

PERFORMANCE AUDIT REPORT

Examining Differences in Costs for Issuing Bonds in Kansas

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 1991**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$5 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

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EXAMINING DIFFERENCES IN COSTS FOR ISSUING BONDS IN KANSAS

OBTAINING AUDIT INFORMATION

This audit was conducted by Jim Davis, Senior Auditor, and Randall Reeves, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Davis at the Division's offices.

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EXAMINING DIFFERENCES IN COSTS FOR ISSUING BONDS IN KANSAS

Summary of Legislative Post Audit's Findings

Legislative concerns have been raised about the lack of a statutory requirement that bond professionals be selected competitively, and about the cost of issuing bonds when bond professionals are not competitively selected. To address these concerns, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit answering the following questions:

Does the State issue bonds using a competitive process for selecting bond professionals? State law does not require that bond professionals--such as financial advisors, bond counsel, trustees, and underwriters--be competitively selected for bonds issued by State agencies. However, the Kansas Development Finance Authority has issued all State agencies' bonds for at least the past three years, and as a matter of policy has competitively selected the bond professionals used. The Department of Transportation is using a competitive process to select bond professionals for its highway bond issue planned for early 1992. Bond professionals also generally are not required to be competitively selected for bonds issued by municipalities in the State. Most municipalities we contacted had some elements of competition for selecting bond counsel and underwriters for general obligation and revenue bonds, but not for mortgage revenue bonds and industrial revenue bonds. A sample of other states had diverse requirements and processes for selecting bond professionals.

How do issuance costs compare for bonds issued using competitively selected professionals and those using noncompetitively selected professionals? For a number of reasons, we were unable to answer this question. There has been no difference in the way bond professionals have been selected for State-issued bonds in recent years; the Kansas Development Finance Authority has competitively selected the bond professionals it has used. Thus, there were no comparison groups at the State level. To identify differences for comparison purposes, we explored the possibility of reviewing locally issued bonds, but found it would be a major undertaking to get comparable information for an adequate number of bond issues to make meaningful comparisons. The scope of the audit the Legislative Post Audit Committee approved did not anticipate such an effort.

In an effort to provide some useful information, we reviewed bids submitted by bond counsel and underwriters to the Kansas Development Finance Authority for a sample of bond issues to determine whether the bond professional market appeared to be competitive. We found considerable variation in the bids, suggesting that there are opportunities for saving money by selecting bond professionals competitively.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials.



Barbara J. Hinton
Legislative Post Auditor

EXAMINING DIFFERENCES IN COSTS FOR ISSUING BONDS IN KANSAS

The State and its localities issue bonds to finance such things as public improvements, educational and correctional facilities, housing, and industrial and other business enterprises. Part of the cost of issuing such bonds is the fees paid to bond attorneys and bond underwriters.

Legislative concerns have been raised recently about the cost of issuing bonds in the State. In particular, concerns have been raised about the lack of a statutory requirement that bond professionals be selected competitively, and about the cost of issuing bonds when bond professionals are not competitively selected. To address these concerns, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit answering the following questions:

1. **Does the State issue bonds using a competitive process for selecting bond professionals?**
2. **How do issuance costs compare for bonds issued using competitively selected professionals and those using noncompetitively selected professionals?**

In conducting this audit, we reviewed State statutes and interviewed officials with the Kansas Development Finance Authority, the Departments of Transportation and Administration, and the Kansas Turnpike Authority. In addition, we reviewed documentation on file at the Finance Authority. Finally, we contacted a sample of local government officials, as well as officials in a sample of other states' departments of transportation. We followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

In general, we found that bond professionals generally are not required to be competitively selected for bonds issued in Kansas. However, for at least the past three years the Finance Authority has been the issuer for State agencies' bonds, and has competitively selected the bond professionals involved with those bond issues. In addition, we found that a sample of local governmental bond issuers have both competitive and partially noncompetitive processes for selecting bond professionals. Development finance authorities in a sample of other states have a variety of methods for selecting their bond professionals.

For a number of reasons, we were unable to answer question two. There generally have been no differences in the way bond counsel and underwriters have been selected for State-issued bonds in recent years. To identify differences for comparison purposes, we explored the possibility of reviewing locally issued bonds, but found it would be a major undertaking to get comparable information for an adequate number of bond issues to make meaningful comparisons. The scope of the audit the Legislative Post Audit Committee approved did not anticipate such an effort.

Does the State Issue Bonds Using a Competitive Process For Selecting Bond Professionals?

State law does not require that bond professionals—including financial advisors, bond counsel, trustees, and underwriters—be competitively selected for bonds issued by State agencies. As a matter of policy, however, the Kansas Development Finance Authority has competitively selected the bond professionals it has used to issue State agencies' bonds. Bond professionals generally are not required to be competitively selected for bonds issued by municipalities in the State, but officials in a sample of municipalities we contacted indicated that most have partially competitive and partially noncompetitive processes for selecting their bond professionals. Finally, we found that a sample of other states had diverse requirements and processes for selecting bond professionals. These and other findings are discussed in the following sections.

Although State Law Does Not Require Bond Professionals To Be Competitively Selected for Bonds Issued By State Agencies, They Generally Have Been Selected on a Competitive Basis

We reviewed the statutory requirements for, and policies and procedures established by, the Kansas Development Finance Authority, the Department of Transportation, and the Kansas Turnpike Authority.

As a matter of policy, the Kansas Development Finance Authority selects bond professionals through a competitive process. The Kansas Development Finance Authority was established by statute in 1987, and has issued all State agencies' bonds for at least the past three years. The Finance Authority's enabling legislation allows it to sell bonds "either at public or private sale," but is silent regarding how bond professionals are to be selected. Bond professionals that might be used in a bond issue include the following:

- a financial advisor to make recommendations about the timing and financial structuring of a bond issue
- bond counsel to render an opinion regarding compliance with applicable legal requirements
- a trustee to make required payments to bond holders
- one or more bond underwriters to purchase the bonds from the issuer and market them to investors

As a matter of policy, the Finance Authority solicits the bond professionals it uses in issuing bonds for State agencies through requests for proposals. It sends requests for proposals to all outside professionals that may be needed to conduct a bond issue, such as financial advisors, bond counsel, trustees, and underwriters. Proposals that are received are evaluated by in-house staff and formally selected by the Authority's board of directors. This process is followed regardless of how the bonds are to be sold, by competitive bid, negotiated sale, or private placement. A general discus-

sion of competitive bids, negotiated sales, and private placements, and how the Authority conducts them, is contained in the following box.

**The Kansas Development Finance Authority Competitively
Selects Bond Professionals for All Its Bond Sales**

In a competitive bid sale, the Finance Authority's in-house staff work with bond counsel to produce a preliminary official statement. A bond underwriter is not involved at this point in the transaction, although staff may use a financial advisor. The preliminary official statement sets out the details of the bond issue, including the size of the issue, the date bonds will be issued, the project to be financed, and the maturity schedule for the bonds—everything except the rates of interest each of the bonds will pay. Based on the information in the preliminary official statement, underwriting firms submit bids to purchase the issue, including rates of interest for the bonds and their underwriting fees. The bids are evaluated by staff and the bid with the lowest net cost is selected.

In a negotiated sale, the bond underwriter is brought into the process at an earlier stage. The Finance Authority generally conducts negotiated sales for more complicated transactions. It solicits underwriting firms for negotiated sales by sending requests for proposals describing the project and other relevant information, such as ideas for financing structure and a timeframe for when the bonds will be issued. Underwriting firms submitting proposals are evaluated on more than just the total cost of their bids; they are evaluated based on how well their proposals meet the particular needs of the project.

One advantage of a negotiated sale is the flexibility for timing a bond issue to avoid adverse market conditions. For example, at the time of the war in Iraq, interest rates rose for a short period of time, then fell to prewar levels. A competitive bid sale timed in that period would have locked-in relatively high rates, while a negotiated sale could have been held back from the market. Another advantage of a negotiated sale is that, by involving the underwriter at an earlier stage in the process, the bond issuer can work with the underwriter to better target the bond issue to investors, and to help ensure that the financial structure of the transaction does not make the bonds less marketable.

In a private placement, the buyer of the bonds is known before the bonds are issued. An example of a private placement done by the Finance Authority is the Emporia State University Parking System. In an effort to keep costs low because of the relatively small size of the bond issue, the Finance Authority solicited financial institutions directly to find a buyer for the bonds. This saved such fees as printing costs for a prospectus as well as underwriters' fees, while still providing the benefits of competition.

A complete list of the bonds issued by the Finance Authority from its inception in 1987 through October 1991 is presented in Appendix A. The list includes total issuance costs for the Authority's bonds.

The Kansas Department of Transportation is using a competitive process for selecting bond counsel and underwriters for its bond issue planned for early 1992. The Department has not conducted a bond issue since 1985. The bonds it will be issuing in early 1992 will be the first of a series to finance the comprehensive highway program enacted by the 1989 Legislature. Under legislation that authorized the highway program, the Department must contract for financial advisors, bond counsel, and the like, in accordance with State procurement statutes.

Department officials indicated that they had selected a financial advisor for this issue on a competitive basis, and have sent requests for proposals to about 30 bond counsel and 80 bond underwriting firms. These firms will be selected in early December 1991. Department officials stated they planned to issue the bonds by a negotiated sale in early 1992.

Although it is not a State agency, the Kansas Turnpike Authority has the authority under State law to issue bonds. The Turnpike Authority issued \$28.4 million in bonds in November 1990, but according to an official with the Turnpike Authority, it did not have a competitive process for selecting bond counsel and did not formally request proposals from underwriters. However, the official stated that the Turnpike Authority had received several unsolicited proposals from underwriting firms.

Each firm was allowed to make a presentation to the Turnpike Authority's board of directors. After considering the proposals, the board determined that all the firms could participate in the sale of the bonds. Such joint participation was accomplished by the firms forming a "syndicate" to purchase the bonds. The board of directors selected bond counsel based on the recommendation of the underwriting firms that formed the syndicate. Total issuance costs for the November 1990 bond issue were \$977,667, or about \$34 per \$1,000 of bonds.

Bond Professionals Generally Are Not Required To Be Competitively Selected for Bonds Issued by Municipalities in the State

State law imposes different requirements on the sale of different types of bonds issued by municipalities. General obligation bonds, which are bonds backed by the municipalities' general tax revenues, must be sold publicly; that is, there must be an open process for selecting bond underwriters. However, no similar requirement exists for selecting other types of bond professionals. State law does not require that any of the bond professionals municipalities use for revenue bonds—bonds backed by particular revenues, usually from the project they are being used to fund—be selected competitively.

Most municipalities we contacted had some elements of a competitive process for selecting bond counsel and underwriters for bonds backed by public moneys. We contacted officials in a sample of 12 Kansas municipalities. The sample was chosen using lists of locally issued bonds that were registered with the State Treasurer's Office. The municipalities we contacted represent various issuer types, geographic locations, and sizes of population. Thus, although the results cannot be generalized to the entire State, the sample is somewhat representative of different types of municipal bond issuers across the State.

We asked officials in the sampled municipalities how they selected their bond counsel and underwriters. The results of our telephone survey are presented in the table on the facing page.

**How a Sample of Kansas Municipalities
Select Bond Counsel and Underwriters**

These Municipalities Had a Competitive Process for Selecting...

<u>...Both Bond Counsel and Underwriters</u>	<u>...Bond Counsel Only</u>	<u>...Bond Underwriters Only</u>	<u>...Neither Bond Counsel nor Underwriters</u>
Olathe	Kansas Rural Water Finance Authority	Coffey Co. (general obligation bonds) Garden City Gardner (general obligation bonds) Hays Junction City (general obligation bonds) Lawrence Sedgwick Co. U.S.D. 229 U.S.D. 368	Gardner (revenue bonds) Junction City (revenue bonds) Coffey Co. (revenue bonds) R.W.D. #8—Shawnee Co.

As the table shows, most officials we contacted said they selected their bond underwriters competitively (at least for general obligation bond issues), but not their bond counsel. Most said they either had satisfactory longstanding relationships with particular bond counsel firms, or they relied on underwriters or financial advisors to recommend counsel.

When municipalities issue mortgage revenue bonds and industrial revenue bonds, bond professionals are not competitively selected. Authority to issue such bonds is granted by the Department of Commerce under the federal Private Activity Bond Program. (This program and the Department of Commerce's administration of it were described in the performance audit, Reviewing the Department of Commerce's 1991 Bond Allocations.) Municipalities issue mortgage and industrial revenue bonds, but those bonds are paid back with private moneys from the homebuyers or industries that benefit from them, not by public moneys.

Officials in the municipalities we contacted that issue such bonds said their procedures for these types of bonds were different from their procedures for bonds repaid by public moneys. For mortgage and industrial revenue bonds, they said, it has been common practice for private companies to approach them with requests to issue bonds, already having put together a financing team of bond professionals. The municipality decides whether to approve the arrangement or not; it generally does not play a role in selecting the bond professionals that make up the financing team.

In one municipality we contacted, this practice may change in the future. According to Sedgwick County officials, if the federal government renews the mortgage revenue bond program for 1992, the County will begin to competitively select the underwriter(s) for that program.

A Sample of Other States Had Diverse Requirements and Processes for Selecting Bond Professionals

In March 1991, the Legislative Research Department contacted development finance authorities in the four surrounding states plus Arkansas and Illinois. They found that Oklahoma state law required all bond professionals to be selected through a competitive process, and that Missouri state law required bond underwriters to be competitively selected. Arkansas had no statutory requirements in this area, but a competitive process had been adopted as a matter of policy (just as the Kansas Development Finance Authority has done).

The three remaining states—Illinois, Nebraska, and Colorado—had no statutory requirements for selecting bond professionals, and had not adopted a competitive process as a matter of policy. For more detailed information about each state's processes, see the box on the facing page.

In light of the coming bond issue by Kansas' Department of Transportation, we also contacted officials in the departments of transportation for the states listed above. Two of those states' transportation departments competitively select bond professionals for their bond issues (Illinois and Oklahoma). Officials in the other states' transportation departments indicated that they do not issue bonds.

Conclusion

Although State law does not require bond professionals to be competitively selected for State-issued bonds, for the past several years they have been. The Kansas Development Finance Authority, which has issued State agencies' bonds in recent years, has adopted a policy of competitively selecting bond professionals for all its bonds. In addition, the Kansas Department of Transportation's planned 1992 bond issue will be conducted using competitively selected bond professionals. State law also does not require bond professionals to be competitively selected for bonds issued by municipalities. Most of a sample of municipalities we contacted had partially competitive and partially noncompetitive processes for selecting bond professionals for their general obligation bonds and revenue bonds. However, when municipalities issue mortgage revenue bonds and industrial revenue bonds—both of which are paid back from private sources—bond professionals are not competitively selected. Finally, for a sample of six states contacted, only two had a statutory requirement that bond professionals be selected on a competitive basis.

Other States' Methods for Selecting Bond Professionals

In March 1991, the Legislative Research Department contacted officials in a sample of other states' development finance authorities to determine the methods they use for selecting bond professionals such as bond counsel, underwriters, and trustees. What follows is a summary of the information Research found.

Missouri—State law requires that the bond underwriters be selected through a competitive process. The Missouri Economic Development, Export, and Infrastructure Board fulfills this requirement by using a competitive-proposals system. However, it is not mandatory that bond counsel be selected the same way. A Missouri Attorney General's opinion stated that the "learned professions" were exempt from the statutory requirements that apply to underwriters.

Nebraska—The state has no requirement that the services of bond professionals be obtained in any particular way. The Nebraska Development Finance Authority is, for the most part, a conduit issuer, with the actual borrowers generally selecting the bond professionals they want to work with. When the Nebraska Development Finance Authority is the borrower, bond professionals' services are obtained in a variety of ways. For bond counsel services, the Authority has a longstanding relationship with a firm in Lincoln. For underwriter and trustee services, the Authority sometimes uses firms it has used in the past, and sometimes it issues requests for proposals.

Oklahoma—State law requires that any professional services for state bond issues must be obtained through requests for proposals. At least three firms must be solicited for each project, as well as any others that ask to receive requests for proposals. The proposals are reviewed and commented upon by the Office of the State Bond Advisor, and a recommendation is made to the department issuing the bond. The department may choose to accept or reject the recommendation. However, the officials contacted said that it is rare that the recommendations of the State Bond Advisor are rejected.

Colorado—A number of authorities in the state can issue public debt, including one for public housing, one for student loans, and one for health-care facilities. The state has neither a statutory requirement nor a formal policy for how bond professionals are selected.

Illinois—No particular process is required for selecting bond professionals. Bills have been introduced in the Illinois Legislature to require that bond professionals be selected competitively, but none have passed. Applicants come to the Illinois Development Finance Authority having already chosen the bond professionals they want to work with on their bond issues. In addition, the Authority has a pool of law firms that it uses as issuer's counsel, depending on what type of bond is being issued.

Arkansas—the Arkansas Development Finance Authority has a policy of always selecting bond professionals through requests for proposals. The proposals must detail, among other things, the experience of the applicant, the scope of services to be provided, and the cost of those services. Weights are assigned to the various factors to make the process more objective. While it is not required to use this system, the Authority does so as a matter of policy. The Authority is required to submit a fact sheet detailing the particulars of bond issues to the Arkansas Legislative Council for review. However, the Council does not have the power to mandate any changes in the selection process.

How Do Issuance Costs Compare for Bonds Issued Using Competitively Selected Professionals and Those Using Noncompetitively Selected Professionals?

In general, we found we could not provide meaningful comparisons for issuance costs under this question. There have been no differences in the way bond counsel and underwriters have been selected for State-issued bonds in recent years. The Kansas Development Finance Authority, which has issued all State bonds for the past several years, has competitively selected the bond professionals for all its bonds. Thus, there were no comparison groups at the State level.

We explored the possibility of reviewing locally issued bonds, but it would be a major undertaking to get comparable information for a sufficient number of bond issues to make any meaningful comparisons. To make meaningful comparisons, certain characteristics of the bond issues being compared should match up as completely as possible. Such characteristics include the type of project, the amount of the bond issue, the date of the bond issue, the length of the bond issue, and the bonds' average interest rate. All of these factors could have an impact on a bond issue's issuance costs. We also found that the information available from localities about their bond issues appeared to be very limited.

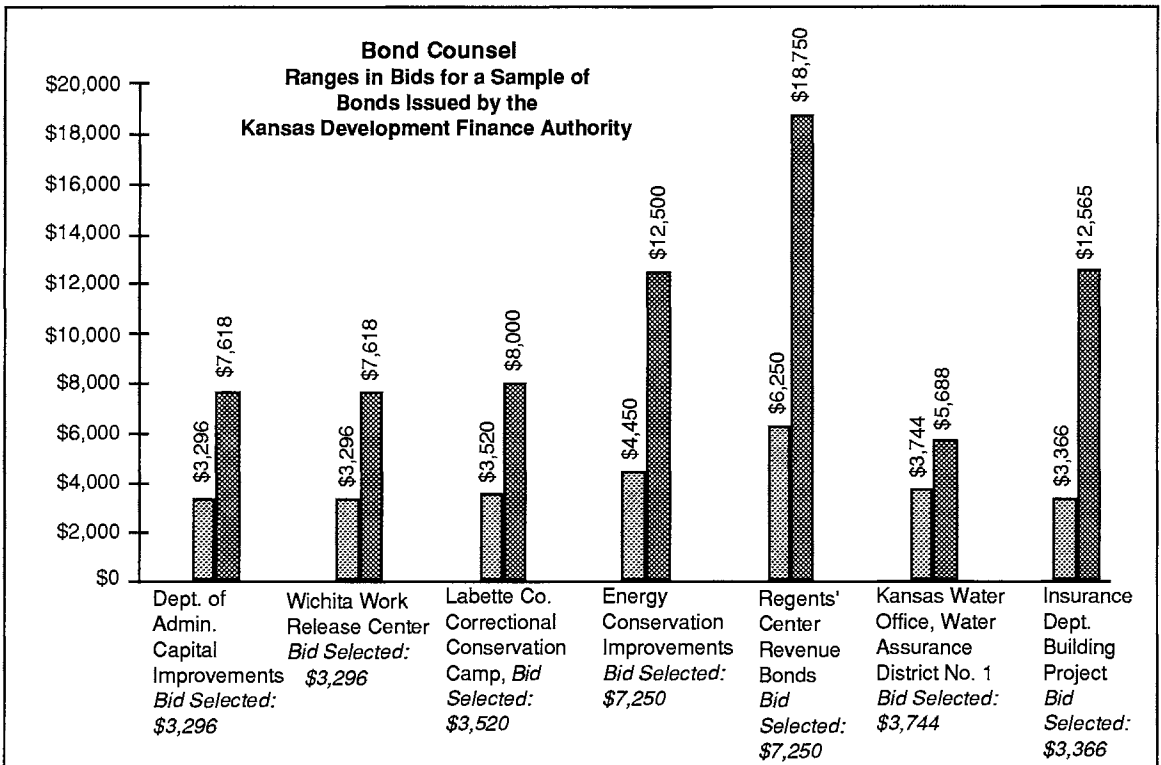
In an effort to provide information that might be useful in this area, we were able to review bids submitted by bond counsel and underwriters to the Kansas Development Finance Authority to determine whether the bond professional market appeared to be competitive. We also were able to provide issuance-cost comparisons for mortgage revenue bonds issued in a sample of other states. We had obtained this information as part of our audit, Examining Mortgage Assistance Programs at the Department of Commerce.

We found that bond counsel and underwriter bids for a sample of Finance Authority bonds showed considerable variation, an indication that the Finance Authority may be saving money by obtaining competitive bids for those services. We also found that issuance costs for a sample of other states' mortgage revenue bonds varied among the states contacted.

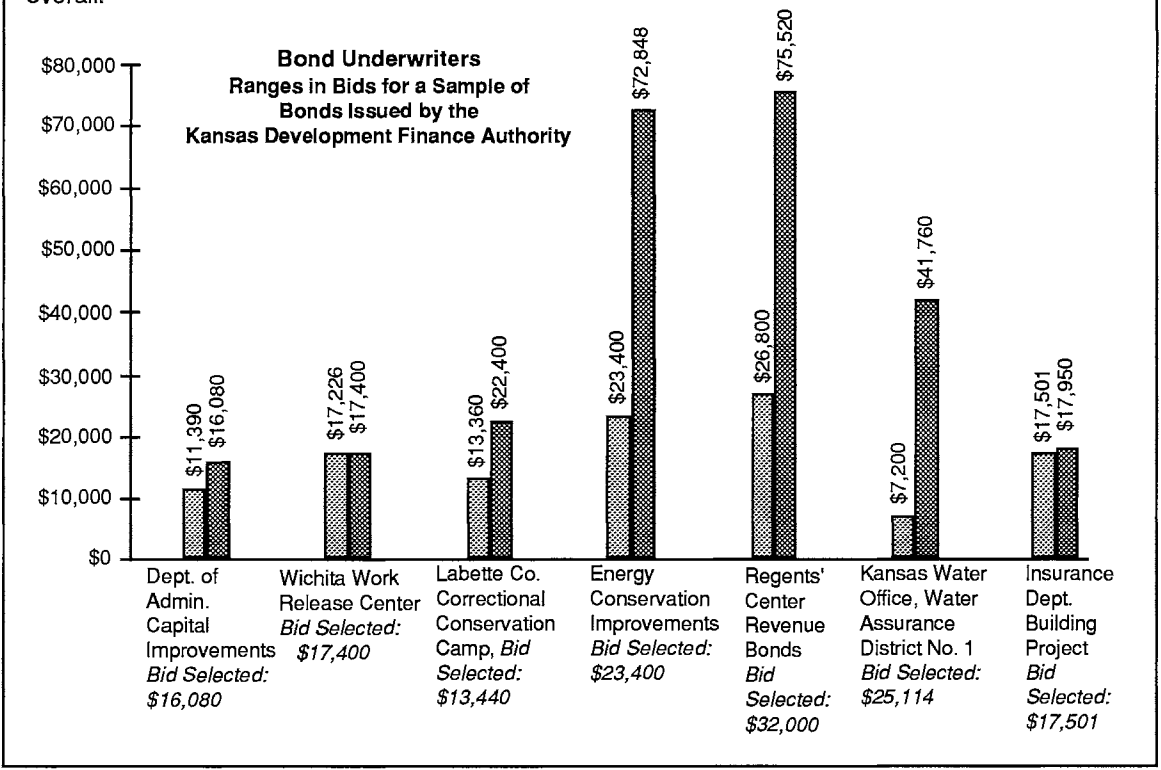
Bond Counsel and Underwriter Bids Showed Considerable Variation for a Sample of Kansas Development Authority Bonds

We looked at bonds issued by the Finance Authority in fiscal years 1991 and 1992 to date. We reviewed bids submitted by bond counsel and underwriting firms to determine whether there appeared to be much variation in proposed fees for those services.

We found that at least three firms submitted bids for each of the bond issues in our sample. The charts on the following page show the ranges in fees bid for bond counsel and underwriting services for the bonds in our sample. Also shown is the



These graphics show the ranges in bond counsel and underwriters' bids for a sample of bonds issued by the Kansas Development Finance Authority in fiscal years 1991 and 1992. Also shown are the amounts bid by the firms selected for those bond issues. While it was beyond the scope and timeframe of this audit to determine why low bids were not always selected, it appeared that it was often because those firms' total costs were higher, or because another firm's proposal was determined to be better overall.



amount bid by the firm that was selected. (It should be noted that the low fee was not always selected, apparently because another bid was determined to be better overall.)

As the charts show, the differences between low bid and high bid were sometimes slight, but were sometimes dramatic. For bond counsel, the low bid was selected in five of the seven bond issues we reviewed. For bond underwriters, the low bid was selected for two bond issues, and the high bid was selected for two bond issues.

The variations presented in these charts may not be representative of all bonds issued by the Finance Authority, but they do suggest there are opportunities for saving money by using a competitive-bid process for selecting bond professionals.

Issuance Costs for a Sample of Other States' Mortgage Revenue Bonds Varied From State to State

During the performance audit, Examining Mortgage Assistance Programs at the Department of Commerce, we contacted a sample of other states to ask how they selected underwriters for their mortgage revenue bond programs. Officials in Colorado and Nebraska stated that they had longstanding relationships with particular underwriting firms they used on an on-going basis. Officials in Missouri and Indiana indicated they selected underwriters based on a review of proposals solicited from many different firms. Officials in Maine said they selected underwriters on a competitive-bid basis.

We also asked those officials to provide total issuance costs for their 1990 mortgage revenue bonds. The following table shows the issuance costs they reported for their 1990 mortgage revenue bond issues, as well as issuance costs for Kansas' mortgage revenue bonds for that year.

Issuance Costs for a Sample of Other States' Mortgage Revenue Bond Programs in 1990

<u>State</u>	<u>Bond Issuance Costs Per Thousand</u>
Colorado	\$ 15.00 (approx.)
Indiana	12.60 (avg.)
Maine	6.90
Missouri	17.50 (avg.)
Nebraska	13.85 (avg.)
Kansas	19.50 (avg.)

As the table shows, costs varied considerably from state to state. Of the other states, Maine had the lowest issuance costs at \$6.90 per \$1,000, and Missouri had the highest issuance costs at an average of \$17.50 per \$1,000. At \$19.50 per \$1,000, Kansas' issuance costs were higher than the five other states' costs.

Because the information we obtained from other states was limited, caution should be used in drawing conclusions about the effect the underwriter selection process had on total issuance costs. Other factors, such as relative complexity of particular bond issues and characteristics that may be unique to each state, also may affect total issuance costs.



APPENDIX A:

Schedule of Kansas Development Finance Authority Projects, December 1, 1987, Through October 31, 1991

The following table lists all of the bonds issued by the Kansas Development Finance Authority through October 31, 1991. Information shown for each bond issue includes:

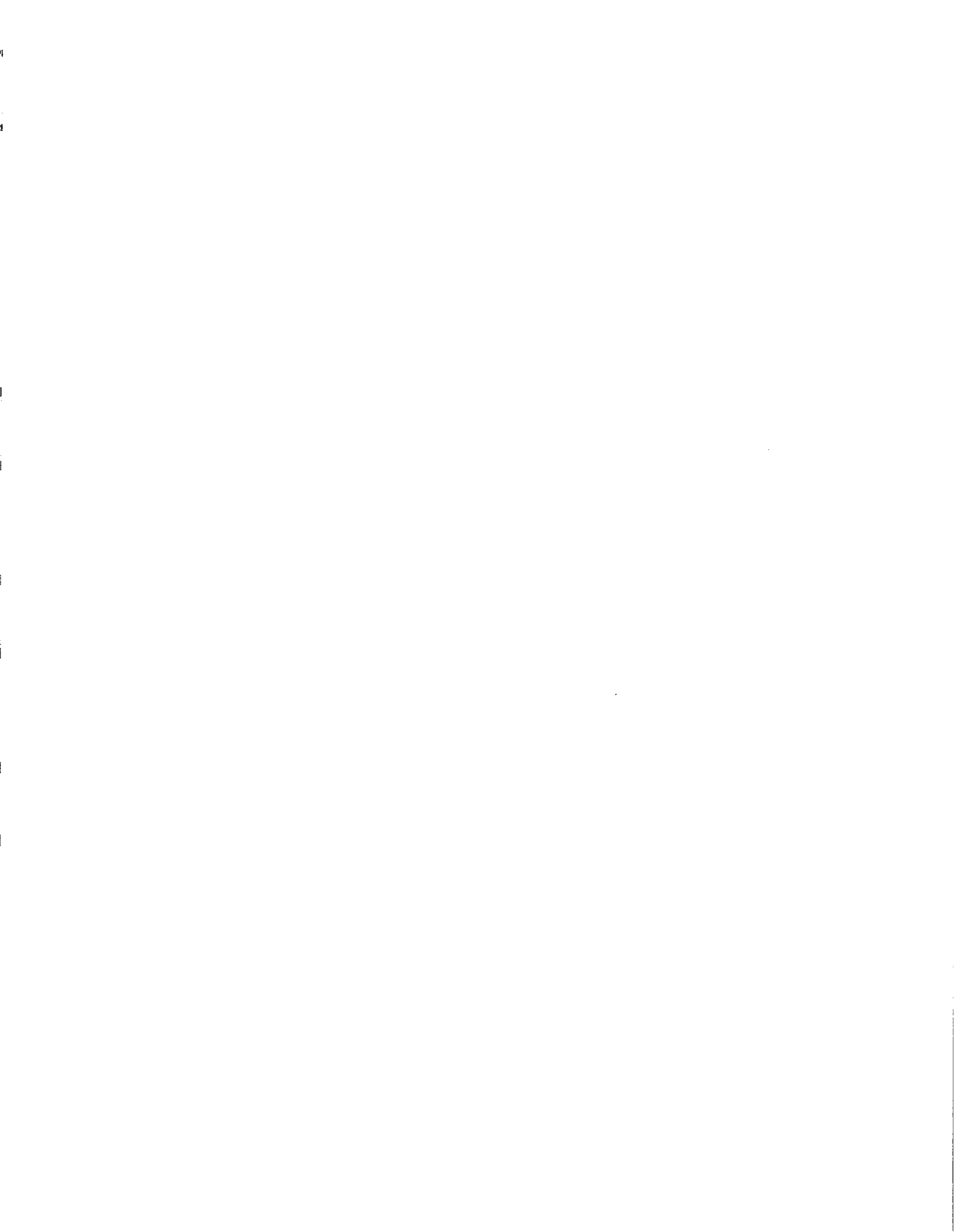
- the name of the project financed by the bonds
- the date the bonds were issued
- the issue life
- the issue size
- the bonds' average interest rate
- the type of sale
- issuance costs, by category
- total issuance costs per thousand dollars of bonds issued

Project Name	Date of Issue	Issue Life (years)	Issue Size	Average Interest Rate	Sale Type (a)	ISSUANCE COSTS					TOTAL ISSUANCE COSTS	TOTAL ISSUANCE COSTS (per thousand)
						Bond Insurance	Underwriter Discount	KDFA Fees	Bond Counsel	Other Costs		
1987 Series, Certificates of Participation, Equipment Master Lease Program	12/1/87	6	\$16,280,000	6.60%	B	\$0	\$146,520	\$81,400	\$17,908	\$64,502	\$310,330	\$19.06
1987 Series A, Wichita State Office Building Project	12/1/87	15.5	4,535,000	8.06	B	0	56,688	22,675	4,750	8,677	92,790	20.46
1988 Series A, University of Kansas Campus Parking Garage	8/1/88	20	5,000,000	7.36	B	0	0	25,000	4,000	16,000	45,000	9.00
1988 Series B, Ellsworth Correctional Facility	9/1/88	20	10,025,000	7.71	N	89,992	54,937	50,125	8,521	34,557	238,132	23.75
1988 Series C, Ellsworth Correctional Facility	10/1/88	13	10,135,000	6.91	N	53,901	55,540	50,675	8,615	36,269	205,000	20.23
1988 Series D-E, Kansas State University Capital Improvements	10/1/88	6	785,000	6.41	N	0	5,417	3,925	2,500	9,659	21,501	27.39
1988 Series F, University of Kansas Medical Center Parking Garage	12/1/88	14.5	3,500,146	6.92	N	68,314	22,400	17,500	3,000	13,446	124,660	35.62
1989 Series A, State Fair Grandstand Renovation Project	3/1/89	9.5	840,000	7.32	B	0	0	4,200	2,000	18,800	25,000	29.76
1989 Series B, Kansas State University Parking System	6/1/89	14.75	3,000,000	6.95	B	0	29,716	15,000	5,550	24,450	74,716	24.91
1989 Series C, Kansas State Department of Corrections 1989 Project	11/15/89	14.75	34,940,000	6.91	B	216,000	349,400	174,700	15,723	118,028	873,851	25.01
1989 Series D, Kansas State University Housing Facilities Renovation	9/28/89	19.5	5,324,914	6.92	N	48,132	95,848	26,625	9,851	14,012	194,468	36.52
1989 Series E, Emporia State University Memorial Union Renovation	11/1/89	20	1,401,332	6.95	B	0	17,500	7,007	3,452	12,103	40,062	28.59
1989 Series F, Kansas Bureau of Investigation Office Bldg.	9/28/89	19.25	3,855,000	6.97	B	0	38,550	19,275	4,048	7,627	69,500	18.03
1989 Series X-1, Kansas Water Pollution Control Revolving Fund	12/19/89	8.75	565,000	7.13	P(b)	0	0	65,000	26,000	49,000	140,000	247.79
1990 Series X-2, Kansas Water Pollution Control Revolving Fund	3/23/90	9	408,000	7.90	P	0	0	0	0	0	0	0.00
1990 Series B, Larned Mental Health Facility Project	5/31/90	15.25	14,500,000	7.02	B	90,000	145,000	72,500	6,525	59,479	373,504	25.76
1990 Series C, Emporia State University Parking System	6/1/90	10	365,000	7.50	P	0	0	1,825	1,278	398	3,501	9.59
1990 Series AG, (2 Issues) Beginning Farmers Program	Various	Various	62,857	Various	P	0	0	340	800	0	1,140	18.14

Project Name	Date of Issue	Issue Life (years)	Issue Size	Average Interest Rate	Sale Type (a)	ISSUANCE COSTS					TOTAL ISSUANCE COSTS	TOTAL ISSUANCE COSTS (per thousand)
						Bond Insurance	Underwriter Discount	KDFA Fees	Bond Counsel	Other Costs		
1990 Series E, Department of Administration Capital Improvements	8/1/90	10	1,340,000	6.55	B	0	16,080	6,700	3,015	5,205	31,000	23.13
1990 Series F, Wichita Work Release Center Project	8/1/90	15	1,740,000	6.79	B	0	17,400	8,700	5,603	10,484	42,187	24.25
1990 Series G, Labette County Correctional Conservation Camp	8/1/90	10	2,000,000	7.64	N	0	16,800	10,000	4,400	10,007	41,207	20.60
1990 Series X-3, Kansas Water Pollution Control Revolving Fund	7/19/90	9	475,000	7.71	P	0	0	0	0	0	0	0.00
1990-91 Series AG, (87 Issues) Beginning Farmer Program	Various	Various	7,519,522	Various	P	0	0	51,722	50,839	0	102,561	13.64
1990 Series H, Energy Conservation Improvements	11/1/90	11.33	4,415,000	6.47	N	31,000	31,420	22,075	6,402	52,036	142,933	32.37
1990 Series D, Regents Center Revenue Bonds	1/1/91	20	4,000,000	6.87	N	0	32,000	20,000	5,800	17,200	75,000	18.75
1990 Series X-4, Kansas Water Pollution Control Revolving Fund	1/23/91	9	907,500	7.39	P	0	0	0	0	0	0	0.00
1991 Series, State of Kansas Water Office, Kansas Water Assurance District No. 1	5/1/91	10.5	1,440,000	6.49	N	0	11,520	7,200	4,962	4,318	28,000	19.44
1990-91 Series AG, (18 Issues) Beginning Farmer Program	Various	Various	756,766	Various	P	0	0	18,598	8,436	0	27,034	35.72
1991 Series D, Insurance Department Building Project	10/1/91	15	1,795,000	6.28	B	0	17,501	8,975	3,366	10,658	40,500	22.56

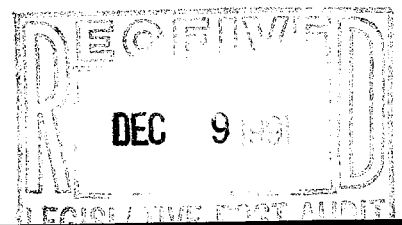
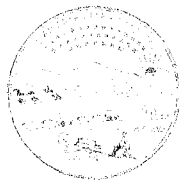
(a) Key to Sale Type: B = Competitive Bid; N = Negotiated Sale; P = Private Placement.

(b) Series X-1 Cost of Issuance based on anticipated total State Revolving Fund match borrowings of \$13,000,000.



Appendix B
Agency Response

On December 4, we provided copies of the draft audit report to the Kansas Development Finance Authority. Its response is included as this Appendix.



KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

Joan Finney
Governor

Terence J. Scanlon
President

December 10, 1991

Ms. Barbara Hinton
Legislative Post Auditor
Legislative Division of Post Audit
1200 Merchants Bank Tower
8th and Jackson
Topeka, Kansas 66612-2212

RE: Examining Differences in Costs for Issuing Bonds in
Kansas Audit Report

Dear Ms. Hinton:

We have reviewed, as you requested, the draft report on Examining Differences in Costs for Issuing Bonds in Kansas.

Since a great deal of the information presented in the report is from the records of the Kansas Development Finance Authority, I can only confirm that the practice of competitively selecting professionals used in the process of issuing bonds does illustrate the real opportunity to reduce costs in many cases.

There is generally a wide variety of costs bids by professionals. This may be caused in part by the background and experience a firm or counsel may already have in similar bond issues of that particular type. This would give them a jump start on our project and could be reflected in the price they bid.

In each case, however, we look beyond the cost alone and assess the experience and performance of the firm and how this may best be of benefit to our needs. Because of this the price is not the only determining factor in making our selections. This is what distinguishes our procedure as a Request for Proposals as opposed to a pure Competitive Bid.

Conclusion:

I think the present procedures used by the Kansas Development Finance Authority work very well and they give us some controls which we might not have if negotiating one on one or taking price bids only. Our staff is competent to use this flexibility to obtain the highest quality of professional services for a fair price.

Very truly yours,



Terence J. Scanlon
President

TJS:dc

