



# The Risk of City-issued Bonds

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By: *Patrick Tuohey*

Kansas City leaders tell us that the bonds issued by the Kansas City Industrial Development Authority to fund the construction of a billion dollar new terminal at Kansas City International Airport pose no risk to taxpayers. Repeatedly we are assured that if the project fails to generate enough revenue, the loss will be borne by private bondholders, not taxpayers.

Tell that to Platte County.

The Zona Rosa shopping district there cannot meet its bond obligation, and so the County has been considering covering the debt. In a March piece in [The Kansas City Star](#), Platte County Commissioner Dagmar Wood said the effort amounts to “basically bailing out bondholders.”

According to [The Bond Buyer](#) magazine, the county board considered not making those payments, and as a result,

[S&P Global Ratings] slashed the rating on the Platte County Industrial Development Authority bonds for Zona Rosa deep into junk Sept. 7, to B-minus from A. The bonds were originally rated AA-minus based on the strength of the county’s guaranty subject to annual appropriation.

Let’s consider that “guaranty subject to annual appropriation.” It does not mean the County is bound to make up the difference; just that it will consider doing so each year as funds are available. The [2007 financial deal](#) itself makes very clear that the county is not on the hook for

the bonds (emphasis in the original),

THE BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE AUTHORITY, THE DISTRICT OF THE COUNTY AND DO NOT CONSTITUTE AN INDEBTEDNESS OF THE AUTHORITY, THE DISTRICTS, THE COUNTY, THE STATE OF MISSOURI (THE "STATE") OF ANY POLITICAL SUBDIVISION THEREOF WITH THE MEANING OF ANY CONSTITUTIONAL, STATUTORY OR CHARTER PROVISIONS OR LIMITATION.

Despite this, and because the County is considering not making such an appropriation, there may be considerable repercussions not just for the Zona Rosa project, but for Platte County and for the state! [The Bond Buyer](#) continues,

"S&P reports that the county is in strong financial and economic condition, but MMA assumes catastrophic downgrades for all Platte County securities should the IDA bonds default," MMA wrote in its weekly commentary. "Further, MO appropriation bonds generally could see weaker price trends, particularly if market wide yields begin to rise."

One can easily imagine a situation wherein a weak air travel market generates lower-than-expected revenue at KCI—below that needed to meet debt payments to bondholders. Just as with Zona Rosa, one can see that a rating agency might threaten to lower ratings for Kansas City despite the specific terms of the bond. Would Kansas City leadership then argue that taxpayers need to bail out the airport to avoid a reduction in our city bond rating?

The lesson for Platte County is that no publicly financed development is without risk to taxpayers. As Kansas City's new terminal project lurches forward from error to error, it is lesson we ought to remember.

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- [KCI](#)

## About the Author



*Patrick Tuohey  
Director of Municipal Policy*

*Patrick Tuohey is the Director of Municipal Policy at the Show-Me Institute.*

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5297 Washington Place      3645 Troost Avenue  
Saint Louis, MO 63108      Kansas City, MO 64109  
Phone: (314) 454-0647      Phone: (816) 287-0370  
Fax: (314) 454-0667

Email: [info@showmeinstitute.org](mailto:info@showmeinstitute.org)

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