

Approved 1-28-85
Date

MINUTES OF THE HOUSE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by Bill Buntten at
Chairperson

1:30 ~~xxx~~/p.m. on Tuesday, January 22, 1985 in room 514-S of the Capitol.

All members were present except: Representative Dyck (excused)

Committee staff present: Gloria Timmer, Legislative Research
Laura Howard, Legislative Research
Jim Wilson, Office of the Revisor
Sharon Schwartz, Administrative Assistant
Nadine Young, Committee Secretary

Conferees appearing before the committee: Richard Ryan, Director of Legislative Research
Ed Ahrens, Chief Fiscal Analyst - Legislative Research

Others present (Attachment I)

Chairman Buntten called the meeting to order at 1:30 p.m. He asked the committee members to consider attending a luncheon on February 4, at the office of Human Resources.

Richard Ryan addressed the committee and gave an overview on the subject of Revenue Anticipation Notes (RANs). This idea came about last fall when Representative Dale Sprague called the matter to the attention of the Legislative Coordinating Council. During the 1984 interim the LCC referred the subject to the Special Committee on Ways and Means for the purpose of conducting informational hearings before the 1985 session convened. Meetings were held with representatives from State of Colorado as well as Morgan Guaranty Trust of New York. This particular proposal, if adopted, would be an alternative to Certificates of Indebtedness that are currently being issued when we have cash flow problems and need to borrow from other funds. A copy of Mr. Ryan's presentation is included herewith (Attachment II).

In the case of the State of Colorado, a prospectus was developed and could be provided to any potential purchaser of these bonds. Mr. Ryan said that any interested purchaser would probably want to hire a bond counselor. It was also pointed out that notes cannot exceed 50% of the anticipated revenue within the fiscal year.

There was some discussion on whether or not there might be any circumstances under which the state would not be required to pay back these notes. Mr. Ryan said that only in the case of a drastic recession where revenue of course would not come in. A Finance Bond Council would be established to study the data and would advise any potential purchaser, in writing, which would serve as a back-up.

Chairman asked about a list of other states that have already used RANs. Mr. Ryan said that there are extra copies of a book in his office containing more detailed information. Chairman asked Sharon Schwartz to make copies of the book and provide a copy to all committee members.

Jim Wilson passed out copies of a Draft Bill concerning state funds management (Attachment III). No action was taken on this matter this date.

Chairman turned to HB 2015 -- an act relating to the budget of expenditures of the state; concerning budget estimates of state agencies and the budget report of the governor; amending K.S.A. 75-3717 and 75-3721 and repealing the existing sections.

Ed Ahrens explained the provisions of the bill which came about as a result of an interim committee study. The amended statute, as proposed by legislative budget committee would provide that those detailed, posted agency budget requests be submitted to the research department on the same day as such budget is submitted to the legislature.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Ways and Means,
room 514-S, Statehouse, at 1:30 ~~am~~/p.m. on Tuesday, January 22, 1985

Representative Mainey moved that language be changed to read "on or before the same day". Representative Solbach suggested the word "same" be eliminated and hence would read "on or before the day". Representative Mainey agreed. Representative Shriver seconded and the amendment was adopted.

Representative Chronister moved that HB 2015, as amended, be recommended favorable for passage. Seconded by Representative Duncan. The motion carried.

Representative Wisdom presented a draft bill (Attachment IV) concerning the Kansas Army and Air National Guard, providing tuition grants for members thereof enrolled in institutions of post-secondary education in Kansas; providing for administration thereof. He moved the proposed bill be introduced and referred back to this committee. Representative Heinemann seconded. The motion carried.

Chairman asked for a motion on the Minutes of January 16 and 17. Representative Shriver moved that the minutes, as written, be approved. Seconded by Representative Chronister. Motion carried.

Meeting adjourned at 2:45 p.m.

The next meeting is scheduled for Wednesday, January 23, 1985 at 1:30 p.m.

H.B. _____ — PROPOSED STATE FUNDS MANAGEMENT ACT

This bill combines something old and something new (to Kansas) to form the "State Funds Management Act."

The something old is the statute enacted in 1970 which authorizes issuance of certificates of indebtedness, i.e., temporary "borrowing" from the state's available moneys when the State General Fund has cash flow problems within a fiscal year.

The something new would permit issuance of revenue anticipation notes (RANs) also to cover cash flow problems within a fiscal year for (a) the State General Fund as an alternative to using the certificate of indebtedness procedure and (b) various other state funds except the Public Employees Retirement Fund. As is the case with respect to issuance of certificates, the decision to issue RANs would be vested in the State Finance Council under conditions and guidelines prescribed by the bill.

Background

RANs are not a brand new cash management vehicle insofar as other states and local units of government are concerned. For instance, during the period FY 1981-FY 1985 (to date) 17 states and the District of Columbia issued such notes. However, what prompted consideration of this cash management tool in Kansas was the fact that in 1984 Colorado issued RANs for its General Fund under authority of legislation enacted that year. Representative Dale Sprague called this matter to the attention of the Legislative Coordinating Council and late in the 1984 interim the LCC referred the subject to the Special Committee on Ways and Means for the purpose of conducting informational hearings before the 1985 Session convened.

The Special Committee held two conferences — one with the State Treasurer and Deputy State Treasurer of Colorado and one with two vice-presidents of the Morgan Guaranty Trust Company of New York who know a great deal about what other states, including Colorado, and local units have done and about what is permissible under Internal Revenue Service regulations insofar as issuance of RANs is concerned. The Kansas State Treasurer was invited to and participated in both meetings.

At the last meeting, the Special Committee reviewed a tentative draft of a proposed "State Funds Management Act" and, after making a few amendments, decided that the bill (now H.B. _____) should be introduced by the House Ways and Means Committee.

Summary and Explanation of the Bill

Section 1 styles the first four sections of the bill as the "State Funds Management Act." Section 2 contains definitions. Section 3 amends K.S.A. 75-3725a, the existing statute relating to certificates of indebtedness, primarily to harmonize its provisions with regard to issuance of RANs. Section 4 provides the new authority to issue RANs. Section 5 amends K.S.A. 75-3711c to include the decision as to the issuance of RANs as one of the matters of business delegated to the State Finance Council. The bill would become effective on publication in the Kansas Register (Section 7).

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Certificates of Indebtedness. Section 3 makes no substantive changes with regard to issuing such certificates. K.S.A. 75-3725a, enacted in 1970 and amended in 1983, authorizes the State Finance Council to order the Pooled Money Investment Board (PMIB) to issue a certificate of indebtedness when the estimated resources of the State General Fund will be sufficient to meet in full the authorized expenditures and obligations of the General Fund for an entire fiscal year, but insufficient to meet such expenditures and obligations fully as they become due during certain months of a fiscal year. The certificate must be redeemed from the General Fund not later than June 30 of the same fiscal year in which it was issued. No interest is charged to the General Fund. However, to the extent that the amount of a certificate results in greater spending from the General Fund than would occur if expenditures had to be delayed, there is some reduction in interest earnings that otherwise would accrue to the General Fund.

Two certificates have been issued under this statute — one for \$65 million in December 1982 and one for \$30 million in October 1983. They were redeemed at the end of FY 1983 and FY 1984, respectively.

The amount of a certificate is not "borrowed" from any particular fund or group of funds. Rather, it is simply a paper transaction by which the General Fund is temporarily credited with the amount of the certificate and the "pot" of money managed by the PMIB is debited a like amount. That Board is responsible under the state moneys law for investing available moneys of all agencies and funds in inactive bank accounts, time deposit/open accounts, and repurchase agreements, as well as for maintaining an active or demand account to pay daily bills of the state. All of this money is in what is referred to as the "pot," i.e., the moneys of agencies or funds (including the General Fund) are commingled so when a certificate of indebtedness is issued the "borrowing" is from the "pot" and not from specific agencies or funds. (Kansas Public Employee Retirement System invested money is not part of the "pot" nor is certain money required to be separately invested by the PMIB under statutes other than the state moneys law.)

Revenue Anticipation Notes. Section 4 is the key part of the bill insofar as new state policy is concerned. Before summarizing that section, it is important to understand what RANs are and how their issuance is governed by Internal Revenue Service regulations.

In the context of what Colorado and some other states have done and what is proposed in Section 4 of the bill, RANs are short-term (typically of 12 months or less maturity) debt instruments of the state that are issued, in anticipation of revenue estimated to be collected later in the fiscal year, to cover temporary projected cash "deficits" of a fund within a fiscal year. The interest earnings from the notes are exempt from federal, and generally state, income taxation. The proceeds from the issue which are not immediately needed may be invested by the state at existing short-term taxable rates that are higher than the rate of interest required to be paid on the tax exempt RANs. Thus, a state may increase its interest income from what it would have been without issuance of the RANs. This procedure is frequently referred to as arbitrage which, simply stated, means taking advantage of price (interest rate) differences in separate markets, although that is not why RANs are permissible under federal regulations and should not be the principal reason for issuance of RANs.

The Internal Revenue Code, as a general rule, excludes interest on the obligations of a state from gross income for purposes of the federal income tax

(U.S.C.A., Title 26, Section 103(a). That rule, however, does not apply to arbitrage obligations unless a special exception is applicable (Title 26, Section 103(c)). One such exception is investment of the proceeds of an issue for a temporary period until such proceeds are needed for the purpose for which the issue was made, under regulations promulgated by the Secretary of the Treasury.

Internal Revenue Service Regulation 1.103-14(c) is the principal controlling regulation for purposes of this discussion of RANs. In effect, it allows purchasers of RANs to exclude interest thereon from gross income if the RANs will not be: (a) outstanding for more than 13 months after the date of issue and (b) issued in an amount greater than the maximum anticipated cumulative cash flow deficit to be financed by estimated revenues for the period for which such revenues are estimated and during which the RANs are outstanding.

A "cumulative cash flow deficit" is defined by the regulation as being an amount equal to: (a) expenditures from the beginning of the computation period which ordinarily would be paid from anticipated revenues, minus (b) resources, excluding the proceeds of the RANs, which will be available to pay for expenditures from the beginning of the computation period, plus (c) a reasonable cash balance which is deemed to be anticipated expenditures during the next month (or 30 days).

To illustrate how the federal regulation works, assume that the State General Fund was expected to have a balance of \$50 million at the beginning of a fiscal year, that estimated expenditures would exceed anticipated revenue by \$75 million during the period July-December, and that estimated expenditures in January are \$150 million. The maximum amount of RANs that could be issued would be \$175 million (\$25 million projected "deficit" at the end of December plus estimated expenditures in January of \$150 million).

In that illustration it was assumed that the maximum projected "deficit" was at the end of December. However, the federal regulation does not require that the projections be calculated only on an end-of-month basis, i.e., they can be based on a "deficit" on a day during a month in which case one would add estimated expenditures for the next 30 days.

Section 4 of the bill contains the authority and the mechanics for issuance of RANs for the State General Fund and most other state funds, except the Public Employees Retirement Fund is expressly excluded. (Also, there is a legal question as to whether RANs could be issued for the two state building funds because they are supported by a state property tax levy.)

As in the case of issuance of certificates of indebtedness, RANs could be issued only if a fund has adequate resources to meet estimated expenditures and obligations for the entire fiscal year but if there would be insufficient resources to meet demands on the fund at times during the fiscal year. If that were the projected situation, the State Finance Council would have the option of directing the PMIB to issue RANs.

The RANs would have to mature no later than June 30 of the fiscal year in which they were issued,* could not exceed 50 percent of the amount of revenue which is anticipated to be received but not yet credited to the fund in the applicable fiscal year, would have to be issued subject to any limitations imposed by the Finance Council, and would have to be in compliance with the aforementioned federal regulation (Section 1.103-14(c)).

After the Finance Council has acted, the PMIB would have authority to:

1. enter into contracts for bond counsel and other services which the Board deems necessary, the expenses for which would be paid from the proceeds of the RANs;
2. sell the notes at a public or private sale at an interest rate(s) which the Board determines would be to the best advantage of the state;
3. make the customary covenants on behalf of the state which are necessary to secure the notes; and
4. invest the proceeds of the RANs in obligations of the United States or in obligations the principal and interest of which are guaranteed by the United States; in secured time deposits of banks located in Kansas; or, if it is not possible to invest in such time deposits, in repurchase agreements of less than 30 days' duration with Kansas banks for direct obligations of, or obligations that are insured by, the United States or any agency thereof. (Earnings from investments would be credited to the fund from which the RANs are payable.)

The Director of Accounts and Reports must establish restricted accounts within the fund for which the RANs are issued as necessary or convenient for segregation of note proceeds and investment income therefrom and the PMIB may pledge such accounts and create liens thereon in favor of the owners or holders of the notes.

Section 4 further provides that the RANs will be payable only from revenues pledged thereto and shall not constitute a debt of the state under any constitutional or statutory limitation on incurring of indebtedness, and that the RANs and interest

* The federal regulation allows a note to be outstanding for 13 months, thus overlapping a fiscal year. However, according to Standard & Poor's, "Cash flow projection is especially important for ratings of revenue anticipation notes... since these are generally paid entirely from available tax or other revenue. For such notes, cash flow projections are generally weakened if notes are not paid down during the fiscal year in which they are issued... Notes maturing beyond the fiscal year-end may raise questions about the capacity of the issuer to use one year's funds to pay the previous year's short-term debt. Moreover, such notes run the risk of becoming ongoing means for financing year-end deficits." Thus, the state probably would receive a better rating on its notes from the principal rating services (Standard & Poor's and Moody's) if the notes had to be paid off in the same fiscal year as issued.

received from them would be exempt from all Kansas state and local taxes except the inheritance tax.

Conclusion

The Special Committee on Ways and Means concluded that H.B. ____ should be introduced to afford the 1985 Legislature an opportunity to consider whether, as a matter of public policy, the state's cash management tools should be expanded to include the issuance of RANs. Some other states have made effective use of RANs as a cash management tool and also have profited from the difference between the interest rate on the tax exempt notes and the taxable rate at which the proceeds from the notes were invested.

Under the bill, the Finance Council would have the flexibility to determine whether issuance of a certificate of indebtedness or of RANs would be advisable, if there were a projected cash flow problem in the State General Fund, depending on the circumstances at the time. RANs also could be issued, if feasible, for most other state funds if any of them developed cash flow problems.

Kansas Legislative Research Department
January 22, 1985

DRAFT BILL NO. _____

For Consideration by House Committee on Ways and Means

1 AN ACT concerning state funds management; relating to issuance of
 2 state revenue anticipation notes and certificates of
 3 indebtedness under certain circumstances; prescribing powers,
 4 duties and functions for the state finance council and the
 5 pooled money investment board and imposing guidelines therefor;
 6 amending K.S.A. 75-3711c and 75-3725a and repealing the
 7 existing sections.

8 Be it enacted by the Legislature of the State of Kansas:

9 New Section 1. K.S.A. 75-3725a and sections 1, 2 and 4, and
 10 amendments thereto, shall be known and may be cited as the state
 11 funds management act.

12 New Sec. 2. As used in the state funds management act:

13 (a) "Expenditure" means any cash expenditure or other cash
 14 disbursement which may be made from revenue duly credited to a
 15 particular fund or any encumbrance of such revenue for expenditure
 16 or other disbursement.

17 (b) "Fund" means any fund to which state moneys are credited
 18 in the state treasury, including but not limited to the state
 19 general fund, state highway fund, health care stabilization fund,
 20 workers' compensation fund, state workmen's compensation
 21 self-insurance fund and health care benefits program fund, except
 22 that it shall not mean the Kansas public employees retirement fund.

23 (c) "Revenue" means any cash income or other cash receipt duly
 24 credited to a particular fund.

25 (d) "Certificate of indebtedness" means the evidence of
 26 indebtedness issued by the pooled money investment board for
 27 purchase by the state treasurer pursuant to K.S.A. 75-3725a and
 28 amendments thereto.

29 (e) "Note" means any note or other evidence of borrowing made

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1 or issued under the state funds management act other than a
2 certificate of indebtedness.

3 Sec. 3. K.S.A. 75-3725a is hereby amended to read as follows:

4 75-3725a. (a) Whenever it ~~shall appear~~ appears that the estimated
5 resources for any fiscal year in the state general fund are
6 sufficient to meet in full the estimated expenditures and
7 obligations for that fiscal year, but that the estimated resources
8 in the state general fund in any month or months of such fiscal year
9 are insufficient to meet in full the estimated expenditures and
10 obligations for such month or months as the same become due, the
11 director of the budget shall so inform the secretary of
12 administration. Unless the secretary finds that the estimates of
13 the director of the budget are grossly incorrect, the secretary
14 shall inform the governor of the report of the director of the
15 budget, and thereupon the governor shall call a meeting of the state
16 finance council within 48 hours after receiving such notice for the
17 sole purpose of implementing provisions of ~~this act~~ the state funds
18 management act with regard to the state general fund, except that
19 such meeting may be held in conjunction with a meeting held under
20 subsection (a) of section 4 for one or more other funds.

21 (b) (1) At such meeting the director of the budget shall
22 inform the state finance council of the facts which caused the
23 meeting to be called and together with the director of accounts and
24 reports shall report upon the finances of the state relevant to the
25 call of such meeting, including the availability of moneys on
26 deposit in banks as provided in article 42 of chapter 75 of the
27 Kansas Statutes Annotated, ~~and amendments thereto,~~ to meet all the
28 obligations of the state as the same become due. Thereupon the
29 state finance council may, by the affirmative vote of the governor
30 and of six of the legislator members of the council, may order the
31 pooled money investment board to (A) issue a written certificate of
32 indebtedness subject to redemption from the state general fund not
33 later than June 30 next following the issuance of such certificate
34 of indebtedness, or (B) to issue one or more notes pursuant to
35 section 4 which shall be subject to redemption from the state

1 general fund not later than June 30 next following the issuance of
2 such note or notes.

3 (2) Upon the issuance of any such certificate of indebtedness
4 the state treasurer shall purchase the same for the amount specified
5 therein from state moneys on deposit in banks as provided in article
6 42 of chapter 75 of Kansas Statutes Annotated. Upon the occurrence
7 of any such purchase the state treasurer and the director of
8 accounts and reports shall make appropriate entries to credit the
9 state general fund in the amount of the state treasurer's purchase.

10 (3) In the event that the state finance council orders the
11 issuance of any certificate of indebtedness under authority of this
12 act section, the amount thereof shall be sufficient in the opinion
13 of the state finance council to increase the resources of the state
14 general fund such that such resources will be sufficient to meet the
15 estimated expenditures and obligations from the state general fund
16 in each month for the balance of such fiscal year. No interest
17 shall accrue or be paid on any such certificate of indebtedness.

18 (4) Not later than June 30 following the issuance of any such
19 certificate of indebtedness the pooled money investment board shall
20 redeem such certificate of indebtedness by issuing an order to the
21 state treasurer to return such certificate of indebtedness with the
22 word "canceled" written across the same by the state treasurer, and
23 thereupon the state treasurer and the director of accounts and
24 reports shall make appropriate entries to reduce the balance of the
25 state general fund by the amount specified in such certificate of
26 indebtedness and restore the same to the state moneys on deposit in
27 banks under authority of article 42 of chapter 75 of Kansas Statutes
28 Annotated.

29 ~~(b)~~ (c) Whenever it appears that the estimated resources for
30 any fiscal year in the state general fund are sufficient to meet in
31 full the estimated expenditures and obligations from such fund for
32 such fiscal year and in addition to redeem any outstanding note or
33 notes issued pursuant to section 4 and any outstanding certificates
34 of indebtedness issued pursuant to subsection (a)-of-this-section
35 (b), but that the estimated resources in the state general fund,

1 including the amount of any proceeds from any outstanding note or
2 notes and any outstanding certificate of indebtedness, in any month
3 or months of such fiscal year are insufficient to meet in full the
4 estimated expenditures and obligations for such month or months as
5 the same become due, the state finance council may direct the pooled
6 money investment board to issue an original or another certificate
7 of indebtedness, as the case may be. The issuance and redemption of
8 any certificate of indebtedness issued under this subsection ~~(b)~~ (c)
9 shall be governed by the provisions of subsection ~~(a)~~ of this
10 section (b).

11 ~~(c)---The---certificate---of---indebtedness---that---the---state---finance~~
12 ~~council,---at---the---December---17,---1982,---meeting,---ordered---the---pooled---money~~
13 ~~investment---board---to---issue---shall---not---be---subject---to---redemption---prior~~
14 ~~to---June---30,---1983.~~

15 New Sec. 4. (a) Whenever it appears that the estimated
16 resources for any fiscal year in any fund, other than the state
17 general fund, are sufficient to meet in full the estimated
18 expenditures and obligations for that fiscal year, but that the
19 estimated resources in the fund in any month or months of such
20 fiscal year are insufficient to meet in full the estimated
21 expenditures and obligations for such month or months as the same
22 become due, the director of the budget shall so inform the secretary
23 of administration. Unless the secretary finds that the estimates of
24 the director of the budget are grossly incorrect, the secretary
25 shall inform the governor of the report of the director of the
26 budget. Upon receiving such information, the governor may call a
27 meeting of the state finance council for the sole purpose of
28 implementing provisions of the state funds management act with
29 regard to such fund, except that such meeting may be held for more
30 than one fund under this section and may be held in conjunction with
31 a meeting held with regard to the state general fund under
32 subsection (a) of K.S.A. 75-3725a and amendments thereto.

33 (b) At such meeting the director of the budget shall inform
34 the state finance council of the facts which caused the meeting to
35 be called and together with the director of accounts and reports

1 shall report upon the finances of the state relevant to the call of
2 such meeting. Thereupon the state finance council, by the
3 affirmative vote of the governor and of six of the legislator
4 members of the council, may order the pooled money investment board
5 to issue one or more written notes subject to redemption from the
6 fund not later than June 30 next following the issuance of such note
7 or notes.

8 (c) Upon and in accordance with authorization and direction of
9 the state finance council under K.S.A. 75-3725a and amendments
10 thereto with regard to the state general fund or under this section
11 with regard to any other fund or funds, the pooled money investment
12 board shall issue and sell one or more notes payable from the
13 anticipated revenue of the specified fund or funds. These notes
14 shall be issued in accordance with any limitations prescribed by the
15 state finance council and in every case shall be in compliance with
16 section 1.103-14(c), as amended, of title 26 of the code of federal
17 regulations. All notes issued pursuant to this section shall have
18 received the prior approval of the attorney general as to form and
19 legality and shall be registered with the state treasurer in
20 accordance with the Kansas bond registration law. The state
21 treasurer shall be the fiscal agent of the state for all notes
22 issued pursuant to this section unless another fiscal agent is
23 designated therefor by the pooled money investment board.

24 (d) For the purposes of this section, the proceeds of any note
25 or other borrowing credited to a particular fund or any income from
26 the investment of revenue or of such proceeds shall not be
27 considered in computing the revenue in such fund and in computing
28 the amount of expenditures for a particular fund the payments of
29 principal, interest or premium on any note or other borrowing
30 payable from such fund shall not be considered.

31 (e) The principal amount of notes issued pursuant to this
32 section and payable from a particular fund shall be limited to 50%
33 of the amount of revenue of the fund which is anticipated but not
34 yet credited to the fund for the applicable fiscal year.

35 (f) Notes issued pursuant to this section shall describe the

1 fund and the revenue from which such notes are payable, shall mature
2 not later than the June 30 next following the date of issuance,
3 shall bear interest, if any, at a rate or rates which are determined
4 by the pooled money investment board to be for the best advantage of
5 the state and which shall be set forth in the notes, and may be
6 redeemable or payable prior to maturity at such time and upon
7 payment of a premium or premiums, if any, which are determined by
8 the pooled money investment board to be for the best advantage of
9 the state and which shall be set forth in the notes. In connection
10 with the issuance and sale of any notes, the director of accounts
11 and reports shall create such restricted accounts within any fund as
12 may be necessary or convenient for the segregation of note proceeds
13 and investment income therefrom. The pooled money investment board
14 may pledge any such accounts and create liens thereon in favor of
15 the registered owners or holders of the notes. The notes shall
16 contain in writing such provisions as have been made under this
17 section for the security of the notes. In connection with such
18 issuance, the pooled money investment board may also make such
19 customary covenants on behalf of the state which may be determined
20 by the pooled money investment board to be necessary to secure the
21 notes and which shall be set forth in full in the notes.

22 (g) The pooled money investment board may sell the notes
23 issued pursuant to this section at public or private sale and such
24 notes may be sold at, above or below par value. The pooled money
25 investment board is hereby authorized to negotiate and enter into
26 contracts for the services of bond counsel and for other services
27 which the board determines are necessary for the purposes of issuing
28 and selling notes authorized to be issued pursuant to this section.
29 Contracts entered into pursuant to this section by the pooled money
30 investment board shall not be subject to the provisions of K.S.A.
31 75-3738 to 75-3740a, inclusive, and amendments thereto. All
32 expenses incurred for the purposes of issuing and selling notes
33 authorized to be issued pursuant to this section shall be paid from
34 the proceeds of such notes.

35 (h) The pooled money investment board may invest and reinvest

1 the proceeds of notes issued and sold pursuant to this section in
2 obligations of the United States of America or obligations the
3 principal and interest of which are guaranteed by the United States
4 of America, or in interest-bearing time deposits in any commercial
5 bank or trust company located in Kansas, or, if the board determines
6 that it is impossible to deposit such moneys in such time deposits,
7 in repurchase agreements of less than 30 days' duration with a
8 Kansas bank for direct obligations of, or obligations that are
9 insured as to principal and interest by, the United States
10 government or any agency thereof. Any income or interest earned by
11 such investments shall be credited to the fund from which such notes
12 are payable. The pooled money investment board shall prescribe
13 security requirements for all such investments, which requirements
14 for such interest-bearing time deposits shall be equal to or exceed
15 those prescribed for state bank accounts by K.S.A. 75-4218 and
16 amendments thereto.

17 (i) Notes issued pursuant to this section shall be payable
18 solely from the revenues pledged thereto and the registered owners
19 or holders of the notes may not look to any other source for
20 repayment of the principal of or interest on the notes. In every
21 case, the revenues pledged shall be those which are the subject of
22 appropriations for the current fiscal year and are yet to be
23 credited to the applicable fund. No note issued pursuant to this
24 section shall constitute a debt or an indebtedness of the state
25 within the meaning of any constitutional or statutory limitation
26 upon the incurring of indebtedness.

27 (j) Notes issued pursuant to this section and the income
28 derived therefrom are and shall be exempt from all state, county and
29 municipal taxation in the state of Kansas, except Kansas inheritance
30 taxes.

31 Sec. 5. K.S.A. 75-3711c is hereby amended to read as follows:
32 75-3711c. (a) The following matters of business before the state
33 finance council are hereby declared to be matters characterized as
34 legislative delegations:

35 (1) Increase of expenditure limitations on special revenue

1 funds imposed by legislative act.

2 (2) Grant of approval pursuant to K.S.A. 75-3711a~~7~~ and
3 amendments thereto.

4 (3) Exercise of functions specified in K.S.A. 75-3712,
5 75-3713, 75-3713a ~~or~~, 75-3725a or section 4 and amendments thereto.

6 (4) Exercise of the functions specified in K.S.A. 48-938 and
7 amendments thereto.

8 (b) All matters of business provided by this act to be
9 performed by the governor in lieu of the state finance council are
10 hereby declared to be executive functions to be exercised by the
11 executive department subject to subsequent enactment by the
12 legislature.

13 (c) The matters specified in subsection (a) shall be approved,
14 authorized or directed by the governor and a majority vote of the
15 legislative members of the state finance council. Except for
16 functions specified in K.S.A. 75-3725a~~7~~ or section 4 and amendments
17 thereto, such approval, authorization or direction shall be given
18 only when the legislature is not in session, upon findings, in
19 addition to any enhancement or alteration thereof by legislative
20 enactment, that:

21 (1) Unforeseeable occurrence or unascertainable effects of a
22 foreseeable occurrence characterize the need for the requested
23 action, and delay until the next legislative session on the
24 requested action would be contrary to paragraph (3) of this
25 subsection.

26 (2) The requested action is not one that was rejected in the
27 next preceding session of the legislature, and is not contrary to
28 known legislative policy.

29 (3) In cases where the action is requested for a single state
30 agency, the requested action will assist the state agency in
31 attaining an objective or goal which bears a valid relationship to
32 powers and functions of the state agency.

33 Sec. 6. K.S.A. 75-3711c and 75-3725a are hereby repealed.

34 Sec. 7. This act shall take effect and be in force from and
35 after its publication in the Kansas register.

DRAFT BILL NO. _____

By _____

AN ACT concerning the Kansas army and air national guard; providing tuition grants for members thereof enrolled in institutions of post-secondary education in Kansas; providing for administration thereof.

Be it enacted by the Legislature of the State of Kansas:

Section 1. As used in this act, unless the context otherwise requires: (a) "National guard tuition grant" means an award under this act by this state to a qualified student.

(b) "Student" means a person who is a qualified student and who is enrolled at an eligible institution in a course of study of at least six hours each semester or the equivalent thereof. For the purpose of this definition, 202 clock hours of vocational training shall equal six hours of credit.

(c) "Qualified student" means a person who is a member in good standing in the Kansas army and air national guard at the beginning of and throughout the entire semester for which benefits are received, who maintains satisfactory participation in the Kansas army and air national guard as prescribed by regulations in effect and respectively promulgated by the department of the army, department of the air force, the national guard bureau and the Kansas army and air national guard and who meets the academic standards of the eligible institution.

(d) "Eligible institution" means an institution of post-secondary education the main campus of which is located in Kansas and includes area vocational schools and area vocational-technical schools as defined in K.S.A. 72-4412 and amendments thereto and any other institution of post-secondary education the main campus or principal place of operation of which is located in Kansas and which qualifies as an eligible

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institution for the federal guaranteed-loan program under the higher education act of 1965 (P.L. 89-329), as amended.

(e) "Adjutant general" means the adjutant general of the state of Kansas.

(f) "Term" means one of two or more divisions of an academic year of an institution of post-secondary education during which instruction is regularly given to students.

(g) "Semester" means one of two principal terms, when there are only two principal terms in the academic year, whether or not there are other shorter terms during the same academic year.

Sec. 2. Within the limits of appropriations therefor, a national guard tuition grant may be awarded to any qualified student enrolled in undergraduate studies and in eligible institutions in Kansas.

Sec. 3. (a) The amount of a national guard tuition grant for a qualified student for the fall and spring semesters, or the equivalent thereof, shall be an amount equal to 10% of tuition during the fiscal year ending June 30, 1986; 20% of tuition during the fiscal year ending June 30, 1987; 30% of tuition during the fiscal year ending June 30, 1988; 40% of tuition during the fiscal year ending June 30, 1989; and 50% of tuition during the fiscal year ending June 30, 1990, and during each fiscal year thereafter, except that: (1) The amount of such national guard tuition grant for qualified students enrolled in an eligible institution, other than a state educational institution under the control and supervision of the state board of regents, shall not exceed the highest amount of a national guard tuition grant payable under this act at a state educational institution; and (2) the amount of a national guard tuition grant for a nonresident qualified student shall be equal to the amount which would be paid for a Kansas resident qualified student at that eligible institution.

(b) When national guard tuition grants are received by a student for one or more terms that are not semesters, the adjutant general shall determine what is the equivalent of the

fall and spring semesters.

Sec. 4. (a) A national guard tuition grant shall be made for each semester, or the equivalent thereof, for which a qualified student is enrolled in an eligible institution. National guard tuition grants shall be paid at the beginning of each semester or other term upon certification by the eligible institution that the student is enrolled at the institution and upon certification by the adjutant general that the student is a qualified student. Payments under any national guard tuition grant shall be made upon vouchers approved by the adjutant general or a person designated by the adjutant general, and upon receiving the same the director of accounts and reports shall issue a warrant to the qualified student and shall cause such warrant to be delivered to the eligible institution in which such student is enrolled.

(b) If a qualified student discontinues attendance before the end of any semester or other term, after receiving payment of the national guard tuition grant, the eligible institution shall pay to the state: (1) The entire amount which such student would otherwise qualify to have refunded not to exceed the amount of the payment made under the national guard tuition grant at the beginning of the semester or other term; or (2) if the student has received payments under any federal program of student assistance in the semester or other term, the state's pro rata share of the entire amount which such student would otherwise qualify to have refunded, not to exceed the amount of the national guard tuition grant made under this act at the beginning of such semester or other term. All amounts paid to the state by an eligible institution under (1) or (2) above shall be deposited in the state treasury and credited to the national guard tuition grant discontinued attendance fund, which is hereby created. All expenditures from the national guard tuition grant discontinued attendance fund shall be for national guard tuition grants and shall be made in accordance with appropriation acts upon warrants of the director of accounts and reports issued pursuant to

vouchers approved by the adjutant general or by a person designated by the adjutant general.

Sec. 5. The adjutant general shall administer this act and shall:

(a) Provide application forms and forms for parents' confidential statements.

(b) Adopt rules and regulations defining tuition and determining priority or apportionment of national guard tuition grants and other matters necessary for the administration of this act. The adjutant general may provide for apportionment of national guard tuition grants if the appropriations for national guard tuition grants are insufficient to pay all approved national guard tuition grants.

(c) Approve and award national guard tuition grants.

(d) Make an annual report to the governor and legislature and evaluate the national guard tuition grant program for the period.

Sec. 6. Each applicant for a national guard tuition grant, in accordance with the rules and regulations of the adjutant general, shall:

(a) Complete and file an application for a national guard tuition grant.

(b) Be responsible for the submission of the parents' confidential statement to the institution of post-secondary education at which such student is enrolling.

(c) Report promptly to the adjutant general any information requested relating to administration of this act.

(d) File a new application and parents' confidential statement each semester, or the equivalent thereof, on the basis of which the eligibility of such person for a national guard tuition grant shall be evaluated and determined.

Sec. 7. This act shall be known and may be cited as the Kansas army and air national guard educational encouragement act.

Sec. 8. This act shall take effect and be in force from and after its publication in the statute book.