

Approved March 18, 1992  
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Representative Diane Gjerstad at  
Chairperson

3:35 a.m./p.m. on Tuesday, February 25, 1992 in room 423-S of the Capitol.

All members were present except:

Representatives Love, Mead, and Wagnon. Excused.

Committee staff present:

Lynne Holt, Legislative Research  
Jim Wilson, Legislative Revisor  
Betty Manning, Secretary

Conferees appearing before the committee:

Mary Bloomquist, Program Manager, KDFA  
Dennis Shockley, Chief of Housing and Development, KDOC  
Noelle St. Clair, Kansas NAHRO  
Jeffrey Sonnich, KS-NE League of Savings Institutions  
Lauanna Honeycutt, Sedgwick County Managers Office  
Whitney Damron, KS Securities Industry Association

Chairperson Gjerstad called the meeting to order at 3:35 p.m.

The Chair announced the committee would meet with Governor Finney in her office at 8:30 a.m. Thursday, February 27 to discuss ERO 23 and HB 2918.

Hearings on HB 2918, Kansas Development Finance Authority relating to issuing bonds for certain housing developments. First proponent was Mary Bloomquist, Program Manager, Kansas Development Finance Authority (KDFA). She stated this legislation would expand the authority's ability to issue mortgage revenue bonds (MRB's) for low income, elderly, and including moderate income persons. If KDFA had authority to issue MRB's more options would be available at the state level to come up with a state match to maximize the amount of federal funds available to the state. KDFA would work closely with Office of Housing, KDOC. Attachment 1.

Second conferee, Dennis Shockley, Chief of Housing Development and Policy, KDOC, testified in support of this legislation. He felt since KDFA already has statutory authority to issue low income and multi-family housing bonds this would be the logical state agency to issue MRB's. He cited the Post Audit reports of March and December 1991 that concluded the state is not well served by current structure of having this bonding authority at the local units of government. Attachment 2.

The third proponent, Noelle St. Clair, Kansas NAHRO, stated this bill would be an important tool to empower the state to effectively respond to its citizen's ever changing housing needs. The bill would also give the state a new resource of funding to allow the state to use these funds as leverage to attract other dollars. Attachment 3.

Final proponent, Jeffrey Sonnich, Vice-President, KS-NE League of Savings Institutions, called attention to the Post Audit report of December 1991. The report pointed out the six issuing counties received 87% of the 2468 loans. Virtually no loans were made in western and northwestern Kansas. He outlined the Nebraska Investment Finance Authority whose methods used insures all areas of the state having an opportunity to receive funds. He encouraged passage of this legislation. Attachment 4.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,  
room 423-S, Statehouse, at 3:35 ~~a.m.~~/p.m. on Tuesday, February 25, 1992

No other proponents appeared before the committee.

The Chair recognized Louanna Honeycutt, Executive Officer, Sedgwick County, Kansas, who opposed the bill. She addressed three areas of primary concern in the Post Audit report; one, geographic distribution of loans; two, potential for saving money, and three, accountability to the state. She stated in times when government should be reducing its scope when possible, it makes little sense to add additional programs. Attachment 5.

Final opponent, Whitney Damron of Pete McGill and Associates on behalf of the Kansas Securities Industry Association, stated that when KDFA was created it was based on understanding and agreement that KDFA's role was to centralize state financing and not compete with the services provided by the private sector securities industry; but every year has attempted by legislation to expand its role into the business being competitively and successfully handled by area securities firms. The Kansas Securities Industry Association is opposed to expansion of KDFA as it has no background or expertise in housing finance. He introduced Bob Dalton of George K. Baum and Company, a KSIA member. Attachment 6.

All conferees responded to questions by committee members.

The Chair asked Mr. Damron to come back next Wednesday with someone from George K. Baum and Company who was knowledgeable about MRB's.

Hearings on **HB 2918** will be continued on Wednesday, March 4.

The meeting was adjourned at 5:10 p.m.

D Feb 25, 1992

GUEST REGISTER

## HOUSE

## Committee on Economic Development

| <u>NAME</u>         | <u>ORGANIZATION</u>        | <u>ADDRESS</u> |
|---------------------|----------------------------|----------------|
| George Goebel       | AARP-SLC - CCTF            | Topeka         |
| Jim Medina          | Pharmacists                | Topeka         |
| Janet Nichol        | Adac                       | Topeka         |
| Noelle M. St. Clair | NAHRO                      | Topeka         |
| Robert O. Dutton    | GEORGE K. BAUM & Co.       | WICHITA        |
| Whitney Damon       | McHill & Associates / KSIA | Topeka         |
| Jim Davis           | Legislative Post Audit     | Topeka         |
| Marty Bloomquist    | KDFA                       | 11             |
| Art Brown           | KS USA Debra               | KC             |
| JEFF SOMMICH        | KARSI                      | TOPEKA         |
| Guy E. Gibson       | AARP - CCTF                | Topeka         |
| WALTER COLE         | RANSON & Co                | TOPEKA         |
| Journel Gray (with) | Sedgwick County            | Wichita        |
| Calhoun             | KDAX                       | Topeka         |
| Giles Mullin        | Bill Wisdom                | Lawrence       |
| Harry Reser         | Governor                   | Topeka         |
| M. Shields          | Harris News                | 11             |
| Thomas P. Smith     | Topeka HB 7-               | Topeka         |



# KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

Joan Finney  
Governor

## MEMORANDUM

DATE: February 25, 1992

TO: House Committee on Economic Development

FROM: Marty Bloomquist, Program Manager  
Kansas Development Finance Authority (KDFA)

SUBJECT: Testimony on House Bill 2918 - Concerning the Kansas  
Development Finance Authority

This bill is KDFA's enabling legislation. Language has been added that expand's the authority's ability to issue mortgage revenue bonds (MRB's), for low income and elderly persons, to also include moderate income persons. KDFA would work with the Office of Housing located in the Department of Commerce to design a program for the issuance of MRB's. The Governor's Executive Reorganization Order #23 creates a separate Housing Division within a renamed Department of Commerce and Housing.

This bill along with ERO #23 is part of an effort to create a stronger state emphasis in the area of housing. Kansas is the only state that does not have a state department of housing or a housing authority.

1991 was the first year that the Federal Department of Housing and Urban Development (HUD) required states to fill out a Comprehensive Housing and Affordability Study (CHAS). This study is required by states on an annual basis to help HUD determine how much federal monies are available for each state. States must show in the CHAS how they can provide a match for federal dollars. If KDFA had the authority to issue MRB's as proposed in H.B. 2918, more options would be available at the state level, through bond proceeds and program fees, to come up with a state match and maximize the amount of federal funds available to the state.

MAB:dc

cc: Dennis Shockley, Kansas Department of Commerce

KANSAS DEPARTMENT OF COMMERCE  
OFFICE OF HOUSING

DENNIS SHOCKLEY, CHIEF OF HOUSING DEVELOPMENT & POLICY  
TESTIMONY BEFORE THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

FEBRUARY 25, 1992  
ON  
HOUSE BILL 2918

The Kansas Department of Commerce appears today in support of HB 2918, which would give the Kansas Development Finance Authority the ability to issue single-family mortgage revenue bonds (MRBs).

The state of Kansas is the only state of the 50 that does not issue these bonds at the state level. Forty-eight states issue MRBs through a state housing finance agency, and Arizona through its Department of Commerce.

The current system of allocating this bonding authority is thoroughly outlined in two Legislative Post Audit reports of March and December, 1991. The reports conclude that the state: is not well-served by the current structure of having this bonding authority passed through to local units of government; that homebuyers in only a few counties receive most of the loans or certificates, and that homebuyers pay higher fees than in other states.

Since KDFA already has the statutory authority to issue low-income and multi-family housing bonds, it is the logical state agency to issue MRBs.

In addition, if the state issued MRBs, program fees to homebuyers and/or bond proceeds that might accrue to the issuer could be earmarked for the state Housing Trust Fund and used to leverage other federal housing monies. For example, the new federal HOME program, which means \$6.5 million to the state of Kansas, requires matching funds the second and subsequent years at a rate of 25% to 50%.

In closing, I would just like to encourage members of the Committee to read two aforementioned Post Audit reports, which makes an excellent case as to why Kansas should join the other 49 states in issuing MRBs in a manner which will allow us to look at the interests of the whole state as we proceed to aid, especially, first-time homebuyers in achieving their piece of the American Dream of homeownership.

*Eco-Devo  
Attach 2  
02-25-92*



**KANSAS NATIONAL  
ASSOCIATION OF  
HOUSING AND  
REDEVELOPMENT  
OFFICIALS**

Testimony  
Before the House Economic Development Committee  
On HB 2918  
By Noelle St.Clair  
For Kansas NAHRO

February 24, 1992

Representative Gjerstad, Members of the committee; I am Noelle St.Clair the Legislative Co chair for the Kansas Chapter of Housing and Redevelopment Officials (NAHRO) . I appreciate the opportunity to speak in support of HB 2918. This bill is an important tool that will empower the state to effectively respond to it's citizens ever changing housing needs.

Kansas NAHRO members work in Housing Authorities and Community Development Agencies in 105 counties of this state and see first hand what kind of housing needs their communities have. NAHRO members know in order for Kansas to have effective housing programs and policy we cannot leave out anything that would give the state the ability to creatively package the finances needed to carry out our objectives.

As noted in the Legislative Post Audit, Kansas would benefit if the State Finance Authority were given the authority to issue bonds for housing development . Kansas NAHRO also sees the importance of securing a new commitment of resources that will encourage economic development and the formation of partnerships. This bill will not only give us a new resource of funding but will allow our state to use those funds as a leverage to attract other dollars.

Armed with new federal funds, creative credit enhancements and technical assistance Kansas can implement creative finance products that will create affordable housing, new jobs and business expansion.

*Eco-Devo  
Attach #3  
02-25-92*



**Kansas-Nebraska  
League of  
Savings  
Institutions**

Jeffrey D. Sonnich, Vice-President

Suite 512  
700 Kansas Avenue  
Topeka, Kansas 66603  
(913) 232-8215

February 25, 1992

TO: HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT  
FROM: JEFFREY SONNICH  
RE: H.B. 2918 - MORTGAGE REVENUE BONDS; K.D.F.A AUTHORITY

Madam Chairman. Members of the Committee. The Kansas-Nebraska League of Savings appreciates the opportunity to appear before the Committee on Economic Development in support of H.B. 2918.

Probably the best sources of information available to the Committee regarding the mortgage revenue bond program in Kansas is found in the December 1991 Performance Audit Report. The Report points out that the six issuing counties received 87% of the 2,468 loans issued. Virtually no loans were made in western and northwestern Kansas. The report also indicates that the state could reduce the overall costs of bond issuance by issuing the bonds at the state level. In the interest of time I will not attempt to go through the entire audit report, but rather try to provide the committee with some additional information regarding the bond program in Nebraska.

Since our organization's expansion into Nebraska in 1989 we have had the opportunity to experience first hand a state-run mortgage revenue bond program. In Nebraska the bulk of the mortgage revenue bonds issued goes to finance single family homes although authority is

*Eco-Devo  
Attach #4  
02-25-92*



Page 2.

also given to finance student loans and industrial loans. The Governor initially makes the determination of the percentage make-up of the bond issuance. The Nebraska Investment Finance Authority (NIFA) then contacts lenders throughout the state to determine the dollar volume of the issuance. The lenders respond to NIFA by estimating the dollar volume they think their local market can handle. Once all of the information is compiled, NIFA issues the bonds and eventually makes a three-tier distribution of the money to the lenders. To receive the funds the lender must put up a 1.75% commitment fee which they recapture at origination. All loans are securitized into Ginnie Mae securities and sent to the Trustee to hold. All of the servicing of the loans is done by a master servicer, who has acquired that right through a bidding process. NIFA monitors the distribution of the funds via loans throughout the state. If they determine that a lender is not originating enough loans in specific area they may require the lender to shift the money to a branch office in another part of the state where the loan demand is higher. NIFA may also require the lender to sell it's allotment to another lender who may have a higher loan demand. As you can see the mortgage bond program is very much market driven. The money flows to the areas of the state that have the demand. According to NIFA officials the bulk of the money ultimately flows to the large metropolitan areas simply because that's where the loan demand is. They feel that the method of distribution insures that all areas of the state have an opportunity to receive funds.



Page 3.

I would also like to share with the committee some of the fixed costs associated with issuing mortgage revenue bonds. The purpose is to give you some comparative information so that the question of cost savings can be fairly analyzed. The last MRB issue, according to NIFA, was for \$110 million. The majority of which were for single family homes. The fixed costs were:

|  |                    |
|--|--------------------|
| Bond Counsel   | \$124,253.00       |
| Accountant Verification                              | \$ 22,844.00       |
| Printing   | \$ 10,332.50       |
| <u>Rating agencies:</u>                              |                    |
| S&P  | \$ 33,000.00       |
| Moody's  | \$ 29,000.00       |
| Trustee acceptance                                   | \$ 11,180.46       |
| <br>Bond Underwriter fee<br>which is a variable cost | <br>\$1,305,638.00 |

Although these figures give you some idea of the dollars that are involved with issuing the bonds they don't compare the costs of a small issuance versus a large issuance. To demonstrate the possible saving we have included a breakdown of fixed cost from the late 1983 NIFA bond issue and the early 1984 bond issue.

|                        | <u>1983</u><br><u>58.4 million issue</u> | <u>1984</u><br><u>\$188 million issue</u> |
|------------------------|--|---|
| Bond Counsel           | \$ 79,958.00                             | \$127,928.00                              |
| Accountants            | \$ 6,000.00                              | \$ 12,000.00                              |
| Printing               | \$ 48,188.70                             | \$ 58,933.24                              |
| <u>Rating service:</u> |  |   |
| S&Ps                   | \$ 10,000.00                             | \$ 15,000.00                              |
| Moody's                | \$ 11,000.00                             | \$ 20,000.00                              |
| Trustee acceptance     | \$ 11,403.00                             | \$ 16,660.00                              |
| Total fixed            | \$166,550.00                             | \$250,251.00                              |
| Cost per thousand      | \$2.87                                   | \$1.33                                    |

Difference of \$1.58 per thousand

Page 4.

|                          |  |                |
|--------------------------|--|----------------|
| Add in underwriter's fee | \$1,251,216.00                           | \$3,848,360.00 |
| Total fixed/var costs    | \$1,430,278.00                           | \$4,098,881.00 |
| Cost per thousand        | \$24.66                                  | \$21.80        |
|                          | <u>Difference of \$2.86 per thousand</u> |                |

As you can see there may be some cost savings by issuing mortgage revenue bonds at the state level. While this simple illustration does not categorize every cost associated with the bond issuance, it does include the main cost items. The cost differences could conceivably be three times as high as those shown above since Kansas has three issuances per year.

In closing we would add that these cost savings could be passed on to the consumer in terms of lower rates and fees. These extra costs are now being paid by the homeowners who participate in the mortgage bond program. And if the distribution of the funds was set up similar to Nebraska, the mortgage revenue bond money would be available to a greater number of Kansans.

Jeff Sonnich  
Vice President

Testimony In Opposition to

House Bill #2918

February 25, 1992

3:30 p.m.

Room 423-S

Presented by:  
Louanna Honeycutt  
Executive Officer  
Sedgwick County, Kansas

*Eco-Devo  
Attach 5  
02-25-92*

Madam Chairman and honorable Committee members, I appreciate the opportunity to speak this afternoon in opposition to House Bill 2918.

In reading the Performance Audit Report I identified three areas of primary concern and will briefly address each of them. They are:

- 1) geographic distribution of loans
- 2) Potential for saving money
- 3) Accountability to the State

#### 1) GEOGRAPHIC DISTRIBUTION

The Report stresses that certain areas of the State, particularly communities in western Kansas, have not received home loans from the Mortgage Revenue Bond Program. This may be true, however, it is not because issuers have failed to make the program accessible to first-time home buyers in those localities. In my opinion, the reason is somewhat more complex than that.

First, MRB programs are lender driven. Without participating lenders, there can be no program. It is lender participation that determines the distribution patterns. Participating lenders must put up a 1.5% commitment fee which is reimbursed as loans are originated. Add to this the fact that there is considerable paperwork involved with FHA/VA loans with many lenders not being set up to handle these. A certain amount of cost and expertise is required in setting up the apparatus necessary to deal with such loans. This makes some lenders find it simply not sufficiently attractive to pursue, considering the small buyer demand in their market areas.

Before declaring that certain parts of the State have been excluded from a particular MRB Program because no loans were originated, one ought to examine whether there is demand for first-time homebuyer loans in that same area. This is a market condition and one that will not miraculously change if the State takes



over the Program. I note, however, that the Sedgwick/Shawnee Counties' Program area extends to any city or county that wishes to be included. The Sedgwick/Shawnee Counties' Program currently has cooperation agreements with twenty-eight (28) counties and one hundred and six (106) cities. Should a city or county wish to be included in the program area, it is as easy as having the governing body adopt the appropriate ordinance or resolution. Further, some lenders in more populous counties have made arrangements to originate loans through financial institutions in the western region of the State.

## 2) POTENTIAL FOR SAVING MONEY

The survey of mortgage revenue bond programs in other states, as exhibited in the Performance Audit Report, shows that home buyers in those states pay lower fees. I have known for some time that such programs in other states are less expensive to the home buyers; and Sedgwick County intends to do something about that in the 1992 Program. Sedgwick County will select its underwriter, or underwriters, through the process of using a Request For Proposals (RFP). I don't know how much we will be able to reduce the fees to the homeowner, but we intend to reduce them as much as possible and still have a successful program.

Comparing Kansas to other states is not exactly comparing apples to apples. The Missouri Housing Development Commission (MHDC), for example, was established as issuer for that state's mortgage revenue bond programs at a time when issuers were allowed to accumulate surpluses from the programs. This placed them in an enviable financial position in getting the agency "off the ground" and permitted them to accrue enough capital to contribute revenues to programs when the market is less attractive. It allows them to absorb the cost of issuance as well. The MHDC earns back the contribution it makes as loans are originated and Program Participation Fees collected; however, the state is initially at risk for all of its contribution. If a state, as issuer, does not have sufficient financial

strength or is not willing to be at risk, that risk would be passed on to lenders in the form of higher commitment fees which can have the effect of discouraging lender participation. In the Missouri Issue which closed on November 21, 1991, the MHDC contributed \$2,071,412 which covered negative arbitrage and cost of issuance. The 2% Program Participation Fees to be collected totaled \$1,310,000 which means that MHDC contributed \$761,412 to cover the balance.

In order to create the bureaucratic capacity, even a modest one, to operate a housing bond program at the State level will require an outlay of tax revenue before ANY program is implemented. Ignoring this, however, will the State commit to picking up any shortfall as Missouri is doing? Will the State risk any contribution? If not, who then will do so? My guess is that it will mean the homeowner has to pay it in higher points and the lenders in higher commitment fees. One can only speculate where that would place a State administered program relative to those of other states.

### 3) ACCOUNTABILITY TO THE STATE

Sedgwick County recognizes that the State does not have uniform summary data for oversight purposes. In January, 1991, the Sedgwick County Manager's Office experienced that same frustration as we set about the task of developing a report to the Board of Commissioners on our Mortgage Revenue Bond Program. We are in the process of correcting this predicament.

Issuers should monitor their own Mortgage Revenue Bond Programs just as they do for other programs; whether those programs involve several hundred or multi-millions of dollars. This information certainly should be made available to the State or anyone else requesting it.

Mortgage Revenue Bond Programs have been successful in the State of Kansas. They have been good for the economy, particularly when home mortgage interest rates have placed home ownership beyond the reach of many families.

These programs have stimulated activity among home builders, realtors, and lenders when the market has been flat. Most of all, however, these programs provide the means for families who have never owned a home to share in the American dream of home ownership.

In times when government should be retrenching and reducing its scope when possible, it makes little sense for the State to assume additional programs. This is particularly true when doing so will result in more bureaucracy to do something that is working at the local level. It all goes back to the old truth: If it isn't broke, don't fix it. Demand better accountability, certainly. Take over a program that is functioning quite well at the local level, no.

**TESTIMONY**

**OF**

**WHITNEY B. DAMRON**

**OF**

**PETE MCGILL & ASSOCIATES**

**ON BEHALF OF**

**THE**

**KANSAS SECURITIES**

**INDUSTRY ASSOCIATION**

**PRESENTED BEFORE**

**THE**

**HOUSE ECONOMIC**

**DEVELOPMENT COMMITTEE**

**FEBRUARY 25, 1992**

**RE: HB 2918**

*Eco-Devo*  
*Attach 6*  
*02-25-92*



Good afternoon, Madam Chair Gjerstad and members of the Committee, I am Whitney Damron of Pete McGill & Associates appearing on behalf of the Kansas Securities Industry Association in opposition to H.B. 2918.

With me today is Bob Dalton of George K. Baum and Company, a KSIA member, who will be available for questions following our testimony.

Since the development of Single Family Mortgage Revenue bonds in the late 1970's, both national and local investment banking firms have structured and marketed the bonds issued by local issuers in Kansas (both cities and counties throughout the State). The various programs are available to first time homebuyers in cities and counties throughout the State and overall the programs have been very successful.

When the Kansas Development Finance Authority (KDFA) was created by the Legislature it was based upon the understanding and agreement that KDFA's role was to centralize State financings and not to compete with or duplicate the services provided by the private sector securities industry. Every year since its inception KDFA has introduced legislation attempting to expand its role into the business being competitively and successfully handled by area securities firms.

The Kansas Securities Industry Association is opposed to the expansion of KDFA and the creation of additional bureaucracy to infringe upon business currently being successfully transacted by private sector securities companies. The private securities industry has years of experience and expertise, while KDFA has no background or expertise in housing financing.

Government's purpose is to supplement private industry, not to compete with it. The Kansas Securities Industry Association encourages you to oppose H.B. 2918.

## KANSAS SECURITIES INDUSTRY ASSOCIATION

### MEMBERSHIP LIST

Mr. Chuck Bouilly  
George K. Baum & Company  
Wichita, Kansas

Mr. Bob Mapes  
Piper Jaffray & Hopwood  
Kansas City, Missouri

Mr. John Cooper  
Cooper Malone McClain, Inc.  
Wichita, Kansas

Mr. Marvin Cox  
First Securities Company  
Wichita, Kansas

Mr. John McArthur  
Beecroft Cole & Company  
Topeka, Kansas

Mr. Steve Randle  
Stifel Nicolaus & Company  
Wichita, Kansas

Mr. Marty Nohe  
Investment Bankers of K.C.  
Kansas City, Missouri

Mr. Ron Ott  
J.O. Davidson & Associates, Inc.  
Wichita, Kansas

Mr. Ike Parsons  
B.C. Christopher Securities  
Kansas City, Missouri

Mr. Jeff Ray  
Ranson Capital Corporation  
Wichita, Kansas

Mr. Steve Johnson  
Columbian Securities Corporation  
Topeka, Kansas

Ms. Jan Towell  
Blunt, Ellis & Loewi, Inc.  
Kansas City, Missouri

Mr. Bill Tschudy  
Stern Brothers & Co.  
Kansas City, Missouri

Mr. David U. Van Metre  
Lehman Brothers  
Omaha, Nebraska