * **Idella Frickey**, Mayor, Oberlin * **William J. Goering**, City Clerk/Administrator, McPherson * **Judith C. Holinsworth**, Mayor, Humboldt * **Jesse Jackson**, Commissioner, Chanute * **Stan Martin**, City Attorney, Abilene * **Mark Mingenback**, Councilmember, Great Bend * **Joseph E. Steineger, Jr.**, Mayor, Kansas City * **Bonnie Talley**, Commissioner, Garden City * **Executive Director: E. A. Mosher**

We are convinced that HB 2188 could result in some significant public savings, because of the reduced interest cost common to general obligation bonds. At the same time, it would permit cities and counties to use this kind of financing when the kind of public improvement involved could be better financed by local sales taxes than by normal general obligation bonds, without the extra cost involved in pure sales tax bonds. While most of the 452 Kansas cities which receive revenue from a city sales tax (124) and/or countywide sales tax (61) do not receive sufficient revenue to fund a bond issue, many of them do, and HB 2170 provides a financing option which should be made available to them. We urge the Committee to report the bill favorably.

The Wichita Airport Authority



John Conlee, *President*

David S. Elkouri

John Hennessy

David Bayouth

James T. Calhoun

Jerry James

Gary Sherrer

Bailis F. Bell

Director of Airports

March 29, 1991

Wichita Mid-Continent Airport & Colonel James Jabara Airport

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Dwight W. Greenlee, *Director of Administration*

James W. Loomis, A.A.E., *Director of Operations and Maintenance*

Angie Prather, *Director of Marketing and Communications*

The Hon. Donald Montgomery
Senate Post Office
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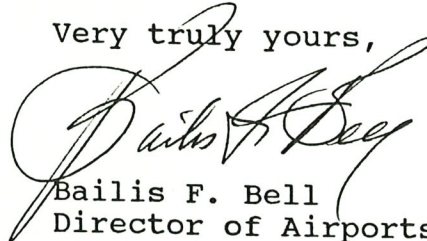
Dear Senator Montgomery:

At the Senate Local Government Committee hearing on March 28, 1991, Senator Janis Lee inquired about a breakdown of the appraised values of Wichita Airport Authority properties by function. Below are listed those approximate appraised values:

Land	\$ 6,069,000	9%
Airfield Pavement	29,596,000	42%
Buildings	15,785,000	23%
Utilities	13,748,000	20%
Equipment	4,802,000	6%
Total Appraised Value	\$70,000,000	100%

This community is very much in hopes that you will be able to find in favor of HB 2194.

Very truly yours,



Bailis F. Bell
Director of Airports

BFB:cg

Senate L.G.
4-2-91
Attachment 4