



Kansas Can't Afford Securitization: Selling off Children's Initiatives Fund Proceeds **Makes the State's Already Shaky Finances Worse**

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Selling off revenues from the Master Settlement Agreement (MSA) to address a self-inflicted budget crisis is an irresponsible proposal that carries devastating consequences if enacted. This move, known as 'securitization,' would further endanger Kansas' already unstable fiscal standing by making yet-another credit rating downgrade likely and possibly putting the state at risk of billions in toxic debt.

Further Risk of Credit Downgrades

With the ongoing financial disaster caused by current tax policy, Kansas cannot afford to engage in risky behavior to cover budget shortfalls. But that is exactly what securitization of the Children's Initiatives Fund (CIF) would do. As a paper published by the Federal Reserve Bank of Boston states, "[I]nappropriate use of bond proceeds (e.g., using proceeds to close a budget gap without addressing underlying structural causes) could adversely affect a state's overall credit rating."¹

In July of 2016, Kansas' credit rating was downgraded for the third time in three years, leaving its rating ahead of only three other states.² Selling tobacco bonds adds a significant increase to the risk of getting a fourth credit downgrade, given the experience of other states; New Jersey's rating, for example, was almost immediately downgraded upon closing a securitization deal.³ With low credit ratings and a continuing fiscal crisis, Kansas cannot afford to sell off tobacco settlement dollars that fund children's programs.

Massive Debt for Decades to Come

Securitization also means that Kansans, decades from now, will be faced with large amounts of toxic debt. The experience of two other states is instructive. For its part, New Jersey received \$186 million in high-risk capital appreciation bonds and will end up repaying **\$1.28 billion** when the principal and interest comes due. Ohio is even worse. The state received \$319 million in sales, but will have to repay **\$6.6 billion back**. In other words, for every nickel they received in proceeds, they'll have to repay one dollar.

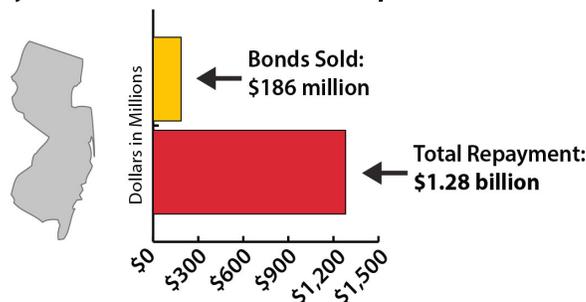
Securitization is a Short-Sighted Gimmick that Doesn't Fix the Problem

Selling off the CIF's revenue stream for a one-time cash infusion won't get Kansas out of its self-inflicted fiscal mess caused by current tax policy. But it will destabilize a proven and innovative funding structure for programs that benefit young Kansas kids.

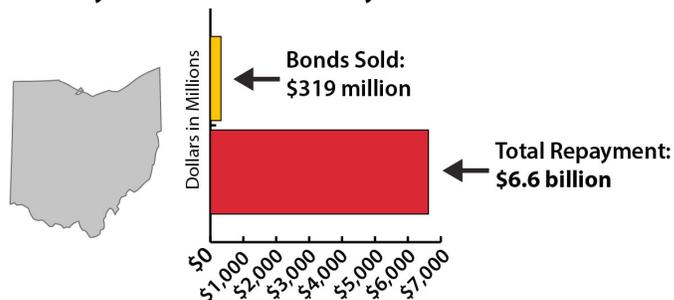
Securitization would also allow Wall Street banks to profit off of a funding stream currently dedicated to Kansas' early childhood system, while further wrecking state finances and leaving future generations of kids in deeper debt.

Policymakers have a clear choice: they can gamble with the future of the state's finances, economy, and kids, or they can fix the problem that caused this budget fiasco in the first place. With comprehensive tax reform plans being offered, such as that from the Rise Up coalition, lawmakers have an opportunity to avoid reckless decisions like securitization and to choose more responsible pathways toward financial stability. It's the only way to move ahead and make sure Kansas can rise up.

New Jersey Sold Tobacco Bonds and will have to Repay about 7 Times the Amount of Up-Front Cash



Ohio's Bond Sales Mean They'll Have to Repay over Twenty Times the Amount they Received



¹ See E. Matthew Quigley, "Securitizing Tobacco Settlements: The Basics, the Benefits, the Risks," Federal Reserve Bank of Boston, Winter 2002/2003, No. 30.

² See John Hanna, "S&P Drops Kansas Credit Rating, Citing Lack of Cash Reserves," Associated Press, July 26, 2016. Available online: <http://www.kansas.com/news/politics-government/article91961917.html>

³ See Cezary Podkul, "How Wall Street Tobacco Deals Left States with Billions in Toxic Debt," Pro Publica, August 7, 2014. Available online: <https://www.propublica.org/article/how-wall-street-tobacco-deals-left-states-with-billions-in-toxic-debt>