

Approved February 2, 1989
Date

MINUTES OF THE SENATE COMMITTEE ON LOCAL GOVERNMENT

The meeting was called to order by Sen. Don Montgomery at
Chairperson

9:00 a.m./~~p.m.~~ on February 2, 1989 in room 531-N of the Capitol.

All members were present except:

Sen. Gaines - Excused

Committee staff present:

Mike Heim, Legislative Research
Emalene Correll, Legislative Research
Theresa Kiernan, Revisor of Statutes
Shirley Higgins, Committee Secretary

Conferees appearing before the committee:

Alan Alderson, Kansas County Treasurer's Association
Ernie Mosher, League of Kansas Municipalities
John Moir, City of Wichita
Jack Manahan, Johnson County Budget Director
Bill Curtis, Kansas Association of School Boards

The meeting began with the request for the introduction of a bill by Alan Alderson, Kansas County Treasurer's Association. (See Attachment I). He said his organization had worked with the Governor's office on the bill. It would impose additional requirements on county treasurers to raise competence before and after taking office. Those elected in 1992 and taking office in 1993 would have a forty hour requirement of continued professional education, and those presently in office would be required to receive 10 hours education to receive annual certification.

Sen. Ehrlich made a motion to introduce the bill and refer it back to committee, Sen. Daniels seconded, and the motion carried.

Attention was turned to SB 54 concerning budgets of municipalities. ~~Ernie~~ Ernie Mosher, League of Kansas Municipalities, testified first in support of the bill. (See Attachment II). The chairman asked if this would be on funds outside the general fund, and Mr. Mosher said it would be operating funds and would not be applicable to reserve funds.

Next to testify in support of SB 54 was John Moir, representing the city of Wichita. (See Attachment III).

Final testimony in support of the bill was given by Jack Manahan, Johnson County Budget Director. (See Attachment IV). The Chairman asked how many persons attend public budget hearings in Johnson County and how many he feels understand budgets. Mr. Manahan answered that about 50 people attend the public hearings and that he feels that not many understand it, however, they can understand the principals of a saving account as he had mentioned in his testimony. The Chairman asked further what the bill is doing different that will be better for the general public's information. Mr. Manahan replied that there is an increasing demand for a more open policy to the general public, and the bill accomplishes this. The Chairman commented that it is probably an improvement, but it does not change the fact that an amount over the 10% can be "buried". Sen. Allen asked why the bill had not been introduced earlier if it is considered such a great improvement. Mr. Manahan said that the opportunity to do so had not arisen before.

Bill Curtis, Kansas Association of School Boards, followed with testimony in opposition to SB 54. (See Attachment V). Sen. Steineger asked staff if the problem posed by Mr. Curtis could be solved by simply excluding school districts from nonappropriated balance, and staff said that this could be easily done. Bill Ervin, Department of Administration, stood to comment that he could not see where this bill would have an adverse effect on school

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 LOCAL GOVERNMENT,
room 531-N, Statehouse, at 9:00 a.m. ~~4:00~~ on February 2, 1989.

boards as everybody has bills to pay during the first six months of the year.

The Chairman asked staff how school districts could be removed from the bill, and staff explained that an insertion could be made that specifically excludes school districts, Sen. Petty so moved to amend SB 54, Sen. Steineger seconded, and the motion carried.

Sen. Daniels commented there is always a hidden agenda in budgets, and this bill really does not make a difference. Mr. Manahan said it is his professional belief that the bill will improve financial reporting issues. The Chairman stated that he has no concern about the bill, but he sees no benefit in it.

Sen. Daniels made a motion to pass SB 54 as amended, Sen. Steineger seconded.

Sen. Frahm raised the question as to what effect the bill would have on community colleges. Mr. Ervin stood again to state that he sees no adverse effect, although community colleges would be covered by the bill. Sen. Allen suggested that further information be gathered on this before the bill is passed out of committee. Senators Daniels and Steineger withdrew their motion and second until more information is available.

The Chairman announced that continued discussion will take place at the next meeting which is tomorrow upon adjournment.

The minutes of February 1 were approved.

The meeting was adjourned.

SENATE BILL NO. _____

By Committee on Local Government

AN ACT concerning County Treasurers; relating to continuing professional education.

BE IT ENACTED . . .

Section 1. (a) From and after the effective date of this act, each county treasurer of this state shall, in order to remain eligible to hold such office, be required to complete at least ten hours of continuing professional education each calendar year.

(b) Any county treasurer elected to such office for the first time at the general election in November of 1992 shall, prior to taking office in October of 1993, be required to complete at least forty hours of continuing professional education. The annual requirement prescribed herein shall apply to such newly-elected county treasurers commencing in the year after said treasurer takes office.

(c) County treasurers appointed to fill the unexpired term shall be required to complete at least 10 hours of the initial continuing professional education requirement under subsection (b) in each calendar year of the unexpired term in addition to the annual requirements under subsection (a), except that in any calendar year preceding the end of the unexpired term in which no courses are available, such requirement may be waived.

Sec. 2. The municipal accounting section, division of accounts and reports of the department of administration shall administer the provisions of this act. The powers and duties of the municipal accounting section shall include but not be limited to:

- (a) Accrediting sponsors and programs and determining the number of hours of credit to be given for participation;
- (b) granting or withdrawing approval of all or less than all courses of a sponsor;
- (c) receiving and considering reports of county treasurers;
- (d) granting waivers and extensions to complete requirements;
- (e) giving all notices and certifications required by this act;

2-2-89
Senate Local Gov't
Attachment I

(f) sponsoring programs of instruction on subjects related to Kansas law on governmental accounting, cash management, internal controls, personnel practices, data processing and other relevant subjects, qualifying for at least forty hours credit each calendar year; and

(g) establishing registration fees payable to the department of administration by each county treasurer in an amount deemed appropriate to help defray the cost of administering this act.

The secretary of administration shall promulgate such rules and regulations as are necessary to administer the provisions of this act.

Sec. 3. All of credit hours necessary to complete the requirements of subsection (b) of section 1 of this act shall be for programs approved as relating to Kansas law or practices. Of the requirements under subsection (a) of section 1 of this act, at least five of the credit hours required annually shall relate to Kansas law or practices.

The municipal accounting section may grant waivers or extensions of time to complete continuing professional education requirements because of hardship, disability or other good cause.

Sec. 4. (a) Courses, programs or other continuing professional activities presented by, or under the direct supervision of, the municipal accounting section, shall be deemed to be accredited for the purposes of this act. The municipal accounting section may accredit any other sponsor of courses, programs or other continuing professional activities for county treasurers of this state if the municipal accounting section is satisfied that the sponsor's programs will meet the standards set forth in section 5 of this act. Any organization or county treasurer seeking accreditation of a course, program or other activity for county treasurers shall apply to the municipal accounting section at least 60 days before the activity. The municipal accounting section shall approve or deny such application in writing within thirty days of receiving the same.

(b) Any county treasurer seeking credit for attendance at or participation in an educational activity which was conducted by an unaccredited sponsor or which was otherwise unaccredited, shall submit to the municipal accounting section a request for credit, which shall include a description of the activity, dates, subjects, instructors and their

2-2-89
Senate LG
I-2

qualifications, the number of credit hours requested and any other information required by the municipal accounting section. Within ninety days after receipt of such application, the municipal accounting section shall advise the county treasurer in writing whether credit is granted and the amount of credit allowed.

Sec. 5. The following standards shall be met for any program for which credit or approval is sought:

- (a) It shall have significant intellectual or practical content;
- (b) it shall deal primarily with matters related to the duties, responsibilities or operation of the office of county treasurer, and which are related to the competence to hold such office;
- (c) it shall be presented by a person or persons qualified by practical or academic experience to present the subject;
- (d) written materials should be distributed whenever practicable to all participants at or before the time the program is offered; and
- (e) it shall be presented in a suitable classroom setting devoted to the educational activity or program.

Sec. 6. Continuing professional education credit shall be awarded on the basis of one hour for each fifty minutes devoted to professional educational activities. The municipal accounting section shall, to the extent practicable, sponsor, present or directly supervise a sufficient number of programs, courses or other qualifying professional educational activities during each calendar year, at appropriate times and locations, to enable all county treasurers and county treasurers-elect to meet the requirements of section 1 of this act.

Sec. 7. The municipal accounting section shall issue certificates to each county treasurer and county treasurer-elect evidencing the successful completion of continuing professional education requirements for each calendar year in which a county treasurer is required to complete said requirements. Any county treasurer who fails to successfully complete the requirements for certification in any calendar year shall be subject to forfeiture of office.

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

2-2-89
Senate LG
I-3



**League
of Kansas
Municipalities**

**Municipal
Legislative
Testimony**

An Instrumentality of its Member Kansas Cities. 112 West Seventh Street, Topeka, Kansas 66603 Area 913-354-9565

TO: Senate Committee on Local Government
FROM: E.A. Mosher, Executive Director
RE: SB 54 -- Municipal Non-appropriated Budget Balances
DATE: February 2, 1989

The League of Kansas Municipalities supports the passage of SB 54, to amend K.S.A. 79-2927 to specifically authorize municipalities to annually budget a non-appropriated reserve balance of not exceeding 10% of the budget total. The League's convention-adopted Statement of Municipal Policy provides: "provisions should be made for authorizing non-appropriated fund balance reserves within the annual budget".

Explanation of Bill. The amendments to K.S.A. 79-2927 included in SB 54 make a number of minor, non-substantive changes to this statute, originally enacted in 1933. The only substantive change is to add, in lines 35:36, the following: "and any amount included as a non-appropriated balance shall not exceed 10% of the total of each fund." This clause follows a provision now authorizing the budgeting of not to exceed 10% "for sundry or miscellaneous purposes".

The bill does not change the provisions of K.S.A. 79-2934, which requires balances at the end of the budget year to be carried forward to the credit of the fund for the ensuing budget year. If, for example, \$50,000 was budgeted in the general fund for 1990 as a "non-appropriated balance," that \$50,000 would need to be included as a revenue in the budget for 1991 and be appropriated for expenditure in 1991.

Background. Unlike the state government, local governments must budget, in a single document adopted by the governing body, the amount of estimated revenues to be received as well as the amount which may be legally spent. The local budget law does not make any provision for municipalities to have a surplus, cushion or other reserve within the adopted operating budget, since the budget of expenditures for each fund must balance with the budget of revenues.

In practice, most municipalities indirectly provide for an end-of-the-year balance. One reason for this is that revenues and expenditures are uncertain, and they do not like to go to the state board of tax appeals to beg for emergency warrants. Secondly, the property tax levy is the balancing item for most funds, and some governing bodies like to maintain a planned surplus to help stabilize property tax rates.

There are now at least two ways a municipality may lawfully maintain a reserve within their operating funds. The first way is to deliberately underestimate revenues, and overestimate expenditures. Another way to achieve a balance is to include an amount, up to 10 percent, for the authorized "sundry or miscellaneous purposes", and then not spend it.

Both of these techniques have some shortcomings. The unidentified surplus (from under-budgeted revenues and over-budgeted expenditures) does not become known to the public, and may not be fully known by the governing body, since its identity is buried. The 2-2-89

Senate Local Gov't
Attachment II

*President: Douglas S. Wright, Mayor, Topeka * Vice President: Irene B. French, Mayor, Merriam * Past President: Carl Dean Holmes, Mayor, Plains
* Directors: Margo Boulanger, Mayor, Sedan * Nancy R. Denning, Commissioner, Manhattan * Ed Eikert, Mayor, Overland Park * Greg Ferris, Councilmember, Wichita * Frances J. Garcia, Commissioner, Hutchinson * William J. Goering, City Clerk/Administrator, McPherson * Jesse Jackson, Commissioner, Chanute * Richard U. Nienstedt, City Manager, Concordia * David E. Retter, City Attorney, Concordia * Judy M. Sargent, City Manager, Russell * Joseph E. Staineger, Mayor, Kansas City * Bonnie Talley, Commissioner, Garden City * Executive Director: E.A. Mosher*

problem with using the "sundry or miscellaneous" account is that it is really intended as a budget item for expenditure during the budget year, not as a planned reserve amount.

Advantages of Bill. Authorizing municipalities to specifically budget up to 10% of a fund total for a non-appropriated balance would encourage multi-year financial planning. It would explicitly authorize by law that which is now achieved by burying the amount of any balance in a mass of numbers. The elected governing body which adopts the budget would have a clear policy choice as to whether they want to plan for a reserve, and the amount. And if they do, they will need to defend this to the public and taxpayers since the amount of the budgeted surplus will be known.

2-2-89
Senate LG
II-2



DEPARTMENT OF FINANCE
OFFICE OF DIRECTOR
CITY HALL — THIRTEENTH FLOOR
455 NORTH MAIN STREET
WICHITA, KANSAS 67202
(316) 268-4434

February 2, 1989

The Honorable Don Montgomery, Chairperson
Committee on Local Government
Senate Chambers, Statehouse
Topeka, KS 66612

Dear Senator Montgomery:

I appreciate the opportunity to address the Committee on Senate Bill No. 54, concerning non-appropriated budget balances. The bill amends current law (K.S.A. 79-2927) to permit local governments to maintain a non-appropriated balance of up to 10 percent of the total expenditures for each fund. The amount of the balance would be reported in the budget, which is reviewed by the governing body and identified in the formal budget document submitted to the State Municipal Accounting Section via the County Clerk.

The concept of a non-appropriated balance is similar to the way the State Legislature appropriates moneys from the various funds in the State Treasury. The Legislature rarely appropriates all of the money available in each fund due to a commitment to sound financial management. Senate Bill No. 54 would allow local government to follow a process of appropriation similar to that used by state government.

Current Procedures

Under existing law, city/county governments are required to appropriate all of the estimated resources expected to be available in the new budget year. Resources include current annual revenues to be received in the new budget year plus all of the estimated unencumbered fund balance to be carried forward from the prior year. This procedure eliminates any formal "savings account" that local governments may perceive as prudent, reasoned, and necessary to protect the delivery of services and timely payment of obligations from interruption due to unexpected events. Unexpected events include shortfalls in revenues (e.g., a decline in sales tax collections, special assessments, etc.) and extraordinary additional expenditures (e.g., equipment failures, street repairs, etc.). Obviously, local governments use informal methods to maintain fund balances.

2-2-89
Senate Local Gov't
Attachment III

These methods could include understating revenues, overstating expenditures, or appropriating the "savings account" as a miscellaneous or sundry expense (not to exceed 10 percent of expenditures). All of these methods misrepresent or distort the budget to the governing body and the public, reducing its usefulness as a tool for forging public policy and administering the budget and impeding financial planning. If revenues are intentionally understated, how can reliable projections be made concerning future revenues? If expenditures are overstated, how can future spending trends be determined? How can the governing body evaluate and enact tax and other pricing policies and establish spending limits without reliable budget estimates? How can the budget have any credibility with the taxpayers under these conditions?

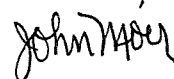
In the event that local government resources are not available to meet expenditures, a cumbersome process can be followed to issue no-fund warrants: a formal application is made to the Board of Tax Appeals, the Board publishes two notices of hearing in a paper of general circulation within the district applying for warrants at least 10 days prior to the hearing, warrants must be registered with the County Treasurer, bear interest, warrants are payable by the County Treasurer, and must be redeemed over not more than the following five years by a special tax levy for such purpose. The no-fund warrant procedures are complex, costly, and time-consuming and are intended to be a mechanism of last resort.

Amendments to Current Law

The proposed amendments to K.S.A. 79-2927 would allow local governments to construct budgets in accordance with professional financial reporting standards. Revenues and expenditures could be realistically estimated. The "savings account" could be fully disclosed. Financial planning could be improved, which would allow the opportunity to anticipate future events with more precision and promote stable tax rates (by avoiding surprises). City management, public officials, and the general public could better understand the budget as a financial plan and policy document. The financial position of the local government could be viewed more accurately by bond rating agencies and public finance analysts, improving the long-term credit ratings of Kansas communities (this would have a favorable impact on capital improvement borrowing costs).

The City of Wichita strongly supports Senate Bill No. 54 and urges your favorable consideration of this measure.

Sincerely,



John Moir
Director of Finance/City Clerk

JM/gf
Attachment

2-2-89
Senate L G

III-2

EXAMPLE: PROFESSIONAL BUDGETARY STATEMENT FORMAT

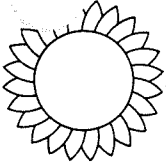
A. Out of Balance Condition

Current Annual Revenues	\$ 900
Current Annual Expenditures	1000
Revenues over (under) expenditures	(100)
Beginning Fund Balance, January 1	100
Ending Fund Balance, December 31	0

B. In Balance Condition

Current Annual Revenues	\$ 900
Current Annual Expenditures	900
Revenues over (under) expenditures	0
Beginning Fund Balance, January 1	100
Ending Fund Balance, December 31	100

2-2-89
Senate LG
III - 3



SENATE LOCAL GOVERNMENT COMMITTEE

THURSDAY, FEBRUARY 2, 1989

SENATE BILL 54

TESTIMONY OF JACK MANAHAN, DIRECTOR OF MANAGEMENT & BUDGET
JOHNSON COUNTY BOARD OF COMMISSIONERS

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I AM JACK MANAHAN, REPRESENTING THE JOHNSON COUNTY BOARD OF COMMISSIONERS. THANK YOU FOR THE OPPORTUNITY TO SPEAK IN SUPPORT OF SENATE BILL 54.

THIS BILL WOULD ALLOW LOCAL GOVERNMENTS TO ESTABLISH NON-APPROPRIATED RESERVES. MOST PEOPLE WOULD AGREE THAT IT IS GOOD CONSERVATIVE FISCAL STEWARDSHIP FOR LOCAL GOVERNMENTS NOT TO SPEND EVERY DOLLAR THEY GET THEIR HANDS ON. HOWEVER, CURRENT STATUTES ENCOURAGE JUST THAT, IN THAT THEY REQUIRE THAT THE REVENUE BUDGET BALANCE THE EXPENDITURE BUDGET, AND THAT ALL OTHER AVAILABLE REVENUES BE USED BEFORE ANY AD VALOREM TAXES ARE LEVIED. WERE THE STATE REQUIRED TO HANDLE ITS FINANCES UNDER THIS LIMITATION, THERE WOULD BE NO DISCUSSION ABOUT WINDFALLS; ALL AVAILABLE FUNDS WOULD HAVE TO BE BUDGETED TO REDUCE THE STATE'S CURRENT 1.5 MILL PROPERTY TAX LEVY. NOT ONLY WOULD THE WINDFALL BE GONE, BUT SO WOULD THE STATE'S RESERVES.

UNDER CURRENT LAW, IT IS POSSIBLE TO CREATE RESERVES BY APPROPRIATING THEM IN THE BUDGET. HOWEVER, THIS PRACTICE OVERSTATES PLANNED EXPENDITURES OF THE GOVERNMENT. IT IS DIFFICULT TO EXPLAIN TO CITIZENS AND POLICY MAKERS ALIKE THAT ALTHOUGH YOU ARE APPROPRIATING THE MONEY, YOU AREN'T REALLY GOING TO SPEND IT. TO MOST PEOPLE, WHEN MONEY IS APPROPRIATED, IT IS INTENDED TO BE SPENT.

IT IS ALSO POSSIBLE FOR LOCAL GOVERNMENTS TO CREATE RESERVES BY DELIBERATELY UNDERSTATING EXPECTED REVENUES, AND OVERSTATING PLANNED EXPENDITURES. SUCH CONSERVATISM IS GOOD, BUT THE UNIDENTIFIED SURPLUS IS NOT ALWAYS OBVIOUS TO CITIZENS OR EVEN TO THE GOVERNING BODY, BECAUSE IT IS MADE UP OF MANY SMALL UNDERSTATED NUMBERS RATHER THAN A SINGLE "NON-APPROPRIATED RESERVE." FURTHER, TO PLAN FOR RESERVES IN THIS MANNER, IT IS ALMOST NECESSARY TO HAVE TWO BUDGETS--ONE FOR SHOW, AND THE OTHER FOR HOW YOU THINK IT WILL REALLY TURN OUT. I'M SURE YOU WILL AGREE THAT THIS IS NOT THE BEST WAY TO PROMOTE OPENNESS IN GOVERNMENT AND TRUST BETWEEN STAFF AND ELECTED OFFICIALS.

ON THE BACK OF THIS TESTIMONY IS A CHART SHOWING HOW A RESERVE MIGHT BE UTILIZED SHOULD SENATE BILL 54 BECOME LAW. THE STATE OF THE ART IN THE PRACTICE OF LOCAL GOVERNMENT FINANCIAL MANAGEMENT HAS CHANGED SINCE MANY OF THE KANSAS LOCAL GOVERNMENT BUDGET LAWS WERE ENACTED. THIS BILL WILL NOT SOLVE ALL OF THE PROBLEMS LOCAL GOVERNMENTS HAVE WITH BUDGETING, ACCOUNTING, AND FINANCIAL REPORTING ISSUES; BUT IT IS AN EXCELLENT FIRST STEP, AND I URGE THE COMMITTEE TO SUPPORT IT.

2-2-89
Senate Local Gov't
Attachment IV

CURRENT LAW

	<u>19xx</u> <u>Budget</u>	<u>19xx</u> <u>Actual</u>	<u>19yy</u> <u>Budget</u>
Previous Ending Balance	50,000	100,000	75,000
Revenues Other Than Property Tax	<u>625,000</u>	<u>650,000</u>	<u>625,000</u>
Total Available Resources	675,000	750,000	700,000
Expenditures	<u>875,000</u>	<u>850,000</u>	<u>875,000</u>
Difference	200,000	100,000	175,000
Property Taxes	<u>200,000</u>	<u>200,000</u>	<u>175,000</u>
Ending Balance	0	100,000	0

PROPOSED UNDER SENATE BILL 54

	<u>19xx</u> <u>Budget</u>	<u>19xx</u> <u>Actual</u>	<u>19yy</u> <u>Budget</u>
Previous Ending Balance	50,000	100,000	75,000
<i>LESS UNAPPROPRIATED RESERVE</i>	<u>25,000</u>		<u>50,000</u>
Appropriated Balance	25,000	100,000	25,000
Revenues Other Than Property Tax	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>
Total Available Resources	675,000	750,000	675,000
Expenditures	<u>850,000</u>	<u>850,000</u>	<u>850,000</u>
Difference	175,000	100,000	175,000
Property Taxes	<u>175,000</u>	<u>175,000</u>	<u>175,000</u>
Ending Balance and Reserve	0	75,000	<i>50,000</i>

KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS



5401 S. W. 7th Avenue Topeka, Kansas 66606
913-273-3600

Testimony before the Senate Local Government Committee

by

Bill Curtis, Assistant Executive Director
Kansas Association of School Boards

February 2, 1989

Mr. Chairman and members of the committee, we appreciate the opportunity to testify today on SB 54, on behalf of the Kansas Association of School Boards. KASB opposes SB 54. Our opposition is based upon the unknown effect of limiting each fund to a 10% non-appropriated balance.

School districts budget on an eighteen month basis. Many districts carry over sufficient cash balances to maintain an adequate cash flow during the first few months of a school year. KASB is concerned that this bill would restrict that practice. School districts simply could not tolerate a limit of 10%. We appreciate your attention and urge you to report this bill adversely.

2-2-89
Senate Local Gov't

Attachment IV