

Approved 2-6-84
Date

MINUTES OF THE House COMMITTEE ON Ways and Means

The meeting was called to order by Bill Bunten at
Chairperson

1:30 ~~am~~ p.m. on Monday, January 30, 1984 in room 514-S of the Capitol.

All members were present except:

Committee staff present:
Ed Ahrens, Legislative Research
Lyn Goering, Legislative Research
Gloria Timmer, Legislative Research
Jim Wilson, Office of the Revisor
Dave Hanzlick, Administrative Assistant
Nadine Young, Committee Secretary

Conferees appearing before the committee:

Lynn Muchmore, Director of Budget-Department of Administration
Arden Ensley, Revisor of Statutes
L. M. Cornish, Attorney for Domestic Insurance Companies
Mark Heitz, Security Benefit Life
Dr. Bill Curtis, Kansas Association of School Boards

Others present: Attachment I

Chairman called the meeting to order at 1:30 p.m.

Lynn Muchmore, Director of Budget, briefed the committee on the provisions of SB 503 and SB 505, explaining how the receipt and outlay of funds affect the daily budget of the state treasury. (Attachment II).

A chart was provided to the committee which shows the comparison between the current distribution dates of funds and the proposed distribution dates. (Attachment III). He stated that passage of these two bills together would assure his department of not having to issue new certificates of indebtedness.

Chairman asked what would be the minimum balance that we could go to without having to borrow. Mr. Muchmore replied that his department would need about \$75 to \$80 million to avoid taking steps to borrow.

Representative Rolfs asked if there are any other ways to advance or accelerate collection of moneys. He replied that if really pressed to search, possibly they could come up with other means, but at this time he knows of no other way to provide this. He said the big dollar item is insurance premiums and this is a one time windfall.

Chairman recognized Dr. Bill Curtis, representing the Association of School Boards, who addressed the committee in support of SB 503. He stated that the schools are gearing up and trying to help with the state's cash flow problem. Mr. Curtis said that in light of the fact he may have to reappear before various committees, his association does support passage of this bill.

Chairman turned to SB 505, and Lynn Muchmore again addressed the committee and spoke briefly on the advantages that would be gained by passage of this bill. Specifically, SB 505 would accelerate the collection of insurance premium tax and allow the state to meet liabilities in delayed payments. This would provide for a one time windfall of \$22 million, increasing the year end balance to \$115 million.

During a brief question and answer session, Representative Rolfs said he felt uncomfortable with the proposal and thought it would encourage some additional spending towards the end of session. Mr. Muchmore replied by saying, "the attractive part of this is the logic of a one-shot deal as opposed to revenue that could be coming in on a continual basis".

Bud Cornish, Topeka Attorney representing domestic insurance companies, was recognized as a conferee. He said he is neither in support of nor in opposition of, but wants to point out to the committee the two concerns of his organization

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Ways and Means,
room 514-S, Statehouse, at 1:30 ~~am~~/p.m. on Monday, January 30, 1984

One is the fact that he never got the word about this tax coming up; and 2. This bill would take from the insurance system each year about \$1 million which normally would have been investment income.

Chairman then recognized Mark Heitz, representing Security Benefit Life. He stated that his only reason for appearing was to be on hand to answer any questions regarding the language appearing on Lines 88 through 99 of SB 505. This portion of the bill clarifies the existing statue and was requested by his company.

Chairman asked for a motion on SB 503, an act relating to the financing of public schools; concerning the distribution of state financial aid; amending K.S.A. 72-7049, 72-7050, 72-7067 and 72-7068 and repealing the existing sections.

Representative Luzzati moved that SB 503 be reported favorable for passage. Seconded by Representative Lowther. Motion carried.

Representative Meacham asked to be recorded as voting NO on SB 503.

Chairman asked for a motion on SB 505, an act relating to insurance companies; concerning the time for payment of taxes by insurance companies; amending K.S.A. 40-252 and repealing the existing section. SB 505 would amend K.S.A. 40-252 to make estimated insurance premium taxes due on June 15 and December 15 beginning in 1984.

Representative Shriver moved that SB 505 be reported favorable for passage. Seconded by Representative Mainey. The motion lost.

Representative Rolfs opposed the motion and the bill. Representative Hoy also stated that he opposes passage of the bill, and made a subsequent motion that the bill be tabled until such time that the current financial situation can be studied further. Seconded by Representative Rolfs.

Representative Solbach expressed concern about delaying the making of a decision and said "it would be a mistake to table at this time", and stated that he opposes the subsequent motion.

Representative Arbuthnot then spoke, saying he feels we do have adequate time to table if that is the desire of the committee.

Being no further discussion on the motion, Chairman asked for a vote. The vote to table SB 505 was ten (10). Those opposed - ten (10). Chairman then broke the tie by voting aye to table SB 505.

Chairman turned to SB 504, an act relating to the legislative information system; authorizing the providing of information to state agencies and private individuals, companies and organizations and the making of charges therefor; amending K.S.A. 46-1503 and repealing the existing section.

Arden Ensley, Revisor of Statutes, briefly explained the provisions of SB 504. Amendment of the existing K.S.A. 46-1503 would permit the Revisor of Statutes to provide access to the legislative information system and charge subscribers a fee for that service.

After brief discussion, Chairman asked for a motion. Representative Duncan moved that SB 504 be reported favorable for passage. Seconded by Representative Meacham. Motion carried.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Ways and Means,
room 514-S, Statehouse, at 1:30 ~~a.m.~~/p.m. on Monday, January 30, 19 84

Chairman turned to HB 2642, an act concerning the fish and game commission; relating to the acquisition of certain land, of which a hearing was held on January 17, 1984.

Being no further discussion concerning this bill, Chairman asked for a motion. Representative Mainey moved that HB 2642 be reported favorable for passage. Seconded by Representative Duncan. Motion carried.

Chairman announced that approval of Minutes from January 23, 24, 25, and 26 would be taken up at tomorrow's meeting.

Meeting adjourned at 2:45 p.m.

GUESTS -- 1984

1-30-84

<u>Name</u>	<u>Address</u>	<u>Representing</u>
1. JOHN COLLINS	TOPEKA	DOA - PERSONNEL
2. Al Pe...	12 12	House Majority
3. Mike Bean	"	KLA
4. Todd Epp	"	KTWU-TV
5. Leonard Fisele	Valley Falls	FARM SERVICE CORP. INC
6. Richard MALM	Valley Falls	Jefferson Co.
7. Bill Curtis	Topeka	KA SB
8. John Myers	"	Dir of Budget
9. GARY SCOTT	TOPEKA	BUDGET
10. Bob Wooten	Topeka	How
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GOVERNOR'S BUDGET RECOMMENDATION

Supplementary Explanation

Issue: Cash Flow - State General Fund

Summary

Since mid-September, 1983 the state has had serious General Fund cash flow problems. Current estimates indicate that, given the present pattern of receipts and expenditures, the problem is likely to persist at least through FY 1985. Some action is clearly needed. The governor is recommending change to the dates of scheduled school aid payments and the acceleration of insurance premium and retaliatory taxes. The proposals being made by the governor appear to be the most advantageous of all the options considered.

BUDGET DECISION

The state has been and is continuing to experience serious General Fund cash flow problems. Within the budget period being considered, cash shortages are logically distinct and separate from budget deficits or budget surpluses. Cash shortages can and do arise in budgets with relatively large month-end or year-end balances. It is also possible that a deficit budget would not suffer a cash shortage for most of the budget period.

II

There are three basic elements to cash flow policy: 1) the amount and timing of cash receipts; 2) the amount and timing of cash expenditures; and 3) the level of beginning balances. The more closely the receipt and expenditure patterns can be matched the lower the required level of beginning balances. This is true whether the time period in question is a week, month or year. If the state were to perfectly synchronize its expenditures with its receipts it would be possible to carry a zero balance at all times. It is, of course, impossible to achieve perfect synchronization between the two series; however, a better match can and must be achieved. Using the current pattern of expenditures and the Governor's recommendation for school aid payments, there are several periods during FY 1985 when demands on the State General Fund are considerable. For example, on September 1st a School District Income Tax Rebate payment totaling more than \$68 million will be made. This payment, along with the approximately \$40 million SGF portion of the payroll, means that the end of August balance must exceed \$108 million. However, these are not the only large demands coming in September. On the 20th a School District Equalization Act payment of some \$38 million is due, followed by a \$19 million Transportation aid payment on the 25th and then six days later payroll for October. These payments alone amount to over \$210 million in a 31 day period. Similiar demands occur again in February. In May the SDEA cleanup payment would be approximately \$103 million. Clearly, some relief is needed.

There are three methods by which the state may obtain relief from chronic cash flow problems: (1) borrow, (2) build and carry sufficiently large balances, and (3) match more closely the pattern of expenditures with the pattern of receipts.

Borrowing. For all practical purposes the state of Kansas is constitutionally prohibited from issuing general obligation bonds. Thus, without a constitutional change this option is not available.

K.S.A. 75-3725a does permit the issuance of "certificates of indebtedness", upon approval by the Finance Council. Use of these certificates cannot be compared with borrowing in the open market. Total balances residing in the pooled investment fund do not change (only the fund to which they are attributed changes), therefore, the state does not suffer any interest loss. The transaction is basically an accounting entry. The General Fund is credited in the amount of the issuance and an accounts payable entry is made to offset the credit. This option was employed in FY 1983 and again in FY 1984, and could be used routinely as a cash management tool.

While this option is administratively possible, the advisability of continued use of certificates has been questioned. Therefore, it should be kept in mind that if this

option is chosen, the current attitude toward the issuance of certificates would have to be drastically altered. If Legislative approval for such action were maintained, that approval would have to be granted routinely and, at times, on very short notice. Otherwise, the state could be forced to stop the issuance of warrants.

Balances. The state could undertake actions designed to build balances to sufficient levels to eliminate the cash flow problem. There are two ways to build balances -- increase taxes or cut expenditures. These two methods could be extremely unpopular with taxpayers and with recipients of services. For example, current estimates indicate that in order to get through FY 1985 without using the certificate of indebtedness, beginning balances would need to be in the neighborhood of \$115 million. In order to achieve that balance approximately \$45 million in new taxes would have to be raised or an equivalent amount of expenditures would have to be cut during the current year, or some combination of the two measures would be required. While projected balances do need to be increased, it should be clear that trying to eliminate cash flow problems by building balances alone would be extremely costly.

Change receipt and/or expenditure pattern.

As indicated above, bringing receipt and expenditure patterns into line with one another would minimize cash flow

problems. The current mismatch is partially the result of action taken during the 1983 session; actions which were designed to avoid the disastrous consequences of a large revenue shortfall. At the recommendation of the governor the Legislature changed the remittance schedules for income, sales and use taxes. These actions, while increasing funds available in 1983, permanently altered the state's pattern of receipts. Actions are now needed to better synchronize the expenditure pattern with the newly created receipt pattern. The proposals being offered by the governor are designed to meet this need.

These proposals would:

1. Remove the fixed date for the School District Equalization Act payment. Instead the payment should be made as soon after the 20th as state finances allow, but no later than the end of the month. The May payment would be split between May and June, with final payment on June 15;
2. Shift the Transportation Aid payment from its current two payments to four, with payment being made on the 25th day of September, November, February and April;
3. Shift the School District Income Tax Rebate payment from its current three payments to seven, with payments being made on the 1st day of September, October,

November, December, February and May, and on the 15th day of June;

4. Shift the Special Education payment from its current three payments to five, with payment being made on the 15th day of October, December, March, April and June 25th;
5. Shift the remittance date of the taxes on insurance premiums from its current one payment in March to two estimated payments occurring on June 15 and December 15, with an annual reconciliation at the time of filing the annual report as required by law.

The shifting of expenditures has the effect of reducing the FY 1985 beginning balance requirement from \$115 million to about \$75 million. The proposed remittance date change would build the FY 1984 ending balance to about \$94 million. It would also bring in another \$22 million in FY 1985 prior to a critical cash flow period expected in late December. These proposals give the state an excellent chance of completing FY 1985 without the issuance of a certificate of indebtedness. Unless they are adopted, certificates will almost certainly be needed.

The changes proposed by the Governor are not designed as "emergency relief" measures, although they will have immediate beneficial impact on the cash flow problem. Rather they are

calculated to bring more harmony to the receipt/expenditure flow. Although the recommended shifts will have beneficial effects that reach beyond the current and next fiscal years, they should not be viewed as a panacea. In future years balances will have to grow. Certificates may still be needed (revenues may fall below estimates), but not in as large amounts or for as long a time as would be the case under current statute. In short, the situation will have to be continually monitored, and additional legislative changes may be required.

Several administratively feasible options are available which could be employed to alleviate the problem. The one which appears to be the most advantageous is being recommended by the governor.

DF:dh

SCHOOL DISTRICT EQUALIZATION ACT

<u>Current Distribution Dates</u>	<u>Amount</u>	<u>Proposed Distribution Dates</u>	<u>Amount</u>
September through January (20th day of each month)	10% of preceding year's general fund state aid entitlement	September through January	10% of preceding years general state aid entitlement to be made not earlier than 20th day of month or later than last day of month.
February through April (20th day of each month)	10% of current year's general state aid entitlement	February through April	10% of current year's general state aid entitlement to be made not earlier than 20th day of month or later than last day of month.
May 20	Total general state aid entitlement less payments made September through April	May	12% of current year's general state aid entitlement to be made not earlier than 20th day of month or later than last day of month.
		June 15	Total general state aid entitlement less payments made September through May.

TRANSPORTATION AID

September 25	50% of preceding year's transportation aid entitlement	September 25	25% of preceding year's transportation aid entitlement.
February 25	Total transportation aid entitlement less September 25 payment.	November 25	25% of preceding year's transportation aid entitlement.
		February 25	25% of current year's transportation aid entitlement.
		April 25	Total transportation aid entitlement less September 25, November 25, and February 25 payments.

SPECIAL EDUCATION SERVICES AID

November 1	50% of the estimated special teacher entitlement and 100% of special teacher entitlement for the prior summer term.	October 15	25% of estimated special teacher entitlement and 100% of special teacher entitlement for the prior summer term.
March 1	35% of the estimated special teacher entitlement.	December 15	25% of the estimated special teacher entitlement.
June 25	Total entitlement including transportation aid less payments made on November 1 and March 1.	March 15	17% of the estimated special teacher entitlement.
		April 15	17% of the estimated special teacher entitlement.
		June 25	Total entitlement including transportation aid less payments made on October 15, December 15, March 15, and April 15.

Division of the Budget
January 16, 1984

INCOME TAX REBATE

Current Distribution Dates

Amount

Proposed Distribution Dates

Amount

May 1 An amount based upon the tax returns
(filed during current year) processed and
credited to the state general fund for
the school district to date.

May 1 50% of May 1 payment under current law.

June 15 50% of May 1 payment under current law.

September 1 20% of September 1 payment under current law.

September 1 An amount based upon the tax returns
(filed during current year) processed and
credited to the state general fund for
the school district to date less
May 1 payment.

October 1 20% of September 1 payment under current law.

November 1 20% of September 1 payment under current law.

December 1 40% of September 1 payment under current law.

February 1 Total entitlement less May 1 and
September 1 payments.

February 1 Total entitlement less payments made on May 1,
June 15, September 1, October 1, November 1,
and December 1

