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Kansas Offers Muni Bonds as Gift to U.S. for Bioterror Research.

Kansas, where Governor Sam Brownback is cutting pension payments and highway funding, sold \$204 million of bonds as a “cash gift” to help the U.S. Homeland Security Department build a center for bioterrorism research.

The proceeds are part of the \$307 million taxpayers are shelling out for the National Bio and Agro-Defense Facility at Kansas State University in Manhattan. The \$1.25 billion facility, which will replace the Plum Island Animal Disease Center off New York’s Long Island, will research ways to protect livestock from zoonoses like anthrax and Ebola that may be intentionally introduced, offering documents show.

Pledging money from last week’s bond sale to the federal government shows the lengths to which states will go to secure economic-development projects. Over its first 20 years, the research facility is projected to inject \$3.5 billion into the Kansas economy, according to a report cited by U.S. Senator Jerry Moran. The center may employ 326 people and support 757 construction jobs, he said.

“Kansas has a reputation in this region for being aggressive in economic development,” said Dan Heckman, a fixed-income strategist who helps oversee \$126 billion at U.S. Bank Wealth Management in Kansas City. He said his company looked to buy some of the bonds because the research “fits a very critical need for the country.”

Knowing Zoonoses

From 2006 to 2009, the U.S. sought locations to replace Plum Island, where facilities are more than 60 years old. Manhattan, 118 miles (190 kilometers) west of Kansas City, won the competition, with the state pledging \$105 million and the city offering \$5 million for what at the time was a \$725 million project, said Ron Trewyn, a liaison for the facility at Kansas State.

The cost swelled after years of delays and changes, including strengthening the the 713,000-squar-foot facility to withstand a tornado with winds stronger than 200 miles per hour, Trewyn said.

Last year, the federal government allocated \$404 million for construction and the state pledged an additional \$202 million in proceeds from the bonds, which were issued March 31 by the Kansas Development Finance Authority. According to offering documents, “the state has offered and DHS will accept a cash gift.”

Kansas Penalty

Bonds for the project due in 10 years priced to yield 2.57 percent, compared with 2 percent for benchmark munis, data compiled by Bloomberg show. The spread of 0.57 percentage point for the securities, which have the fourth-highest investment grade, was about triple the penalty on similarly rated debt.

The “weird language” about the gift, combined with Brownback’s tax cuts and pension underfunding, probably drove up borrowing costs, said Joseph Rosenblum, director of municipal credit at AllianceBernstein Holding LP, which oversees about \$32 billion of munis.

“We approached it on one level as purely an appropriation risk of the state,” he said in an April 1 interview at Bloomberg’s New York headquarters. “But we like to feel comfortable that the project makes sense.”

Eileen Hawley, a spokeswoman for Brownback, a Republican, didn’t respond to requests for comments on the gift and why the state agreed to increase funding.

The financing boost contrasts with Brownback’s treatment of the state pension system, which has 60.7 percent of the assets needed to pay for future benefits. He proposed cutting contributions by \$41 million in December and also sought to divert almost \$100 million from highway funds.

Economic Forecast

Brownback, who cut income taxes in 2012, estimated in a January budget report that Kansas would bring in \$5.77 billion this fiscal year, or \$206 million lower than estimated. That’s down about 10 percent below a peak of \$6.4 billion in 2012. The state won’t get back to that level of collections by 2017, according to its forecasts.

When the facility’s location was announced, “calls came in from around the world from companies wanting to know what was available near the site,” Trewyn said.

Though inquiries have slowed amid the delays, he said he expects they’ll pick back up as the project nears completion. The central utility plant is 90 percent constructed, and operations will move to the Kansas site by 2023.

That type of interest differs from the intrigue about Plum Island’s facility, which has been the subject of controversy and conspiracy theories.

Lyme Link

A 2004 book by Michael Christopher Carroll, “Lab 257: The Disturbing Story of the Government’s Secret Plum Island Germ Laboratory,” drew connections between the center and outbreaks including Lyme disease, the illness named after the Connecticut town 40 miles north of Plum Island.

The American Lyme Disease Foundation still includes on its website a response that the facility wasn’t responsible for introducing the bacteria to the northeastern U.S.

A document posted on the Homeland Security Department’s website said suggestions to construct the center in a more remote location were trumped by the proximity to Kansas State’s existing research facilities.

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