Kansas Local Government Debt*

Purpose of Study

- To provide a better understanding of the debt levels of Kansas' local governments, and the debt's impact on overlapping and underlying jurisdictions, in addition to the impact on the citizens within these jurisdictions.
- To promote fiscal policies that will protect the credit quality of local government debt instruments and ensures the sustainability of these jurisdictions' financial position.

Overview of All Kansas Local Government Debt

- All Kansas Local Government Debt increased from $2.67 billion in 1990 to $7.90 billion in 2005, at a compound annual growth rate of 7.50%.
- Local government debt per capita rose from $1,259 per person in 1993 to $2,865 in 2005, or an annual growth rate of 7.10%. Given wide variation, the county mean (or average) is $1,688 and the medium is $1,521.
- By the debt burden measure of debt per capita as a percentage of Kansas personal income per capita, local government debt increased from 5.95% in 1990 to 8.76% in 2005. The county mean is 6.55% and the medium is 5.80%.

Profile of Selected Categories of Debt

- School District Debt: Comprised 18.48% (or $493.5 million) of all local debt in 1990, but its share rose sharply to 39.25% (or $3.10 billion) in 2005. For the entire period, the annual growth rate was 13.03%, while from 2000-2005, the annual growth rate was 8.46%. The largest increase occurred between 1993 and 1994 as debt increased 28.73%, reflecting the start of the 1992 School District Bond Principal and Interest Obligation State Aid Payments program. As a result, school debt is the most significant factor in the growth of Kansas local government debt.
- County General Debt: Comprised 12.4% (or $331.1 million) of all local debt in 1990, but its share declined to 6.61% (or $522.3 million) in 2005. For the 15-year period, it grew at an annual rate of 3.08%, but for the last five years, debt decreased by 1.23% per year. The largest increase was between 1992 and 1993 (by 21.67%) and the greatest decline was between 2003 and 2004 (by -15.14%).
- City Debt: Comprised 35.03% (or $935.3 million) of all local debt in 1990, but declined to a 28.90% share ($2.3 billion) in 2005. The amount grew at an annual growth rate of 6.13% over the entire period. City debt only decreased one time during this 15 year period, and the largest increase (14.55%) occurred between 2003 and 2004.
- Revenue Debt: As the category that includes enterprise operations (e.g., water and sewer bonds) and selected dedicated tax-backed debt, revenue debt declined from 22.56% of all local debt in 1990 to 16.66% in 2005. The annual growth rate was 5.35%.

Profile of Industrial Revenue Debt

- Industrial Revenue Debt increased from $4.51 billion in 1990 to $8.60 billion in 2005, or an annual growth rate of 4.40%. It is inappropriate to include Industrial Revenue Bonds in local government debt because the local government is only the conduit for the private business to access the capital market and the local government does not have any legal liability for the debt.

---

* By WSU Public Finance Center authors, Dr. W. Bartley Hildreth (bart.hildreth@wichita.edu) and Anthony Swartzendruber (alswartzendruber@wichita.edu), 316-978-6332. Date of this draft summary is September 12, 2006.

All Local Government Debt Per Capita, By County, 2005

- The highest amount of all local government debt per capita is found in Wyandotte County ($5,101), Butler ($4,833), Sumner ($4,284), Scott ($4,259) and Johnson ($4,047). The lowest amounts per capita are in Meade ($82), Jewell ($198), Woodson ($223), Smith ($237) and Sheridan ($273).

School District Debt Per Capita and Per Student, 2005

- Highest aggregate school debt per capita is Scott County ($3,458), Butler ($2,755), Johnson ($2,108), Sumner ($1,996) and Wabaunsee ($1,974). Mean is $679 per capita.
- Highest aggregate school debt per student is Scott ($17,772), Wabaunsee ($13,896), Johnson ($13,078), Butler ($12,442), and Sumner ($12,327). Mean is $3,977 per student.
- There is no School District Debt in 25 counties.

Debt of Individual Municipalities

- A comparison of Kansas cities with comparable data reveals many with higher levels of overlapping debt (especially by School Districts). Despite higher debt ratios, few cities enjoy a more diverse local economy as measured by the top 10 property taxpayers as a percentage of the tax base. These trends affect credit quality.

State Debt compared to Local Government Debt

- State Debt Per Capita for 1993 was $363 and $1,435 in 2005, representing an annual growth rate of 12.12% [Data from: State of Kansas 2005 Debt Affordability Report].
- Local Debt Per Capita for 1993 was $1,259 and $2,865 in 2005, a 7.10% growth rate.

Policy Choices

- **Monitor the growth**. Although Kansas local government debt has grown faster than the growth in state population and Kansas personal income, current debt levels remain in the moderate range by certain aggregate credit measures. School debt reflects significant growth consistent with state policy.
- **Weigh tighter limits**. Just as state lawmakers prefer to have flexibility to respond to state needs, local government officials prefer similar flexibility. Efforts to tighten tax limits, impose spending limits, or constrain debt issuance can adversely hinder elected officials from responding to citizen demands for local services and needed capital assets at affordable rates.
- **Preserve bond security**. Eroding local revenue sources through more exemptions to the property and sales taxes or imposing new mandates can negatively impact the ability of local governments to repay current or future obligations and borrow at the lowest possible interest rates.
- **Promote debt coordination**. Local governments could be encouraged to coordinate their debt plans when they share the tax base.
- **Enhance transparency**. On each debt transaction, locally elected officials have determined that the debt is needed for public purposes, citizens have the opportunity to express disapproval at the next election, and the market has determined that the debt issuer can repay and afford the debt. Still, local governments could formally address the details of each debt transaction through a timely and easy-to-understand “Truth in Borrowing” information statement.
- **Enable taxpayer comparison shopping.** The State could compile detailed financial records on each local government and provide timely and easy public access through a single electronic database, thereby promoting accountability by helping taxpayers vote with their feet if they are not satisfied with a local government and its finances.