Approved 5/1/87
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Phil Kline, Chairperson, at 12:05pm a.m./p.m. on Wednesday, April 29, 1987 in room 423S of the Capitol.

All members were present except: Representatives Hassler, Hoy, Mainey and R. H. Miller (All Excused)

Committee staff present:

Lynn Holt, Research
Molly Mulloy, Secretary

Conferees appearing before the committee:

Joe Norton, Gaar & Bell, Wichita
Ernie Mosher, Kansas League of Municipalities

Chairman Kline called the meeting to order and opened the hearing on S.B. 407. This bill significantly expands the powers of municipalities regarding the issuance of bonds and provides another option for financing infrastructure improvements by permitting cities and counties to issue revenue bonds backed by local sales tax receipts. Lynn Holt distributed a memorandum which summarizes each section of the most recent version of the bill, as amended by the House Committee on Insurance (Attachment 1). Chairman Kline invited Joe Norton to brief the committee on the history and specifics of the bill, which he did section by section. Mr. Norton noted that the bill resulted from information provided by the Joint Commission on Economic Development, and that many other states now have the ability to issue these types of bonds. He said that governmental and private units must supply matching funds for economic development in local communities, and that cities and counties need to provide infrastructure improvements such as roads and utilities for those economic development initiatives without additional ad valorem taxes. Both Mr. Norton and Ms. Holt answered questions of various committee members on sections of the bill. (Attachment 2) Ernie Mosher, representing the League of Municipalities, said he supports the bill because it gives local governing bodies a choice. He said that in some cases, it makes more sense to use a sales tax supported issue than a property tax supported issue. He said it was important to have a mechanism by which two or more units of government can have joint bond units, such as to pay for joint water, storm sewer or solid waste systems.

Rep. Aylward moved, and Rep. Foster seconded, to pass the bill. Rep. Heinemann proposed a conceptual amendment that would exclude the Sunflower Utility in Finney County from the restrictions contained in lines 687-9 of the bill. Rep. Teagarden seconded the motion and the amendment passed. Rep. Aylward moved, and Rep. Foster seconded, to pass the bill as amended. The motion carried.

Chairman Kline announced that the meeting scheduled for 7:30am on Thursday, April 30th, on S.B. 407 would not be on that bill, but that another bill was most likely going to be referred to the committee today and to plan on the 7:30am meeting.

Date: 4/29

GUEST REGISTER

HOUSE

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
JOE C. NORTON	GARRIBELL	WICHITA
DAVID BRANT	RANSON & CO. INC	TOPEKA
Marla Howard	City of Wichita	Wichita

MEMORANDUM

April 22, 1987

TO: House Committee on Economic Development

FROM: Kansas Legislative Research Department

RE: Staff Briefing on Senate Bill No. 407

S.B. 407 significantly expands the powers of municipalities regarding the issuance of bonds. It provides another option for financing infrastructure improvements by permitting cities and counties to issue revenue bonds backed by local sales tax receipts. Under existing law, local units of government do not have that authority.

This memorandum will summarize each section of the most recent version of the bill, as amended by the House Committee on Insurance.

Section 1. The major policy issue contained in Section 1 and carried through in ensuing sections involves the expansion of refunding capabilities to include interest on bonds or a combination of principal and interest. This section also broadens the reinvestment authority on proceeds of refunding and advance refunding bonds. Under existing law, proceeds from such bonds must be invested in direct obligations guaranteed by the U.S. government. The proposed amendment beginning in line 56, would allow these proceeds to be invested also in municipal obligations. This change would reputedly afford municipalities greater flexibility in investing in advance refunding revenue bonds. (Advance refunding involves the sale of refunding bonds in advance of the first call date of the issue to be refunded. The proceeds of the refunding issue eventually are used to retire the outstanding issue. Until the call date of the refunded issue, the proceeds are placed in escrow and invested in secure interest bearing instruments.)

Section 2. This section broadens the bond proceeds investment authority of municipalities. Municipalities may place any portion of the proceeds of bonds or funds in any investment the governing body determines to be appropriate.

Section 3. This section defines "revenue bonds" and "municipality." For purposes of this bill, a revenue bond is defined as any bond other than a general obligation bond issued by a municipality. The definition of municipality is expanded to include municipal or quasimunicipal corporations and corresponds to New Section 8 where separate legal entities created under the Interlocal Cooperative Act are given expanded power.

Section 4. This section broadens refunding and advance refunding capabilities to include interest on general obligation bonds and specifies, beginning in line 136, that the principal amount of any issue of a refunding bond must not exceed the principal amount of the issue or issues or a part of that issue or the interest being refunded.

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Section 5. This section conforms to Section 1 in that proceeds of refunding general obligation bonds can also be invested in municipal obligation secured by direct obligations of the U.S. government. The bold print starting with line 179 was recommended by the House Committee on Insurance, apparently to conform with the existing language concerning trust agreements in Section 1.

Section 6. This section contains an amendment which changes the index for determining the maximum rate of interest that may be paid on municipal bonds.

Section 7. This section authorizes cities and counties receiving local sales tax revenue to issue revenue bonds to finance a portion or all of the costs of public facilities or improvements, for which general obligation bonds could also be issued. Revenue bonds backed by local optional sales tax cannot be issued to finance facilities or improvements to be used for commercial or retail purposes. This section does not authorize the levying of local sales tax. It does, however, permit this type of tax to be used as an alternative or in combination with other types of revenue for public facilities and improvement financing. This section was also amended by the House Committee on Insurance to reference 1987 H.B. 2080, which was approved by the Governor. (H.B. 2080 permits the Board of County Commissioners of Montgomery and Wyandotte counties to impose a countywide retailers' sales tax and issue bonds payable from the proceeds in order to finance the construction or remodeling of a county courthouse, jail, or law enforcement center facility.)

Original Section 8. This section would have authorized USD 512 in Johnson County to issue general obligation bonds for school facilities during the 1987-1988 and 1988-1989 school years without the required election but subject to a protest petition procedure. This section was deleted by the Senate Committee on Economic Development.

Original Section 9. This section would have authorized municipalities to issue bonds to finance short-term advance funding for temporary cash shortfalls. This section was deleted by the Senate Committee, in response to testimony by the Kansas League of Municipalities.

New Section 8. This section would permit two or more local units of government to create a separate legal entity to issue bonds on behalf of the participating public agencies. In lines 653-665, the House Committee on Insurance deleted provisions that, along with language stricken in New Section 9, could have permitted a group of local units to use the separate legal entity to form an insurance pool. The Kansas League of Municipalities suggested the amendment, beginning in line 670, the intent of which is to clarify that each legal entity that issues bonds jointly with other entities must be authorized in its own right to do so. This proposed amendment was adopted by the Senate Committee, as was the amendment beginning in line 684, which was also suggested by the League. According to the League, the latter amendment, which was extracted from S.B. 73, might counter possible private utility opposition. Subsection (d), beginning in line 710, was inserted to prohibit separate legal entities, unless otherwise authorized by law, from administering and operating a program under which municipalities have agreed to pool liabilities. The stricken language in original subsection d, beginning in line 701, addresses the membership of the separate legal entities. This was deleted by the Senate Committee at the suggestion of the League, since the League maintained that membership provisions should be prescribed by interlocal agreements and not by statute.

New Section 9. This section would have permitted a municipality to issue general obligation bonds to pay for the costs of procuring insurance or certain claims against the municipality. An amendment by the Senate Committee, at the suggestion of the League, would have allowed bond proceeds to be used for the direct payment of liability insurance or liability claims. The House Committee on Insurance deleted the entire section.

SB407.lh/pb

Detailed Description of Senate Bill No. 407

Sec 1: amends K.S.A. 1986 Supp. 10-116a

Redefines reinvestment authority of municipalities as to proceeds of advance refunding revenue bonds: Certain advance refunding transactions of Kansas municipalities' revenue bonds might be accomplished more economically for local governments if the escrow funds created by such transactions could be invested in other (pre-refunded) tax-exempt bonds that are themselves secured by direct obligations of the U. S. This section also incorporates the language of Section 4 to permit the advance refunding of interest on bonds, under circumstances where it might not be economically advantageous to municipalities to advance refund principal.

Sec 2: amends K.S.A. 10-131

Redefines local government issuers' authority to invest bond proceeds in investments which the governing body determines by ordinance or resolution: this section gives local governments more flexibility in handling financing transactions in financial markets which have grown more complex.

Sec 3: amends K.S.A. 10-311

Clarifies that the bonded debt limits of local governments apply to only general obligation bonds: the current statutory language does not exempt a newly developed class of bond, the special obligation revenue bond.

Sec 4: amends K.S.A. 1986 Supp. 10-427

Redefines local governments' advance refunding ability to include only the interest on bonds, under circumstances where it might not be economically advantageous to municipalities to advance refund the principal: Municipalities often use the advance refunding technique to restructure their debt so as to better finance new infrastructure needs, and this would be a refinement which could improve certain transactions.

Sec 5: amends K.S.A. 1986 Supp. 10-427a

Allows escrow funds in an advance refunding transaction to be invested in other pre-refunded municipal bonds (which are in turn secured by U. S. Treasury securities): this section is similar to Section 1, except that

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this section applies to general obligation bonds while Section 1 applies to revenue bonds.

Sec 6: amends K.S.A. 10-1009

Changes the maximum interest rate on municipal bonds to allow taxable (as well as tax-exempt) bond issues to be done: the present: Due to new restrictions in Federal tax law, municipalities may find it necessary to issue taxable bonds now for some of their infrastructure needs; this section ties the maximum interest rate to a taxable bond index.

Sec 7: amends K.S.A. 1986 Supp. 12-195

Authorizes the issuance of sales tax revenue bonds by local governments; this section allows the issuance of revenue bonds for infrastructure needs by local governments payable from the proceeds of locally voted sales taxes.

New Sec 8: Interlocal cooperation agreements

Redefines the interlocal cooperation agreement statute to grant specific authority to local governments to join together and form an entity to issue bonds: specific statutory authority for an entity created by interlocal agreements to issue bonds is provided by this section and allows municipalities to band together and do together those things which they can each do individually. The Redwood-Krider report pointed out the large infrastructure needs of Kansas communities looming in the near future, and this section provides one more mechanism for local governments to deal with those types of problems. A specific example is a group of Kansas cities who have water supply problems which could band together to form an entity to finance a jointly owned water supply pipeline.

Sec 9: repealing certain sections

Sec 10: act takes effect after publication in Ks Register