

Approved February 28, 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 February 27, 1990 in room 531-N of the Capitol.

All members were present except:

Sen. Gaines - Excused

Committee staff present:

Mike Heim, Legislative Research
Shirley Higgins, Committee Secretary

Conferees appearing before the committee:

Norman Wilks, Kansas Association of School Boards
Bev Bradley, Kansas Association of Counties
Willie Martin, Sedgwick County
Ernie Mosher, League of Kansas Municipalities

The hearing began on SB 727 relating to lease-purchase agreements for municipalities. Norman Wilks, Kansas Association of School Boards, testified in general support of the bill with suggested amendments. (See Attachment I).

Bev Bradley, Kansas Association of Counties, followed with further testimony in support of the bill. (See Attachment II).

Willie Martin of Sedgwick County testified in support of approval by the governing body of all proposed leases. (See Attachment III).

Ernie Mosher, League of Kansas Municipalities, testified in opposition to the proposed amendment on line 36 suggested by Mr. Wilks in his testimony. Mr. Mosher feels that this amendment to the general fund destroys the bill. It prohibits municipal utilities from using it and would limit counties with regard to roads and bridges. He also has a problem with 3% of the bottom line total budget by specifying the general fund expenditures. He feels "total expenditure" is better wording. He suggested that perhaps "exclusive of any funds for debt service" could be inserted on line 36. With this, the hearing on SB 727 was concluded.

A discussion followed regarding Section (b) of New Section 2 as to the effect of "3% of the total amount budgeted".

Sen. Daniels made a motion that the debt service be excluded by retaining total amount budgeted, Sen. Petty seconded. Sen. Allen stated that this language had been geared for schools, and the amendment may not help. On a call for a vote on Sen. Daniels motion, the motion carried.

Sen. Allen made a motion to amend K.S.A. 72-8225 to renew the ten year leasing statute for schools, Sen. Frahm seconded, and the motion carried.

Sen. Allen said he had received a call suggesting that perhaps an error had been made in the bill as to the use of "qualified voters" on line 42 of page 1 and "qualified electors" on line 1, page 2. Staff and the Chairman determined that the language is correct and is not inconsistent.

The committee will look at the amendments tomorrow before taking action on the bill.

The minutes of February 26 were approved.

The meeting was adjourned at 9:35 a.m.



TESTIMONY ON SENATE BILL NO. 727
BEFORE THE SENATE LOCAL GOVERNMENT COMMITTEE

By

NORMAN D. WILKS, LABOR RELATIONS SPECIALIST
Kansas Association of School Boards

February 27, 1990

Mr. Chairman and members of the committee, The Kansas Association of School Boards, which represents 302 of 304 Unified School District Boards of Education would like to express its general support of S.B. 727.

Our Delegate Assembly adopted a Resolution providing that the lease-purchase statute should not be used to avoid a public vote on building construction.

New Section 2 (b) provides an opportunity for a protest petition and special election. We are supportive of such a change.

We would suggest a change in Line 36 of the bill to clarify that "expenditure" during the current year applies to "General Fund Expenditures" during the current year. With various special funds and accounts, the bill should clearly identify the expenditures to be considered to calculate the three percent (3%).

In addition we suggest an amendment be included in K.S.A. 72-8225 that provides: Any lease-purchase agreement shall comply with the

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Attachment I*

provisions of K.S.A. 10-1116b and amendments thereto. The change will make school districts subject to the lease-purchase requirements.

With the changes noted, we are supportive of the passage of S.B. 727.



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John T. Torbert

February 27, 1990

To: Senator Don Montgomery, Chairman
Members Senate Local Government Committee

From: Bev Bradley, Legislative Coordinator
Kansas Association of Counties

Subject: SB 727 lease-purchase agreements

The Kansas Association of Counties executive director, John Torbert as well as I have worked with the League of Municipalities and Kansas School Board Association representatives to try to arrive at a reasonable, acceptable solution to the challenge given us by the sub-committee, that of legislative revisions to KSA 10-1116 which would tighten the regulations for lease-purchase agreements and still be acceptable to local governments. New section 2 of SB 727 is the result.

The KAC is in support of this bill.

TSB727

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Attachment II



SEDGWICK COUNTY, KANSAS

INTERGOVERNMENTAL COORDINATOR

WILLIE MARTIN

COUNTY COURTHOUSE • SUITE 315 • WICHITA, KANSAS 67203-3759 • TELEPHONE (316) 268-7552

To: Senate Local Government Committee
Re: Senate Bill 727
Date: February 27, 1990
From: Willie Martin, Sedgwick

Mr. Chairman and members of the Committee I am Willie Martin representing the Board of Sedgwick County Commissioners. Thank you for this opportunity to speak to Senate Bill 727. As you are aware, Senate Bill 727 involves the lease, or lease-purchase of items by municipalities. I would like to briefly explain our position on lease and lease-purchase agreements.

Sedgwick County has entered into lease and lease-purchase agreements. Generally, lease agreements involve buildings and land that the County does not intend to purchase (such as small service centers in various shopping centers); and lease-purchase agreements have generally been for small equipment.

For your information I have attached more detailed information on the criteria and process used by Sedgwick County for lease-purchase agreements on small equipment.

We support approval by the governing body of all proposed leases either through the budget cycle or when proposed by requesting departments.

Again I appreciate the opportunity to comment on Senate Bill 727 and would be glad to try and respond to any questions you might have.

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Attachment III

Sedgwick County Lease Purchase Agreement on Small Equipment
Additional Information

1. The lease-purchases being considered are for smaller priced equipment usually total amounts under \$15,000.00.

2. One reason for a somewhat higher interest rate due to the fact that the same amount of paper work in setting up the lease and billing and keeping track of payments is the same as for a large lease. Same amount of paper work required as a large issue.

3. Funding out clause required by Law. Finance Company must take equipment back at end of Fiscal year if County wants to discontinue.

4. Usually there is no down payment or any money required up front. The finance company must furnish all the money and actually pay the supplier or vendor all of the cost of the equipment as soon as the equipment is received by the lessee. The Vendor actually has no investment in the equipment so the finance company is solely responsible for the collection and administering of the lease purchase.

The fact that there is no down payment allows the County department to acquire needed equipment immediately from budgeted operating funds by making monthly or quarterly payments, where otherwise the total funds for purchase would need to be budgeted at one time. Needs arise that are not always planned for. Some of which have required quick response such as Reappraisal processing and hearings, Sheriff Records, housing clients in other counties. Records and planning for the new jail, County Treasurer's involvement in Re-Appraisal and establishing outlying Tag offices which in turn make other department have needs that may not be expected.

When compared to large issues such as Bonds for buildings or large equipment, these rates are much lower, also due to large period of time, such as 20 years. No cash up front or down payment. Total amount is financed for County, where usually 10 to 20% is required down. Risk is greater should equipment be returned.

5. These extra lower rates are usually one time to promote a new or special piece of equipment which may be a best purchase for the County. Larger national companies such as Xerox and IBM offer lower rates as incentive to buy but because of size of company are able to offer one time incentives.

6. Total of monthly payments of principal and interest are considered which include the cost of the equipment. Equipment of some Vendors cost less to start with, so payment is actually lower.

7. The amount available in department budgets is a consideration in ability to pay for lease. Availability of equipment when needed offsets interest costs in many cases.

8. Availability of equipment when need arises helps cut labor costs and saves from hiring additional employees. As may be noted a number of copiers are leased by the Sedgwick County Sheriff and the 18th Judicial Court System. Their needs are usually immediate and absolutely necessary as to their client volume. In several instances the Courts have needed to upgrade their equipment to a larger size to accommodate the work load. With the lease purchase we have been able to accomplish this in several instances without losing all of prior paid in values.

9. Interest rates are not always a consideration as some companies who furnish equipment do so at a flat rate which probably includes interest. AT&T furnishes the telephone system at present or a lease basis but no interest costs are shown.

10. In the instance of copiers they are a basic operating expense in Sedgwick County and copiers will be purchased whether departments equipment, a central area, are outside, which generally may cost more than lease purchase.

The lease purchase process is accomplished by the submitting of a requisition by the using department to the Purchasing Department stating the equipment needed. If the department has not had a piece of equipment lately several vendors are asked to visit with the department and to determine the model of their equipment that best meets the departments needs. In the case of a department needing additional equipment and are familiar with the equipment, vendors are called for quotations on their equipment for an outright purchase or a lease purchase if funds are not available for the outright purchase. These leases are usually under \$3,000.00 per year payments which is Sedgwick County's limit before sealed bids are required. The funding out clause protects the County from payments the following budget period if funds are not appropriated.

When the quotations are received the equipment is compared as to meeting specifications. The cost is then compared as to monthly payments for a lease purchase. Also it is determined if the department has the proper funds to enter into the lease. Once this has been accomplished the purchasing department enters into the lease and orders the equipment.

In some instances, once a piece of equipment has been leased and established and another one of the same kind is requested by another department within three to six months Purchasing may use the previous quotation to lease the same kind, if the price has not changed.

Sedgwick County Purchasing has been working with Vendors to find a way to reduce leasing costs. It has been suggested that by paying the first years total lease up front and each renewal year thereafter two to four percent interest could be saved depending somewhat on the size of the lease. One problem is that there is no absolute assurance that the item will be funded the following year if the funding out clause is exercised. The lease purchase method of funding small equipment cash flow and financial resources are maximized.