

## **Testimony in Support of HB 2636**

Good Morning and thank you for providing this time to consider our input.

If passed HB 2636 will benefit our State, our schools and ultimately our children.

My name is Roger Edgar. I am an Executive Vice President with George K. Baum & Company. Public finance has been my life's work. For the last 35 years I have worked with Kansas school districts on the issuance of municipal bonds. Our company was founded in Kansas City in 1928. We have offices in Kansas City and Wichita and have grown to 22 other cities across the country. Over the last 90+ years our company has served as an advisor or underwriter for more Kansas School bonds than any other firm.

Public education is the highest priority of our Kansas Constitution. Quality education is vital for the future of our children, communities and the State of Kansas. Quality education is difficult to accomplish in outdated and inadequate schools. Bond issues provide the funding to expand, upgrade and renovate our schools.

The challenges our school districts face change with the times. Our local school districts need the flexibility to address these challenges.

**In order to gauge whether something is worthwhile you first need to understand the objective.** We've heard a lot of speculation as to why a bond issuance "volume cap" was inserted into SB 19 last year but we haven't heard anyone say they were absolutely certain as to the goal.

**Was it to reduce the amount of state aid for capital improvements to low assessed valuation districts?**

**Was it to make the allocation of budget dollars for capital improvement state aid more predictable?**

**We can discuss these potential goals if you wish but accomplishing either goal with a volume cap doesn't even make sense. The capital improvement state aid program helps only the poorest districts and it has been a huge success.**

**The only idea that makes sense is that the motive was straightforward. Was it simply to reduce the amount of new bonds being issued?**

### **Bonds do more than just spend money on buildings.**

The ability to sustain and grow our economy is dependent on the quality of our public education system. Quality teaching and learning environments are critical to stimulating teachers and their students and imperative for the development of an enlightened public and a competent work force for the future.

Furthermore, school bond issues are not just educational issues. They are economic development issues. Approved bond issues result in significant local economic activity that generates wages for workers, profits for construction companies, and cash flow for suppliers and vendors. All this activity benefits local communities and the tax revenues of Kansas. It seems shortsighted to restrict projects that benefit thousands of students long term as well as local industry and the challenged tax coffers of the state.

In 2008, in the midst of a great recession, Wichita public schools undertook a \$370 million bond issue. While we couldn't find the old article online we recalled that media reports at the time suggested the bond issue financed a major portion of construction activity in the Wichita economy over the ensuing 5-year period. Without the positive economic impact of the bond projects, some of the local construction companies would not have survived a deep recession and the jobs might have been lost. Laborers and suppliers may have been forced out of Kansas.

## **Bond Volumes are Self Regulating**

*A quote from Will Rogers*

*“Good judgement comes from experience and a lot of that comes from bad judgement.”*

What this looks like at the local level is a school district that has to try two or three times to get a bond issue passed.

The point of this story is that local tax initiatives are SELF REGULATING. Every community has its own local watchdogs. It takes months (even years) of effort to get a bond initiative to the point where a School District can even apply to the State Board. Voters won't approve them unless the proposition is reasonable and the community benefits.

In my experience, the public is always deeply involved. Use of committees, task forces, and public meetings are the norm. Consensus between needed improvements and debt burden get debated exhaustively and achieved only through effort. It's always a messy process where no one gets exactly what they want. Each and every time the scope and tax impact of new bond proposals is decided by the voters who are directly impacted. Democracy works best at the local level.

## **There isn't way for the State Board to reasonably evaluate applications according to the priorities it was given.**

In the interest of equity the State Board was given specific criteria to use in prioritizing volume cap applications.

The Board can't use the standards which it has been tasked with because timing issues make it impossible to compare the applications against one another. Applications are received by the State each month. There isn't a way to compare or prioritize an application received in the second month of the year against an application received in the eleventh month.

In some years this won't be a problem but in others it could easily lead to litigation. It would be very easy for a district which is denied late in the year because allocation is unavailable to believe it was more deserving than one which was approved earlier.

## **The volume cap introduced last year is already creating unintended consequences.**

We have already seeing instances where School District's applied to the State Board a month or two sooner than they would have preferred to ensure that volume cap was available. This can create the



unintended consequence of interfering with the public input, debate and consensus building which voters want. When this occurs it begins to feel like counterproductive regulation.

## **The Formula has problems**

**The current volume cap limits the amount of new bonds to the amount of bonds retired in the preceding year.**

**The majority of bonds retired in 2017 were initially authorized by voters between 10 and 25 years ago. The volume cap is therefore tied to construction costs for projects which were authorized long ago. The formula isn't designed to fund the same projects at the same standard as those being paid off.**

**The current cap for FY 18-19 is about \$330 million. The last Wichita USD 259 bond issue a decade ago was \$370 million.** Under the current formula, one or more of the State's larger Districts (many of which do not even get capital improvement state aid) could take all or most of the cap. This didn't happen in the first year but it is probable that it will. When it does then smaller, growing or facility challenged districts will have referendums put on hold. In the interim, costs increase with inflation, interest rates probably rise, and children and teachers will be handicapped with outdated and inadequate facilities and equipment.

**As a practical matter this volume cap has another flaw.** Each year there is a point when a district which has received volume cap could have a failed election and there won't be sufficient time for other districts to take the steps required to apply for and receive the unused cap dollars.

Let's think about that for a minute.

Over time this anomaly will cause the amount of bonds issued to be lower than the amount retired the year before. If this process is left alone over the course of 20-25 years the volume cap will slowly decline while the effects of inflation will do the opposite to construction costs.

These issues cause us to conclude that the formula is regressive. It won't allow our schools to keep up with changing demands or even the cost of inflation.

## **Confusing Legislative Priorities**

Unfortunately, over the course of my career we have seen too many instances of extreme weather damaging or destroying school buildings. FEMA money is seldom adequate or immediately available. Bond issues are often required.

Student safety is a front and center need on the minds of everyone. School districts in Kansas must now guard against threats of gun violence. Addressing safety has been the highest priority for every project we have been involved with for many years. Whether it is limiting the number of access points or installing storm shelters, School Districts are funding these improvements with bonds.

I was watching the news this past week and listened to a report on a House bill which would provide \$5 million in State funding for grants and matching funds to school districts for such things as special safety doors, cameras and classes on firearms safety. Five million dollars is like a drop of water in a rainstorm



for a problem of this magnitude. In addition to doors and cameras older buildings often need fewer points of entry and supervised of access. Retrofitting a single high school could cost more than \$5 million.

Passing HB 2636 will do more to enable school districts to address safety needs than allocating a small amount of money for grants and will do so without additional state funding than

### **Closing Comment:**

#### ***A Quote from Warren Buffett:***

***“Someone is sitting in the shade today because someone else planted a tree a long time ago.”***

Our Schools are public property. They are our public inheritance and the physical evidence of the commitment of prior generations. Each generation has a civic duty to preserve its public inheritance for the next generation.

School Boards are publicly elected. It takes a majority vote of those elected officials (and nearly unanimous agreement) for a bond issue to be placed on the ballot with any chance of success. Then the project must be voted on and approved again by district voters. All this must occur before bonds are issued and the project undertaken.

Democracy works best at the grassroots local level. The checks and balances which are already a part of the system work well. To assert that local elected officials need supervision from above to balance needs versus cost is inaccurate and unfair.

Regulation from above creates unintended consequences. A volume cap will lead to deferred maintenance, lags in technology, gaps in safety and angry constituents. A leaking roof eventually creates a stained ceiling and a moldy wall. If deferred, ordinary repair leads to extraordinary renovation.

Kansas should be a State known for valuing and supporting public education. What is good for kids is also good for communities and the State of Kansas and the future of all three. This is a case where those closest to the problem can and should solve the problem. That is the way Kansas has been in the past and the way it should stay.