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KANSAS TAXPAYERS NETWORK

P.O. Box 20050
Wichita, KS 67208
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316-684-0082
fax 316-684-7527
www.kansastaxpayers.com

Testimony Supporting S.B. 193
Karl Peterjohn, Executive Director

Kansas debt was limited from territorial days and well into the 20th century by its constitutional provision, Article 11, Section 7. This provision, which was initially adopted in the 1850's required that state debt get approval by the voters before this could be enacted.

This was an important safeguard that served this state well. This provision has been superseded in the later part of the 20th century and this protection was eliminated. That is unfortunate. Bonding is the equivalent of placing a mortgage onto the taxable property and assets that belong to the people. Bonded indebtedness can be a valuable tool if used properly and with care. However, like many other tools, if improperly used bonded indebtedness can cause significant damage and create extended problems for those who have to pay for the bonds.

Recent figures that I have seen indicate that Kansas state debt has now grown to over \$4 billion. S.B. 193 would place a statutory limitation based upon an effective debt service ceiling of 7 percent unless the legislature provides that "...a critical state emergency," exists and bonding is needed to address this problem.

Many other states have requirements for voter approval of debt before bonds can be sold. That is an important protection to prevent excessive issuance of bonded indebtedness. In some states a super majority of the voters are needed for issuing bonds because of the importance of this type of spending and the burden it places upon the people who have to pay for these bonds.

Currently, bonding limitations upon Kansas are basically limited to the capital markets willingness to purchase state debt. Kansas Taxpayers Network (KTN) would like to see additional and stronger limits on state indebtedness put in place. Restoration of Article 11 Section 7 of the Kansas Constitution would have put the people back into the indebtedness issue and we would not have as large an amount of debt if the people had been more involved in this process in the last couple of decades.

S.B. 193 will not take us back to these halcyon days but will provide more clarity and information about the state's debt situation under the report that KDFA would be required to provide under this bill. This is good public policy that is needed for Kansas and the Kansans who ultimately must provide the revenues to pay off these debts.

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Thank you for the opportunity to testify on SB 193.

We support the idea of coming to a consensus on a reasonable and workable debt policy for Kansas, and annually preparing a report on state debt, which we believe should be assigned as a joint responsibility to the Department of Administration and KDFA.

SB 193 is an effort to do that. However, before the Committee considers moving the bill forward, various terms in the bill should be more specifically defined or given contextual structure or purpose. Line 13 refers to state debt, but does not define the debt encompassed by this term, for example, that debt which is an obligation of the state general fund. On line 23, it is unclear whether "revenue available to pay debt service" refers to all revenue of the state or only revenues into the State General Fund. Likewise on lines 22 and 24, it is uncertain whether "tax-supported debt" refers only to debt repaid by the State General Fund or debt repaid from all sources of revenue. The interpretation of these terms makes a significant difference in the application of the debt limit outlined in the bill and also in the presentation of several of the items required in the annual report. Also, line 17 on page 2, refers to the state's general obligation credit rating. The state of Kansas does not issue general obligation debt, and does not receive a general obligation credit rating. The AA+/Aa1 issuer shadow credit rating assigned to debt issued by KDFA by Standard & Poor's and Moody's is based on the strength of the state general fund appropriation credit.

For FY 2008 estimated State General Fund debt service payments total just under \$68 million, or 1.2 % of the expected revenue to the State General Fund. However, another \$204 million of debt service payments will be made from other special dedicated revenue funds that have been specifically pledged to repay bonds. Most of the other debt service payments are made from the Highway Fund, but also from the State Institutions Building Fund, the Education Building Fund, the Correctional Institutions Building Fund, university parking and housing funds, etc.

Standard and Poor's and Moody's, the state's two main rating agencies, take different approaches to these definitions. Standard and Poor's counts obligations of the State General Fund as tax supported debt, while Moody's includes the debt obligations of special revenue funds.

We believe further discussions should take place about this bill and the Department of Administration and KDFA are ready to participate.

Duane Goossen, Secretary of Administration/Budget Director
Steve Weatherford, President, Kansas Development Finance Authority