

AUDIT PROPOSAL

Private Activity Bonds: Comparing How Structure and Use of These Bonds in Kansas Compares to Other States

SOURCE

This audit proposal was requested by Representative Tom Burroughs.

BACKGROUND

Since 1968 the federal government has allowed state and local governments to use tax-exempt bonds to finance certain projects called “qualified private activities.” In Kansas, these private activity bonds are administered by the Department of Commerce to provide financing for qualified projects. In 2017, Kansas was authorized to issue a total of \$305 million in federally tax-exempt private activity bonds. Although bonds can be issued for a variety of private activities, we identified three that are common.

- Exempt facility bonds are used to fund activities such as sewage facilities, mass commuting facilities, and qualified residential rental projects.
- Small issue bonds (or industrial revenue bonds) are securities issued by cities, counties or the Kansas Developmental Finance Authority to provide funds for constructing or equipping new facilities, remodeling and expanding existing facilities, and the beginning farmer loan program.
- Mortgage revenue bonds are issued to provide first-time homebuyers an enhanced opportunity to finance the purchase of a new home. Eligible borrowers can use the forgivable loan to reduce the out-of-pocket expenses associated with buying a home. Unused private activity bond allocations are used to help fund the first-time homebuyer program administered by Shawnee and Sedgwick counties.

Legislators have expressed an interest in knowing how the structure and use of these bonds in Kansas compares to other states.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objectives listed below represent the questions that we would answer through our audit work. The proposed steps for each objective are intended to convey the type of work we would do, but are subject to change as we learn more about the audit issues and are able to refine our methodology.

Objective 1: How does Kansas’ use of private activity bonds compare to other states? Our tentative methodology would include the following:

- Work with Department of Commerce officials to identify Kansas’ federal bond allocation in recent years, as well as the number and types of projects that bond allocation has been used for.

- Select peer states for comparison and contact their Departments of Commerce (or equivalent) to gather the same information. Compare the information from those states to Kansas. Follow up with Kansas Department of Commerce officials for any notable differences.
- Work with U.S. Treasury officials (or other relevant officials) to identify private activity bond data on a national level in terms of numbers and types of projects in each state, and compare to Kansas. Follow up with Treasury officials for any notable differences, and or trends they observe.

Objective 2: For the first-time home buyers program, what are the benefits and drawbacks of administering the program at a state level versus a county level? Our tentative methodology would include the following:

- Work with Shawnee and Sedgwick county officials to identify how Kansas' program works, and what actions the two counties take for outreach and program promotion across the state.
- Identify other states that have a similar first time home buyer program. For a sample of states, determine whether the program is administered at the state level, a county level, or by some other entity. Compare how other state programs are set up and how those programs operate to Kansas program information.
- Contact officials in other states, as well as Kansas Housing Resource Corporation officials to identify what they see as the benefits and drawbacks of the various models.

ESTIMATED RESOURCES

We estimate this audit would require a team of **three (3) auditors** for a total of **four (4) months** (from the time the audit starts to our best estimated of when it would be ready for the committee).