HCS HB 1769 -- GENERAL OBLIGATION BONDS

SPONSOR: Curtman

COMMITTEE ACTION: Voted "Do Pass" by the Committee on Downsizing State Government by a vote of 7 to 4.

This bill requires a political subdivision maintaining a credit rating of "A" or higher to sell refunding general obligation bonds of more than $3 million dollars and general obligation bonds at public sale through a competitive bid process after giving reasonable notice of the sale. Any municipality that retains or employs an independent municipal advisor is exempt from these provisions. The bonds must be sold for an amount not less than 95% of the value of the bonds and at an interest rate not exceeding 14% per year. A financial advisor involved with any sale of bonds cannot underwrite the issue. Any municipal advisor who provides services to an issuing political corporation or subdivision must be independent of the underwriter.

The State Treasurer may provide assistance regarding the issuance of bonds, notes, or other indebtedness in order to obtain the lowest possible net interest costs to a political corporation or subdivision if it makes a request.

PROPONENTS: Supporters say that the auditor’s office has performed a number of analyses over the past few years, and all of them concluded general obligation bonds should be sold through competition. School districts and other local governments incur unnecessary costs when selling general obligation bonds through negotiated sales. In a general obligation bond, the local placement is a special feature, but you pay for that local placement. An entity could insert in the bid a requirement for local placement, but the local school district or local government could end up paying a premium for that.

Testifying for the bill were Representative Curtman; Harry Otto, Deputy State Auditor; Jerry Myers, Auditor’s Office; Missouri Education Reform Council; and Children’s Education Council.

OPPONENTS: Those who oppose the bill say it cannot be proven that selling general obligation bonds through competition would result in savings to local governments or school districts. With a competitive sale on a date certain, potential buyers will just be bidding interest rates, and you must hold the sale on that specific date, regardless of where interest rates are at that point in time. In a negotiated sale, you have the ability to time the market and find potential buyers. If you cannot sell the bonds, then you hold them. Bankers need local issues, citizens want their local banks to have access to those local bonds. If these bonds are sold competitively, they will all end up out of state. Kansas City has had success selling both negotiated and competition bids, they determine the issue on a case by case basis; Kansas City does not want to lose their discretion. There are other municipalities that use both methods as Kansas City does, and they similarly do not want to lose their discretion to use both methods on a case by case basis.

Testifying against the bill were Jim Moody, George K. Bondman Company; Kenneth Breharst, First Bankers Bank Security in St. Louis; Missouri Independent Bankers Association; Missouri Bankers Association; The City of Kansas City; Missouri Municipal League, Missouri School Administrators Association; David Scobey, Stifel Nicolaus and Company, Inc.; and L. J. Hart & Company, Chesterfield.