Thoughts . . . Debt and Building the Emerald City

If we were to produce a city debt chart on the right scale the upward trend arrow would just about reach my neck. That troubles me a bit as one of my first renditions (1955) got decapitated. Not looking forward to seeing the budget get high enough to do serious damage.

As native Kansans we all want to build the Emerald City. Manhattan for sure is a jewel, but the question is should the Emerald City be expanded in regard or disregard of the debt?

Many folks talk about the debt, but does anyone really understand the numbers? The City Finance Department has a budget page and they publish a lot of data. If we start at the top, the debt is a whopping $272,414,921. That means that each and every resident is on the hook for about $5,000. The current version of my statue was built for $7,000. At that price our debt could finance 38,916 different versions of my family.

Ah, the Finance Director would say, not the case. First the City does a great job of debt management, it is the outside agencies like RCPD, The Library Board and the Regional MPO that drive up you property tax bill. The debt must be sliced into City at Large and Benefit District Portions. The City at Large Debt is $132,702,246 so you are only on the hook for $2600 (which is not the cities fault, outside agencies are to blame). The folks in the benefit districts end up paying the rest. This includes anyone that has a special assessment on their property and includes the sales taxes that support the STAR/TDD Bonds.

Let us hope that the revenue streams for those benefit districts remain stable, because if they do not, the co-signer on the loans is the City – which means you. An optimist would say we are in debt $132 million, the pessimist $272 million.

As a property tax owner the debt number that impacts your mil levy is about 115 million dollars. This is figured by taking an average of a 7% default rate on the co-signer loans and then adding the City at Large debt – minus that which is paid by Enterprise funds; mainly the water department (your water bill – *oh, that is why it is so high*). About 50 million of the debt (KDHE Loans) is tied to the excellent city water department, and must be paid through storm water, waste water and water bill charges.

A final number that is tossed around with the debt discussion is the debt limit; the calculations for that debt limit exclude certain items and are based on approximately $96 million. After crunching the numbers the city credit card limit will not be reached until we spend another $54.5 million dollars. Does that mean the maximum debt we can incur is the current $272 million plus $54.5 = $326.5 million? No; 176 million is not covered by the debt limit. In theory this means that it is possible for the City Commission to hit California like numbers and run up the total Little Apple debt to ½ a billion dollars.

We have members of the Commission and City Staff that say the debt is manageable. It all depends on your definition of manageable. Is a maxed out ½ billion dollar credit card bill manageable? Is it OK to manage the debt and finance the expansion of the Emerald City by sustained unlimited and indefinite property tax increases? Is it OK to just say to the property owners *bear the burden*?

The norm for Manhattan is to simply raise taxes, raise storm water fees, raise sewer fees, overcharge on water production and even add a hidden dig safe tax to your water bill. Raised taxes and water fees occurred in both 2012 and 2013 budgets; because the past City Commission did not have the fortitude to crush the debt.

A new City Commission will determine the 2014 budget. That Commission has a new tool – the ½ cent sales tax that was passed on a 60% margin. 35% of that tax must be used for debt reduction. The vote in November obligates the City Commission to pay more than lip service to debt management. The overall City Debt should decline by at least 1 Million dollars a year. If infrastructure projects are favored over economic development the debt can be lowered as much as 5 million dollars a year. The impact on actual dollars paid by property owners will be magnified if the money is targeted to the portion of the debt ($114 million) that directly hits property tax bills.

But, what about building the Emerald City? The new Commission has two general philosophies on growth, entitlements, and expansion. One side wants to build the Emerald City now – *"let us charge it; the credit card is not maxed out. The property owners can bear the burden."* The other side also wants to continue building the Emerald City, just not as fast or as glitzy. It might surprise folks that all five of the Commissioners are actually in agreement on the Emerald City, they want to polish the jewel and if possible increase its' value. Can the concepts of Debt reduction and enlarging the Emerald City be reconciled? Yes, a four point formula for success:

1. Do not issue any new G.O. bonds until old bonds are retired.
2. Pledge to reduce the overall City Debt by at least 1 million dollars a year (the ½ cent sales tax).
3. Prioritize the growth of the Manhattan jewel. Pay for what you can afford, do not mortgage the future of the Children.
4. Use the portion of the ½ cent sales tax that is not dedicated to property tax reduction partially for traditional economic development, but dedicate the rest to broadly defined infrastructure projects.

I will be watching the 2013-2015 City Commission. I challenge them to take care of the Emerald City, let us avoid further decapitation.

Mr. K