

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4532-02
Bill No.: HB 1304
Subject: Bonds - General Obligation and Revenue; Political Subdivisions; Appropriations;
 State Departments
Type: Original
Date: February 22, 2012

Bill Summary: This proposal requires all bond issuances by political subdivisions to be approved by voters and not dependent upon appropriations for repayment unless approved by the voters.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	Unknown greater than \$100,000	Unknown greater than \$100,000	Unknown greater than \$100,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Auditor** assume the current proposal would not fiscally impact their agency.

Officials from the **City of Kansas City (KC)** assume this legislation proposes to require a public vote approving the issuance of bonds unless the repayment of the bond is to come solely from the revenue generated by the project. Costs resulting from this legislation include additional costs to hold elections for potential bond issues which are estimated at \$500,000 per election for a single issue ballot.

If the City chose not to hold an election and instead issue revenue bonds to fund a project, substantial additional interest costs would be incurred because of the additional debt service coverage required (1.5 times) and the rating on the revenue bonds (estimated at BBB). Comparatively, when the City issues annual appropriation obligations, revenue coverage is not required and the bond rating would be in the A category. It is estimated that the City would pay an additional 100 basis points for a revenue bond issue opposed to an issue backed by the City's annual appropriation pledge. This additional cost equates to \$600,000 in additional interest costs per year to fund a \$50 million project fund using a 20 year bond issue. The total additional cost to the City over the life of the bonds would be \$18 million.

Oversight assumes for fiscal note purposes that the costs resulting from this proposal will have a negative impact of unknown, but greater than \$100,000 per fiscal year to local governments.

In addition, officials from **KC** state potential losses would result if the City chose not to fund a project due to lack of voter approval or insufficient project revenues to fund a bond sale. These losses include potential additional taxes that would have been derived from the project as well as the taxes from the potential economic development which might have been generated in the area surrounding the project. In addition, the City would lose the flexibility of using all legally available revenue sources for repayment of debt if a specific revenue source must be tied to the bond issue.

Oversight assumes that the potential loss in unrealized revenue is not a direct fiscal impact of this proposal and therefore has not reflected the loss in the fiscal note.

Officials from the **City of Ashland** and **City of Columbia** did not respond to Oversight's request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
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LOCAL POLITICAL SUBDIVISIONS

Cost - Election or Additional Interest

The proposal requires a public vote approving the bond issuance or additional debt service and minimum rating on the bonds.

(Unknown greater than <u>\$100,000</u>)	(Unknown greater than <u>\$100,000</u>)	(Unknown greater than <u>\$100,000</u>)
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ESTIMATED NET EFFECT TO THE LOCAL POLITICAL SUBDIVISIONS	<u>(Unknown greater than \$100,000)</u>	<u>(Unknown greater than \$100,000)</u>	<u>(Unknown greater than \$100,000)</u>
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FISCAL IMPACT - Small Business

Small businesses could be effected by this proposal if the municipalities choose not to fund projects based on the new bond issuance requirements.

FISCAL DESCRIPTION

This proposal prohibits any political subdivision from incurring any indebtedness through the issuance of a bond unless it has been submitted to and approved by the voters of the subdivision unless repayment of the bond is to be solely from the revenue generated by the project. Under no circumstances can the repayment be guaranteed by any appropriation or promise of any future appropriation by the political subdivision unless it is approved by the voters of the political subdivision.

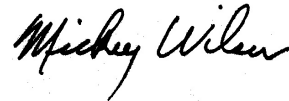
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the State Auditor
City of Kansas City

NOT RESPONDING

City of Ashland
City of Columbia



Mickey Wilson, CPA
Director
February 22, 2012