

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by Senator August "Gus" Bogina at
Chairperson

11:00 a.m./p.m./ on April 12, 1985 in room 123-S of the Capitol.

All members were present except:

Senators Doyen, Feleciano, Talkington, and Johnston

Committee staff present:

Research Department: Ben Barrett, Robin Hunn, Ray Hauke

Revisor's Office: Norman Furse

Committee Office: Judy Bromich, Doris Fager

Conferees appearing before the committee:

Art Griggs, Chief Counsel, Department of Administration

Gary Robbins, Executive Director, Kansas Optometric Association, Inc.

Senator Jeanne Hoferer

Senator Alicia Salisbury

HB 2131 - Certificate of Participation Financing

Mr. Griggs presented his written testimony (Attachment A). Following his testimony, there were questions from committee members. Mr. Griggs answered questions and explained the House amendments. In answer to a question from Senator Bogina, he stated that plans are to use this type of financing for the telecommunications project being considered by the state.

Motion was made by Senator Gannon and seconded by Senator Harder to delete Lines 45 and 46, "This section shall be known and may be cited as the 'Kansas deficit financing law.'" The motion carried by voice vote.

Motion was made by Senator Gaines and seconded by Senator Kerr to report HB 2131 as amended favorably for passage. The motion carried by roll call vote.

HB 2607 - Kansas residents in optometry education programs; practice commitments and repayment of certain amounts

Mr. Robbins explained that HB 2607 deals with contracted seats purchased at optometric schools guaranteeing that ten Kansas residents have opportunity to enter each year. He noted that only six out of ten graduating students returned to Kansas to practice last year. He said there is a concern that there is no provision for students who do not return to Kansas to repay money to the state. Because of the need for optometrists in the state, his association believes this is necessary. He said there are three opportunities to practice for every student coming back to the state.

Responding to committee questions, Mr. Robbins said the students in the program would not be required to practice in a specific area in Kansas. He further explained that the state's role in those students' tuition is merely equalizing the tuition so that they are paying comparable to in-state tuition.

Motion was made by Senator Werts and seconded by Senator Gannon to report HB 2607 favorably for passage. The motion carried by roll call vote.

HB 2597 - Capital improvements tax levies, Washburn University

Senator Hoferer stated that, in spite of the fact that the residents of Topeka are concerned about the property taxes in the city, the Shawnee County delegation realizes that many buildings on the Washburn campus are in need of repair. These buildings were replaced after the 1966 tornado, and are all in need of repair simultaneously.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS,

room 123-S, Statehouse, at 11:00 a.m./p.m./ on April 12, 1985

HB 2597 - Continued

In answer to questions from committee members, Senator Hoferer explained that HB 2597 provides for a temporary increase in the mill levy. She said she believes it is a necessary increase.

Senator Salisbury echoed Senator Hoferer's remarks, noting that the mill levy increase is necessary.

Mr. Monical said the city of Topeka has agreed to attempt to match state funding for the university this year, up to \$500,000. He reiterated that HB 2597 addresses capital needs of which most of the committee are aware. He explained that the bill would allow the university to have a one-mill increase which would sunset in five years.

Mr. Monical referred to a resolution passed by the Board of Regents of Washburn University requesting the Legislature to have a study during the current interim on Washburn University funding, particularly examining the long-term funding stability for Washburn.

Motion was made by Senator Gaines and seconded by Senator Werts to report HB 2597 favorably for passage. The motion carried by roll call vote.

APPROVAL OF MINUTES

Motion was made by Senator Werts and seconded by Senator Winter to approve committee minutes for April 4, 8 and 9. The motion carried by voice vote.

INTRODUCTION OF BILLS

The Chairman presented a proposed bill to allow the Highway Patrol to provide job injury leave for its members. Motion was made by Senator Winter and seconded by Senator Gaines to introduce the requested bill. The motion carried by voice vote.

Senator Bogina explained that he had misunderstood Senator Vidrickson's request for a bill concerning unclaimed property, and that he had presented the wrong bill to the committee at its meeting on April 10. He requested that the proper bill be introduced, transferring administration of the unclaimed property act from the state treasurer to the Department of Administration. Motion was made by Senator Werts and seconded by Senator Gaines to introduce the unclaimed property act bill. The motion carried by voice vote.

The meeting was adjourned by the Chairman.

STATE OF KANSAS
DEPARTMENT OF ADMINISTRATION
JOHN CARLIN, Governor
PATRICK J. HURLEY, Secretary of Administration
Room 263-E, Capitol Building
(913) 296-3011

MEMORANDUM

TO: Senate Ways and Means Committee

FROM: Arthur H. Griggs ~~AG~~ Chief Attorney

DATE: April 11, 1985

SUBJECT: H.B. 2131 - Financing of Installment Purchases

House Bill 2131 was requested in order to reduce state agencies' interest expense on installment purchases. The bill authorizes the Department of Administration to be the centralized authority for arranging financing (interest rates) for installment purchases by all state agencies. Under K.S.A. 75-3799, which was passed last session, individual state agencies can arrange their own financing using a certificate of participation approach. H.B. 2131 would allow the Department of Administration to combine all agencies' needs into one transaction. Either of the above approaches generally provides a lower interest rate than interest rates charged by the equipment vendor or a third party leasing company.

Here is what may logically happen if H.B. 2131 does not pass.

1. Individual state agencies will still do certificate financing under K.S.A. 75-3799, but each agency will do their own certificate financing rather than having one package to handle all agencies' needs.
2. This approach will result in higher administrative costs. It's more efficient to do one financing for twelve agencies' needs than to do twelve separate transactions.
3. By not pooling the agencies' needs, economy of scale on interest rates will be foregone. The interest rates on twelve separate \$1 million certificate financings will be higher than one \$12 million financing.

4. Under H.B. 2131, as amended by the House, the State Finance Council must approve certificate finance.

General Description of Certificate Financing

An investor that buys a certificate of participation is, in effect, buying a part of a state agency's equipment installment purchase contract and receives a portion of the State's payments. The attraction of certificates to investors is that the interest portion of the State's payments are exempt from federal income taxation. The attraction to the State is the lower interest rate.

An example of this is the recent bid for the KU Medical Center for a Magnetic Resonance Imaging System. The vendor's installment purchase rate was 10.5% for a sixty month payment of the \$1,930,780 purchase price. If the Medical Center gets the same 8.5% certificate of participation rate obtained by DISC last October, the Medical Center will save over \$113,000 in interest expense.

In summary, we request passage of the bill to provide a mechanism to secure lower interest expense for installment purchases.

AHG:cm

HOUSE BILL No. 2131

By Committee on Ways and Means

1-31

0021 AN ACT authorizing the secretary of administration to enter into
0022 certificate of participation financing arrangements.

0023 *Be it enacted by the Legislature of the State of Kansas:*

0024 Section 1. (a) The secretary of administration is authorized
0025 to enter into certificate of participation financing arrangements
0026 to provide financing or refinancing for personal property and
0027 fixtures ~~to be acquired by~~ for one or more state agencies. ~~At~~
0028 least 20 days prior to entering into any certificate
0029 of participation financing arrangements under
0030 this section, the secretary of administration shall
0031 give written notice of the proposed arrangements,
0032 including a description of the property and fix-
0033 tures involved, to each of the legislative members
0034 of the state finance council], subject to approval of the
0035 state finance council, acting on this matter which is hereby
0036 characterized as a matter of legislative delegation and subject to
0037 the guidelines prescribed in subsection (c) of K.S.A. 75-3711c
0038 and amendments thereto, except that such approval may also be
0039 given when the legislature is in session].

0040 (b) As used in this section, certificate of participation financ-
0041 ing means an installment purchase or lease purchase agreement
0042 that is subject to appropriations and which is structured to allow
0043 investors to receive a portion of the principal and interest pay-
0044 ments made by state agencies as required by the agreement.

0045 [(c) This section shall be known and may be cited as the
0046 "Kansas deficit financing law."]

0047 Sec. 2. This act shall take effect and be in force from and
0048 after its publication in the Kansas register.