

Approved February 9, 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 8, 1989 in room 531-N of the Capitol.

All members were present except:

Senators Burke, Gaines, and Steineger -- Excused

Committee staff present:

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

Conferees appearing before the committee:

Ernie Mosher, League of Kansas Municipalities  
Rebecca Floyd, Attorney General's Office

The meeting began with the hearing on SB 56 concerning the general bond law, relating to the issuance and financing of temporary notes. Ernie Mosher, League of Kansas Municipalities, testified in support of the bill. (See Attachment I). The Chairman noted that a bill was passed last year concerning this same subject on no fund warrants. Mr. Mosher said that bill relates to the same subject but is not duplicative. Both bills are needed. The Chairman raised the question as to if advertising is required to issue all bonds. Mr. Mosher said that not all bonds are subject to referendum and there will be other provisions that determine if a referendum is required.

Sen. Daniels asked if this bill clarifies that bonds may be issued or more temporary notes can be done at the end of the four years. Mr. Mosher said this is addressed in lines 33-38 of the bill where authority is given to issue renewable temporary notes when improvements are not completed at the maturity of the notes. Temporary notes could not be renewed beyond four years.

Rebecca Floyd, municipal bond attorney with the Attorney General's office, stood to further clarify. She stated that if there are legally available funds, there is no reason to incur the unnecessary expense of issuing general obligation bonds. In practical terms, the bill will help municipalities. She stated that she is neutral to the bill, but she feels the bill makes sense and probably is a good idea. Mr. Mosher added if the bill is passed, a model temporary note should be developed to be used by all local units.

The hearing on SB 56 was concluded, and it was taken under advisement.

The minutes of February 7 were approved.

The meeting was adjourned.





**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 56--Municipal Temporary Notes  
DATE: February 8, 1989

SB 56 would implement a League convention-adopted Statement of Municipal Policy section which provides: "K.S.A. 10-123 should be amended to specifically authorize cities to make payments on temporary notes from sources of revenue other than the issuance of bonds". Further, it amends certain provisions of this statute relating to "road bonds" to generally authorize the financing of projects involving state and federal grants. The bill applies to all local governments.

**Background**

Temporary Note Financing. Most major capital improvements undertaken by Kansas local governments are financed by the issuance of bonds. For public improvements which are to be paid for by the issuance of general obligation bonds, K.S.A. 10-123 provides for the issuance of temporary notes for the short term financing of project costs, with the bonds normally issued after completion of the project when the complete costs are known.

In some instances, it is financially feasible and advisable for a municipality to retire some or all of the temporary notes directly from current revenue sources, thereby reducing the amount of the bonds or avoiding the added costs of actually issuing bonds. Since temporary notes must mature not later than four years from the date of issuance, the exclusive use of temporary notes to finance a project, without a subsequent bond issue, is restricted to those projects which can be fully financed within the four year limitation.

Some local governments are known to have issued temporary notes with the expectation that some or all of the notes will be retired from current sources without the issuance of bonds. The objective of SB 56 is to make it clear that temporary notes may be issued for a project for which bonds are legally authorized, with the intent of issuing bonds only if bonds prove necessary.

Road Bonds. K.S.A. 10-123 now provides that temporary notes involving "road bonds" shall not exceed the amount of the unissued bonds and "the state or federal aid granted to the project." The meaning of "road bonds" is uncertain. Further, the restriction of this provision to "road bonds" leaves confusion as to the debt-financing of other non-road projects involving state or federal grants.

**Explanation of Bill Provisions**

The changes in lines 21:22 removes the apparent requirement that temporary notes may be issued only if bonds are to be issued, but provides that the bonds must be authorized to finance the project before temporary notes may be issued. The change in lines 28:29, substituting "may" for the words "are to", further clarifies the intent that bonds are not required to be issued for any improvement costs which have been otherwise paid for.

*Senate Local Gov't  
Attachment I, 2-8-89*

*President: Douglas S. Wright, Mayor, Topeka \* Vice President: Irene B. Franch, Mayor, Merriam \* Past President: Carl Dean Holmes, Mayor, Plains  
\* Directors: Margo Boulanger, Mayor, Sedan \* Nancy R. Denning, Commissioner, Manhattan \* Ed Ebert, 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. Steingor, Mayor, Kansas City \* Bonnie Talley, Commissioner, Garden City \* Executive Director: E.A. Mosher*

The amendment on lines 46:48 provide that temporary notes may be retired in whole or in part from current revenue. It says, in effect, that the amount of any bonds issued are to be reduced by those costs which have already been paid by the retirement of the temporary notes--which could be 100%. For example, if a city has a \$40,000 street improvement project and is authorized to issue bonds therefore, it may issue \$40,000 in temporary notes. If the city has sufficient revenue from current sources, such as from the general fund or from state highway aid payments, it may be able to pay the principal and interest and retire the temporary notes, and thus avoid the necessity of issuing any bonds. The requirements that temporary notes must be retired within four years are not removed by the bill.

The changes in lines 30:32 would permit the issuance of temporary notes for any purposes for which state or federal aid is available, not just for "road bonds" for which state and federal aid is to be granted. Such a provision is needed since some state and federal grants are on a reimbursement basis--the municipality must initially finance the costs covered by the state or federal share, and is later reimbursed. The amendment would also eliminate the legal necessity of issuing bonds for the state or federal share, when the temporary notes are retired from the state or federal aid.

### **Advantages**

The change relating to the financing of temporary notes could result in some significant savings to municipalities. It could eliminate the cost of issuing bonds for improvements to the extent the temporary notes can be financed from non-bond sources within the four year maximum period. In some instances, no bonds may be needed.

Short term temporary notes are an attractive financial investment, including investments by local banks. They constitute a general obligation of the municipality, and are often sold at a lower cost than bonds. The purchaser of temporary notes is protected, with the knowledge they are general obligations; if current revenues fail to provide for the full and timely payment of the principal and interest on the notes, general obligation bonds are issued to retire the notes.

The second basic change, permitting temporary notes to include state or federal grants for other than "road bonds", would also be financially advantageous to municipalities. It would clarify the financing of state or federally assisted projects for general highway improvements including safety and railroad crossings, CDBG grants for community improvements, airport improvements and other projects.

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### **Specific Statutes Authorizing Temporary Notes in Lieu of Bonds**

K.S.A. 12-1664. To fund the federal share of direct federally-assisted projects prior to reimbursement.

K.S.A. 12-5401. To finance asbestos control projects.

K.S.A. 75-6113. To finance judgments under the Kansas Tort Claim Act.

K.S.A. 72-671. To finance school district improvements, in lieu of bonds.

Senate L.G.

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