

Approved February 6, 1990
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 January 31, 1990 in room 531-N of the Capitol.

All members were present except:

Sen. Steineger - Excused

Committee staff present:

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

Conferees appearing before the committee:

Jim Kaup, League of Kansas Municipalities
Brad Smoot, Kansas Investment Bankers
Ray Reed, First Securities in Wichita
Kathy Taylor, Kansas Bankers Association

The meeting began with the request for the introduction of a bill by Sen. Langworthy. The Home Builders Association has asked for the bill. It would allow builders to show and sell homes which at the present time they are not allowed to do.

Sen. Langworthy made a motion for the introduction of the bill, Sen. Lee seconded, and the motion carried.

Attention was turned to SB 511 relating to security deposits of municipally owned utilities. Jim Kaup, League of Kansas Municipalities, testified in support of the bill. (See Attachment I)

The Chairman asked if lines 4 through 6 on page 2 of the bill were blanket enough to take in 10-131. Mr. Kaup felt these lines may be redundant. Staff said this may be in 12-1675 regarding financial institutions, but the location of the savings and loan is more restrictive than 10-131. Mr. Kaup said the matter of location was not one of their considerations in drafting the bill. The Chairman asked staff if there is a need to change the language. Staff answered that it is a policy issue as to if the committee wants the bill to allow cities that require utility deposits more flexibility in what they invest their deposits in. This concluded the hearing on SB 511.

The hearing began on SB 512 concerning the Kansas Development Finance Authority; relating to the financing of tax anticipation notes. Jim Kaup testified in support of the bill. (See Attachment II). A discussion of the amount of money that could be involved followed. It was noted that, with a significant adjustment of appraisals, noticeable effects could result next fall when it would be possible that there may be less tax dollars than was budgeted.

Brad Smoot, Kansas Investment Bankers, introduced Ray Reed with First Securities in Wichita to testify in opposition to SB 512. Mr. Reed opposes the bill because he feels that Kansas has better finance laws at present than any other state. He also stated that there never has been a warrant in Kansas where there has not been a purchaser. There are always buyers of temporary financing standing in line. He feels Kansas is secure with its present laws which are simple, and tinkering with our present law would be detrimental and would not add anything to the financial climate of this state. He concluded that SB 512 is a bold thrust to create more importance on the state finance authority.

The Chairman asked Mr. Reed if he didn't think the bill was needed for

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON LOCAL GOVERNMENT

room 531-N, Statehouse, at 9:00 a.m. ~~p.m.~~ on January 31, 1990

competitiveness. Mr. Reed replied that the State of Kansas has good, clean, easy financing--the best there is at present. Sen. Petty asked if there is anything in the bill which would preclude First Financial from offering. Mr. Reed said there was not except for the time demand on the issuance of bridge financing.

Brad Smoot followed with his testimony in opposition to SB 512. (See Attachment III).

Kathy Taylor, Kansas Bankers Association, stood in opposition to SB 512. She stated she would have grave concerns about changing the process at this time without further study. This concluded the hearing on SB 512.

The Chairman began a discussion with Mr. Reed regarding his opinion of lease-purchase financing which has been discussed in previous meetings. The Chairman's particular concern was the question as to the use of lease-purchasing circumventing the right of the people to vote. Mr. Reed concurred that it is and added that he is also concerned with this method because there are other many good statutes at present that permit issuing warrants without leasing which is the most expensive process creating an excessive interest cost. He feels Kansas has a good system for public finance on the books now.

The Chairman called for action on SB 511. Sen. Burke made a motion to report SB 511 favorable for passage, Sen. Langworthy seconded, and the motion carried.

The Chairman called the committee's attention to a bill referred to committee today, SB 566 relating to fees by sheriffs. He explained that he feels a hearing is not necessary on this bill because it merely moves the rate for mileage expense to 22½ cents, the state mileage reimbursement rate. He suggested that it be put on the Consent Calendar.

Sen. Burke made a motion to put SB 566 on the Consent Calendar, Sen. Langworthy seconded, and the motion carried.

The Chairman called attention to HB 2475 regarding allowing unpaid charges for abatement of nuisances, cutting of weeds and removal of unsafe structures after 30 days as a lien against the property. Rep. Graeber had informed him that the bill is not needed.

Sen. Daniels made a motion to report HB 2475 adversely, Sen. Allen seconded, and the motion carried.

The minutes of January 25 were approved.

The meeting was adjourned at 9:55 a.m.

Attachment IV delivered February 1, 1990, by Kansas Chamber of Commerce and Industry, Ed Bruske, President, in opposition to SB 512.



**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
 Re: SB 511--Investment of Municipal Utility Security Deposits
 From: E.A. Mosher, Executive Director
 Date: January 31, 1990

SB 511 was requested by the League to broaden the authority of cities owning municipal utilities to invest customer security deposits. Excluding editorial changes, two substantive provisions have been added to 1989 Supp.12-822, as follows:

(1) On line 40, the investments authorized by K.S.A. 10-131 would be permitted as to security deposits. This is the section which authorizes the investment of the proceeds of municipal bonds and temporary notes. A copy of K.S.A. 10-131 is attached.

(2) Beginning on line 3, page 2, specific provisions are added to authorize the investment of such deposits in time deposits and savings accounts in commercial banks or savings and loan association, guaranteed as to principal and interest.

You will also note that references to investments in various municipal bonds, beginning on line 41, on page 1, are stricken. Given the nature of utility deposits, the comparatively small amount, and the absence of concerns as to their tax deductibility, it appears extremely improbable that municipal utility deposits have ever been invested in municipal bonds, or will be in the future.

The Kansas Corporation Commission, on December 28, 1989, issued an order compelling public and municipal utilities to pay at least 7% per annum interest on security deposits. The KCC order was apparently based on the analysis that one-year U.S. Treasury bill rates "serve as a good proxy since this is the length of time a deposit is typically kept before being refunded to the customer", and that treasury bill rates would continue in 1990 at the same level as in 1989. We are not sure this will happen.

Cities do not require municipal utility security deposits in order to earn interest. Further, cities don't have a strong objection to the KCC 7% minimum order. We do think the investment authority as to security deposits should be expanded, so that cities can earn at least as much as they are required to pay in interest, and hopefully, offset some of the administrative costs involved in investing deposit money and annually paying or crediting the interest.

President: Irene B. French, Mayor, Merriam * Vice President: Frances J. Garcia, Mayor, Hutchinson * Directors: Ed Ellert, Mayor, Overland Park * Harry Felker, Mayor, Topeka * Greg Ferris, Councilmember, Wichita * Idella Frickey, Mayor, Oberlin * William J. Goering, City Clerk/Administrator, McPherson * Judith C. Holinsworth, Mayor, Humbolt * Jesse Jackson, Mayor, Chanute * Stan Martin, City Attorney, Abilene * Richard U. Nienstedt, City Manager, Concordia * Judy M. Sargent, City Manager, Russell * Joseph E. Steineger, Mayor, Kansas City * Bonnie Talley, Mayor, Garden City * Executive Director: E.A. Mosher

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K.S.A. 1990 Supp. 10-131
Investment of Bond and Temporary Note Moneys

10-131. Investment of proceeds of bonds or temporary notes and certain funds authorized; disposition of interest received therefrom. The governing body of any municipality, as defined in K.S.A. 10-101, and amendments thereto, which has issued or may issue bonds or temporary notes for any purpose, is hereby authorized and empowered to invest any portion of the proceeds of such bonds, notes or funds held pursuant to the resolution or ordinance authorizing the issuance of such bonds or notes, which is not currently needed, in: (a) Investments authorized by K.S.A. 12-1675, and amendments thereto, in the manner prescribed therein; (b) direct obligations of the United States government or any agency thereof; (c) the municipality's temporary notes issued pursuant to K.S.A. 10-123, and amendments thereto; (d) interest-bearing time deposits in commercial banks or trust companies located in the county or counties in which the municipality is located; (e) obligations of the federal national mortgage association, federal home loan banks or the federal home loan mortgage corporation; (f) repurchase agreements collateralized by securities described in (b) or (e) above; (g) investment agreements with or other obligations of a financial institution the obligations of which at the time of investment are rated in either of the three highest rating categories by Moody's investors service or Standard and Poor's corporation; (h) investments in shares or units of a money market fund or trust the portfolio of which is comprised entirely of securities described in (b) or (e) above; (i) receipts evidencing ownership interests in securities or portions thereof described in (b) or (e) above; (j) municipal bonds or other obligations issued by any municipality of the state of Kansas as defined in K.S.A. 10-1101, and amendments thereto, which are general obligations of the municipality issuing the same; or (k) bonds of any municipality of the state of Kansas as defined in K.S.A. 10-1101, and amendments thereto, which have been refunded in advance of their maturity and are fully secured as to payment of principal and interest thereon by deposit in trust, under escrow agreement with a bank, of securities described in (b) or (e) above. The interest received on any such investment shall upon receipt thereof be set aside and used for the purpose of paying interest on the bonds or notes issued or used for paying the cost of the project for which the bonds or notes were issued.



**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
Re: SB 512--K DFA Financing of Tax Anticipation Notes and Certain No-Fund Warrants
From: E.A. Mosher
Date: January 31, 1990

The purpose of SB 512 is to authorize the Kansas Development Finance Authority (K DFA) to issue bonds for the purpose of acquiring tax anticipation notes or no-fund warrants issued by taxing subdivisions as a result of reduced taxes from the protest and appeal process now going on as to assessments and tax levies. The bill refers to Section 6 of HB 2001, passed by the 1989 Special Session. A copy of this section is attached.

We do not know how many local units will face cash flow problems or revenue shortages as a result of the protest and appeals process. Further, we have no idea as to how much the revenue shortages may be. What we do know is that when assessed valuations are reduced, or taxes declared unlawful, total property tax revenues are reduced, and it is too late to spread this loss of revenue to other taxpayers.

Section 6 of HB 2001 provides taxing districts with authority to meet their obligations by issuing tax anticipation notes or no-fund warrants. Incidentally, if tax anticipation notes are issued the principal and interest must be repaid in the same year.

Given all the uncertainties, we don't know whether SB 512, if enacted, will ever be used. We do think it will be advisable to have it in our statutes, so the authority is available if the need arises.

Finally, we acknowledge that state policy as to the role of the Kansas Development Finance Authority in the financing of public improvements, or lease-purchase agreements, or tax anticipation notes, is not at all clear. We think substantial public funds could be saved by using K DFA's capacity. Even if K DFA was not actually used by many local governments, it could provide a sort of benchmark for analyzing the cost of short or long term indebtedness from private sources.

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Attachment II*

Section 6 of HB 2001, 1989 Special Session

"New Sec.6. (a) The governing body of any taxing district, upon making a finding that it will have insufficient moneys on hand to meet its budgeted financial obligations as a result of any delay in the actual receipt of general property taxes during the year 1990, may issue tax anticipation notes. Notes issued pursuant to this act shall be authorized by resolution of the governing body thereof, which shall specify the maximum amount that may be issued based on the estimated additional cash needs of the taxing district resulting from delayed property tax receipts. The resolution may provide that the amount of notes actually issued at any one time shall be based on the periodic cash flow needs of the district, as determined by the chief elected or appointed governing body officer and the chief financial officer thereof, after consultation with the county treasurer, which shall not exceed that total amount authorized by the governing body. No tax anticipation notes shall be sold unless signed by the mayor, chairman, president or other chief officer of the governing body and by the clerk or other chief financial officer of the district. The term of such notes shall be limited so that the principal and interest thereon shall be payable solely from revenues received by the taxing district during the fiscal year in which they were issued. Tax anticipation notes issued pursuant to this act may be sold to any purchaser, but shall not be sold at an effective interest rate higher than the lowest bid received from not less than three financial institutions located within this state. The notes may also be purchased by the taxing district from its utility or other enterprise funds, as determined by the governing body thereof. The interest on such tax anticipation notes shall be exempt from any taxes levied by the state and any taxing subdivision thereof.

(b) Nothing in this section shall prohibit the issuance of no-fund warrants, under the provisions of K.S.A. 79-2938, and amendments thereto, and K.S.A. 79-2005, and amendments thereto, in the event that additional tax revenue is needed in 1991 to retire such warrants.

(c) Tax anticipation notes issued under the authority of this act shall be in addition to and not subject to any bonded debt limitation prescribed by any other law of this state.

(d) The provisions of this section shall expire on December 31, 1990."

STATEMENT OF BRAD SMOOT
KANSAS INVESTMENT BANKERS
REGARDING 1990 SENATE BILL NO. 512
BEFORE THE SENATE COMMITTEE ON
LOCAL GOVERNMENT
JANUARY 31, 1990

Mr. Chairman; Members:

On behalf of Kansas Investment Bankers I appear in opposition to 1990 Senate Bill No. 512. This bill would authorize the Kansas Development Finance Authority (K DFA) to compete with Kansas banks and financial institutions for the purchase of no-fund warrants and tax anticipation notes.

As this Committee knows, traditionally, no-fund warrants have been purchased by local Kansas banks and in some cases, investment bankers. The private financial industry is ready, willing and able to continue to assist local governments in satisfying their short term financial needs even during the difficult times created by reappraisal and classification. Absent a clear and demonstrable showing that the private sector is unwilling or unable to fulfill the needs of local governments for short term capital, we suggest that the provisions of S-512 are premature.

Current Kansas law is designed to give local units of government the best possible terms in satisfying their short term financing needs. Specifically, legislation passed during the Special Session (1989 HB 2001), requires a competitive bidding system to guarantee that local units of government will receive the most commercially reasonable rates on any short term indebtedness created by property tax short falls. These provisions, together with the extremely competitive nature of the financing industry, make the need for K DFA participation even less apparent.

In addition, this proposal may have larger and more troublesome aspects. For example, when local financial institutions handle these notes or warrants, any interest paid inures indirectly to the benefit of the community where the taxes were paid. On the other hand, if these warrants are pooled and packaged by K DFA to float a large bond issue, supposedly in search of more favorable interest rates, those tax dollars may flow out of the community to New York or elsewhere. Dollars leaving for New York are not likely to be reinvested in community lending as they are under the current and more traditional system.

Thus, while we support the current statutory objectives of the K DFA and believe it may serve a valuable and innovative function

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in the area of public finance, we believe that function should be a limited one. . . one that does not undermine traditional financing systems, remove tax dollars from Kansas communities. When the reappraisal crisis is gone, Kansas banks and financial institutions will still be here serving Kansas communities and assisting in the finance of local government. Absent a proven lack of capitol we see no reason to interfere with a working system. ("If it isn't broke, don't fix it").

Finally, we have faith that many problems created by reappraisal will be resolved by the Legislature in the due course of the 1990 Session. Consequently, emergency measures, like S-512, will probably be unnecessary when April rolls around. It would indeed be unfortunate if we drastically expand the mission of KDFA and disrupt the existing public finance system out of a sense of panic.

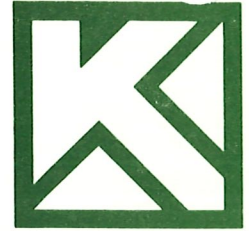
For these reasons we urge the defeat of S-512, or at the least, that this Committee move very deliberately on this measure and give full consideration to its effects on Kansas communities and their long-term financial needs.

Thank you for your time and attention.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

SB 512

January 31, 1990

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
Senate Local Government Committee

by

Ed Bruske
President

Mr. Chairman and members of the Committee:

On behalf of the Kansas Chamber of Commerce and Industry I appear today in
opposition to SB 512.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

This proposal would permit a public agency, the Kansas Development Finance Authority, to actively compete with the private sector in the sale of certain no-fund warrants and tax anticipation notes. I do not believe it was the mission of the K DFA to

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compete with the private sector. It's purpose was to provide financing of state owned facilities and state agencies and a variety of other financing that do not compete with the private sector. See K.S.A. Supp. 74-8905. We certainly support the KDFA in such endeavors.

However, SB 512 would put KDFA in competition with banking and financial institutions which historically have adequately provided temporary funding for local government needs. In fact, there is a highly active and competitive market for such public obligations.

We believe the intrusion of KDFA into this area is unnecessary, damaging to Kansas financial institutions in dozens of Kansas communities, large and small, and probably a very troublesome precedent.

We ask that this Committee reject this proposal or delay action until such time as a complete review of its impact on public financing can be studied and more clearly known.