

MINUTES OF THE House COMMITTEE ON Local Government

The meeting was called to order by Representative M. J. Johnson at  
Chairperson

1:30 ~~xx~~ p.m. on February 19, 1991 in room 521-S of the Capitol.

All members were present ~~xxxxx~~

Committee staff present:

Mike Heim, Legislative Research Dept.  
Theresa Kiernan, Revisor of Statutes  
Connie Smith, Committee Secretary

Conferees appearing before the committee:

Representative Sherman Jones  
Michael Connor, Executive Manager, Wyandotte County Parks  
Barbara Butts, Training Supervisor, Municipal Accounting Section, Dept.  
of Administration  
Allen Bell, President, Kansas Development Finance Authority  
John Torbert, Executive Director, Kansas Association of Counties  
E. A. Mosher, Executive Director, League of Kansas Municipalities  
Tom Bell, Representing Kansas Hospital Association  
Kathy Peterson, Pete McGill & Associates, Inc., on behalf of Kansas  
Municipal Security Dealers Association

Chairman Johnson asked staff to explain a bill request from Representative Larry Turnquist. Mike Heim explained this bill addresses the attorney general's opinion to clarify the law that a person can make certain changes in concrete buildings, structures, or prestressed concrete structures without involving an architect.

Representative Gomez moved to introduce the bill, seconded by Representative Harder. The motion carried.

Chairman called for hearings on HB 2173.

HB 2173 - Act concerning Wyandotte county; relating to parks and recreation.

Representative Sherman Jones, a sponsor of HB 2173, testified in support and provided written testimony. Representative Jones explained the need and purpose for the legislation. Representative Jones stated that the county commissioners and the county auditor have agreed to support this concept. (Attachment 1)

Chairman Johnson stated that after talking to staff they stated it could probably be done under "home rule". Representative Jones explained they had discussed about doing it at the local level, but it was the consensus at that time, based on legal advise that this is where it should come from since the statutes are on the books of state law.

Mike Connor, Executive Manager, Wyandotte County Parks, provided written testimony and testified in support of HB 2173 stating this bill is very important for the continued improvement of Wyandotte County Parks. (Attachment 2)

Discussion followed.

There were no opponents to HB 2173. Chairman Johnson closed the hearing on HB 2173.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Local Government,  
room 521-S, Statehouse, at 1:30 ~~am~~/p.m. on February 19, 1991

Chairman Johnson opened hearings on HB 2172.

HB 2172 - Act concerning the Kansas development finance authority;  
relating to financing municipal lease-purchase equipment.

Mike Heim, staff, gave a brief description of HB 2172.

Barbara Butts, Municipal Accounting Office, training supervisor provided the committee with a "summary of lease-purchase transactions as reported in the 1990 budgets". Ms Butts was asked by Allen Bell to provide information to the committee regarding what kind of lease-purchase transaction local units are using. Ms Butts explained the part the bill addresses is equipment. (Attachment 3)

No questions from committee.

Allen Bell, President, Kansas Development Finance Authority, provided written testimony and testified as a proponent on HB 2172. (Attach. 4)

Discussion followed.

Representative Holmes expressed concern about a community college which used lease-purchase to re-finance debt. Staff stated they would check on this.

John Torbert, Kansas Association of Counties, provided written testimony in support of HB 2172. (Attachment 5)

Discussion followed.

Ernie Mosher, League of Kansas Municipalities, provided written testimony and testified in support of HB 2172. (Attachment 6)

Tom Bell, representing Kansas Hospital Association, testified in support of HB 2172 and provided written testimony. (Attachment 7)

Discussion followed.

Kathy Peterson, with Pete McGill & Associates, Inc., asked that this written testimony opposing HB 2172 be distributed for review and consideration. (Attachment 8)

Chairman Johnson closed the hearing on HB 2172.

Chairman Johnson explained that Representative Brown was asked on behalf of Representative Jim Cates to introduce legislation repealing "poverty affidavit statute". Chairman explained it is not clear if it speaks to real estate or personal property.

Representative Lahti moved to introduce the legislation; seconded by Representative Macy. The motion carried.

Chairman called the committee's attention to "Summary of Bills to Be Heard Feb. 19 and 21" that Mike Heim had prepared. (Attachment 9)

Chairman also called the committee's attention to written testimony provided by Mr. Joe Norton who testified on February 12 on HB 2110. This testimony was attached to February 12 minutes.

Representative Macy moved to approve the minutes of February 12, 1991; seconded by Representative Mollenkamp. The motion carried.

Meeting adjourned at 2:38 p.m.



STATE OF KANSAS

SHERMAN J. JONES  
REPRESENTATIVE, 35TH DISTRICT  
  
3736 WEAVER DRIVE  
KANSAS CITY, KANSAS 66104  
(913) 342-5728



TOPEKA

HOUSE OF  
REPRESENTATIVES

COMMITTEE ASSIGNMENTS  
MEMBER: EDUCATION  
ELECTIONS  
FEDERAL AND STATE AFFAIRS

TESTIMONY BY REP. SHERMAN JONES BEFORE THE LOCAL GOVERNMENT  
COMMITTEE, HB-2173

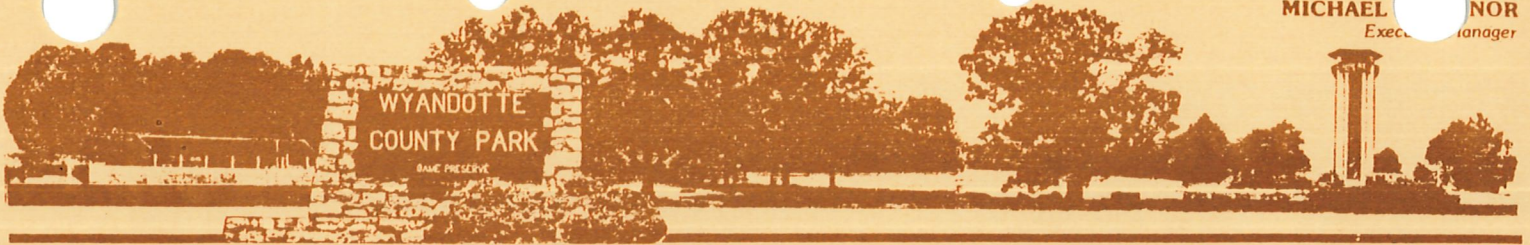
Madam Chairperson and members of the Committee, I appreciate very much this opportunity to speak before you regarding this proposed legislation to allow a Capital Improvement Fund for the Wyandotte County Parks. The other conferees here from the County Park Board and its Administration can explain the application once it becomes law but I'd like to briefly explain the purpose and need for the legislation.

Current law provides that all funds generated by the parks, i.e. rental of shelters, fishing licenses, boat registration, lease payments from Sandstone and the Renaissance Festival, are paid into the County General Fund. These fees and some ad valorem tax money comprise the Park Board's annual budget. Due to tax payer's protest of their taxes and payment of same in quarterly payments, has affected cash flow considerably and our payments from the county fund have not allowed us to realize our budgeted capital improvement portion of the budget. Therefore, the maintenance of park facilities is lacking. The legislation corrects that problem. It proposes 50% of the above mentioned fees be allocated directly into a Capital Improvement Fund.

If there are questions, I'll be happy to entertain them.

Thank You.

*L.S.*  
*2-19-91*  
*Attach. 1*



## Wyandotte County Parks

HIB. 2173

3488 West Drive, Kansas City, Kansas 66109, 913-299-0550

### HOUSE BILL TO CREATE A CAPITAL FUND ACCOUNT INTRODUCED BY REPRESENTATIVE SHERMAN JONES

At the time of this writing there was no number assigned to this bill so I will refer to it as the Capital Fund bill.

This bill is very important for the continued improvement of the Wyandotte County Parks. Budgeting for major improvements or additions has always been difficult. To plan a large project required the budget for that one particular year to swell beyond an acceptable level. Reappraisal and reclassification have added to the difficulty as the public is expecting more for less plus the uncertainty of the tax money availability.

The establishment of this Capital Fund Account will allow the Wyandotte County Parks Department to prepare a Master Plan with the knowledge the funds will be available to implement it. The newest parks in our system are 25 years old and our largest park is 50 years old. The system is requiring major maintenance, repairs and improvements that cannot be funded by the normal yearly budget.

Along with the above, this bill will allow the Park Board to accept funds from individuals, corporations or others with specific park related programs or projects in mind. These funds may then be spent on that particular project as outlined by the stipulations of the giver. At this time we cannot do that, as all income must be deposited in the park fund account for general operations of the parks.

Your consideration of this bill will be greatly appreciated by all citizens of Wyandotte County as they will be the benefactors of the improvements and additions accomplished with this fund.

Respectfully,

Michael J. Connor  
Executive Manager

LL  
2-19-91  
Attach. 2

HOUSE LOCAL GOVERNMENT COMMITTEE

BARBARA BUTTS, TRAINING SUPERVISOR, MUNICIPAL ACCOUNTING SECTION

FEBRUARY 19, 1991

On September 6, 1988, Bill Ervin, Chief of the Municipal Accounting Section, was a conferee at the Special Committee on Local Government hearing concerning lease-purchase authority for municipalities. In its summary report, the Committee recommended that we change the municipal budget forms to include a schedule for reporting lease-purchase agreements. We initiated this change to the budget forms that we distributed to the county clerks in mid-May 1989, see attachment.

We have gathered the lease-purchase information from the schedules included with 1990 budgets. Attached is a summary of the information we compiled. We did not verify/correct the data except where it appeared to be clearly erroneous. We can provide any details to support this summary that you may want to see.

Providing the financing for the lease-purchase payments has a major impact on tax levies, tax lids, and budgets of municipalities. These payments must be made from an operating fund, such as the General Fund, which is usually subject to the tax lid. There is no authority to make these payments from the bond and interest fund (which is exempt from the tax lid).

Lease-purchase agreements do not require voter approval as do most bond issues. Thus, some view lease-purchase agreements as loopholes because, while the long term obligations they create are similar to those of bond issues, the lease-purchase agreements can be used without voter approval.

I would be happy to respond to questions from the Committee.

Attachments

*LEJ*  
*2-19-91*  
*Attach 3-1*

STATEMENT OF CONDITIONAL LEASE, LEASE-  
PURCHASE AND CERTIFICATE OF PARTICIPATION

Item Purchased	Date of Contract	Term of Contract	Int. Rate %	Amount of Payments For Contract	Amount Outstanding 1-1-90	Amount of Payments Due 1990	Amount of Payments Due 1991

3-2

SUMMARY OF LEASE-PURCHASE TRANSACTIONS  
AS REPORTED IN THE 1990 BUDGETS

**Equipment**

Number of Transactions	Range of Contract Amounts	Interest Rate	Term	Total Contract Amount	Budgeted Payment
742	\$ 412- 99,999	3.3-20.4	8 mo-7 yrs	\$21,700,019	\$ 4,988,577
81	100,000-999,999	3.3-27.4	3-21 yrs	21,142,702	3,799,874
4	over \$1,000,000	6.24-8	5-7 yrs	<u>8,681,238</u>	<u>1,353,431</u>
<u>827</u>	Total Equipment			<u>\$51,523,959</u>	<u>\$10,141,882</u>

**Buildings**

60	\$1,600-52,505,000	5.5-11.5	3-21 yrs	92,372,093	\$ 4,909,795
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**Land**

7	\$12,500-2,380,000	7.49-9.28	5-25 yrs	3,807,432	\$ 487,620
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**Other**

Certificate of Participation	4.75-7.875	239 mo	3,000,000		
2-Maintenance Contracts	10	5 yrs	30,144		
Water Purchase Rights		40 yrs	843,600		
Phone Project Data	6.37	6 yrs	651,749		
Energy Maintenance System		7 yrs	152,566		
TV Agreement		10 yrs	85,685		
Debt Refinancing	7.1-7.5	10 yrs	2,440,000		
Distribution System		40 yrs	<u>730,680</u>		
<u>9</u>	Total Other			<u>\$ 7,934,424</u>	<u>\$ 746,025</u>
<u>903</u>	Grand Total			<u>\$155,637,908</u>	<u>\$16,285,322</u>



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**K DFA**  
**KANSAS**  
DEVELOPMENT FINANCE  
AUTHORITY

Suite 100  
Capitol Tower  
400 S.W. 8th  
Topeka, KS 66603

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MARTY BLOOMQUIST, PROGRAM MANAGER

February 18, 1991

M E M O R A N D U M

**TO:** House Committee on Local Government  
**FROM:** Allen Bell, President *Allen Bell*  
Kansas Development Finance Authority  
**SUBJECT:** Testimony on House Bill No. 2172

If enacted, House Bill 2172 will permit the Kansas Development Finance Authority to use its statewide tax-exempt financing authority to significantly reduce the equipment leasing costs of local government. As indicated by the statistics collected by the Municipal Accounting Office, municipalities are substantial users of lease-purchase contracts for the acquisition of equipment, at relatively high interest rates. Through the enactment last year of 1990 House Bill 3109, this committee and the Legislature have tacitly approved the continued unregulated use of this financing arrangement. K DFA would like to fashion and administer a statewide equipment lease purchase program for municipalities, similar to the state agency program that we administer for the Department of Administration.

As a general proposition, state law does not allow the state finance authority to issue bonds, or other evidence of indebtedness, to finance projects or activities of political subdivisions of the state. This prohibition against involvement in local government finance was incorporated into K DFA's enabling legislation at the request of local municipal bond dealers at the time of its enactment in 1987. Their concern was that a state finance authority with such powers might become a municipal bond bank which would package local bond issues into very large statewide issues and sell the bonds out-of-state into the national bond market.

While I don't agree that the bonds would always be sold out-of-state, I agree with the underwriters that the state does not need a municipal bond bank at the present time. There are occasions, however, when a specific exception to the general local government finance prohibition is warranted, in fact needed. The 1988 Legislature foresaw this and amended the K DFA statutes to provide for the making of such exceptions on a case-by-case basis. Since then,

exceptions to the prohibition have been made five times: for the Water Pollution Control Revolving Fund Program, the Partnership Program and the Community Provider Pooled Loan Program, for local water supply projects, and for the Labette County Correctional Conservation Camp Project.

The area of equipment lease purchase financing is one in which involvement by a central statewide tax-exempt bond issuer can save millions of dollars in a short period of time. Municipalities currently lease equipment primarily through equipment dealers or manufacturers at interest rates that do not appear to take into account the fact that the interest income realized by the lessors is exempt from federal income tax. To a limited extent, equipment is also leased through third-party finance companies who recognize the value of tax-exempt income, but whose rates are still considerably higher than tax-exempt bond rates.

As the Municipal Accounting Office statistics show, in the 1990 budget year municipalities reported over \$50 million in currently outstanding lease purchase contracts for equipment, with annual installment payments in excess of \$10 million. Without having analyzed the data, my guess is that the average interest rate on these outstanding contracts is in the neighborhood of 12 percent and the average term is five years. Current tax-exempt bond rates for a similar term are around six percent. If the aggregate principal balance of outstanding lease purchase contracts remained at \$50 million, municipalities could save as much as \$3 million per year on a statewide basis if a statewide municipal equipment leasing program was in place.

Municipal bond underwriters would not be cheated out of business by this arrangement because equipment finance is not an area in which they have had much involvement due to the relatively small transaction sizes. In fact, there is a good chance that they could become involved through a statewide program since the relatively small individual equipment purchases would be bundled together into relatively large aggregate financings. The first step in establishing this program would be to refinance most of the municipalities' outstanding lease purchase contracts through the issuance of certificates of participation, which would be sold to individual and institutional investors, most likely through Kansas bond dealers.

To make this kind of program work effectively, a statewide issuing authority with equipment finance experience is needed. KDFA is ready to put such a program together and make it work. I urge your favorable consideration of this bill.

I would be happy to answer any questions.



"Service to County Government"

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**Executive Director**  
John T. Torbert

**February 19, 1991**

**Testimony**

**To: House Local Government Committee**

**From: John T. Torbert  
Executive Director**

**Subject: HB 2172- K DFA Financing of Lease Purchase  
Equipment**

The Kansas Association of Counties appears today in support of HB 2172. As has already been established in previous testimony, cities and counties use lease purchase authority to a large degree. It is a recognized and accepted form of financing various types of machinery and equipment acquisitions.

KDFA has pointed out that according to information obtained by the state municipal accounting office, most of these agreements have interest rates of at least 12%. Most of the rates are higher. The ability to "package" these agreements into a statewide equipment lease program using tax exempt debt instruments is attractive. As Mr. Bell pointed out in his testimony, such a program could reduce interest rates to around six percent and could save local governments \$3 million per year. I would not be surprised if the saving went higher since I think Mr. Bell based his assumptions on 12% interest.

KDFA has proven that these kind of programs can work and we think that extending this concept to local governments makes good sense. We urge your favorable consideration of HB 2172.

tshleapr

*LS*  
*2-19-91*  
*Attach. 5*



**League  
of Kansas  
Municipalities**

**Municipal  
Legislative  
Testimony**

**PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 W. 7TH TOPEKA, KS 66603 (913) 354-9565 FAX (913) 354-4186**

TO: House Committee on Local Government  
FROM: E.A. Mosher, Executive Director, League of Kansas Municipalities  
RE: HB 2172--K DFA Financing of Municipal Lease-Purchase Equipment  
DATE: February 19, 1991

On behalf of the League and its member cities, I appear in support of HB 2172. Our convention-adopted Statement of Municipal Policy provides: "The powers of the Kansas Development Finance Authority to issue bonds on behalf of local governments should be broadened, to give municipalities the option of pooling their bond and note issues, including lease-purchase agreements, in to nationally rated and marketed issues."

While HB 2172 is written broad enough to permit K DFA to enter into agreements with a single municipality for the purpose of financing the lease-purchase acquisition of one or more pieces of equipment, we think this is unlikely to occur because the advantages of scale does not occur unless a larger bond issue is involved. Instead, a pooling arrangement would more likely occur when several municipalities are involved, and the collective total of a number of the lease-purchase agreements equals a significant amount. For example, if 10 municipalities are involved with lease-purchases averaging \$100,000 each, K DFA could issue bonds totaling \$1,000,000 and acquire the financial paper for the various equipment items under lease-purchase agreements. Thus, there would be a single bond issue, rather than ten separate efforts by 10 municipalities to finance equipment acquisition. The efficiency of scale, with the elimination of some of the overhead otherwise needed for each separate financial program, could result in significant savings to the public and taxpayers. In addition, the financial market tends to be more competitive for one larger debt issue than when several small issues are at sale.

We want to call to your special attention that the bill is limited to the acquisition of equipment. It would not apply to buildings and public improvements normally financed by the issuance of general obligation bonds or revenue bonds.

I would also note that the authority of a municipality to enter into the lease-purchase agreements for the acquisition of equipment is subject to the provisions of K.S.A. Supp. 10-1116c. As a result, the agreement must be approved by a majority vote of all members of the governing body. Further, the agreement must specify the amount or capital costs required to purchase the item if paid for by cash, the annual average effective interest cost, and the amount included in the payments for service, maintenance or other charges exclusive of the capital cost and interest cost. In addition, a valid lease-purchase agreement must include a

*EM*  
*2-19-91*  
*Attach. 6*

provision that the municipality is obligated only to make payments from funds budgeted and appropriated for that purpose during each current budget year.

You will note that the word "municipality" is not specifically defined in HB 2172. However, the word "municipality" is defined in K.S.A. 10-1101, a part of the cash basis law which includes the authorization of lease-purchase agreements noted above. Under this section, which would apply to HB 2172, a municipality is defined to mean a county, township, city, municipal university, school district, community junior college, drainage district and any other similar political subdivision or taxing district of the state.

In conclusion, we support HB 2172 since the involvement of K DFA in equipment acquisition can result in some significant savings to the public. As a practical matter, we think the authority will be used primarily by smaller municipalities, since larger jurisdictions, like Wichita, now effectively consolidate their lease-purchasing into periodic larger certificate of participation agreements, somewhat similar to what K DFA now does for various state agencies. We have a number of municipal bond firms and other companies active in Kansas which have generally well served the debt financing needs of local governments. However, handling the financing of equipment lease-purchasing, normally in limited amounts and for short terms, is generally not profitable to such companies in comparison to larger tax-exempt issues. We are convinced that the cost savings possible from K DFA pooled financing would be of significant benefit to the public, and will not jeopardize the continued involvement of private businesses providing municipal capital financing.

Finally, we would note that the availability of K DFA financing could provide a yardstick which municipalities can use even if they don't elect to use the K DFA program. If it is found that K DFA can finance municipal equipment acquisition at an average annual cost of 7%, for example, we think it is unlikely that municipalities which arrange for their own financing will enter into lease-purchase agreements where the interest cost is significantly higher. The availability of K DFA pooling experience will help assure that non-K DFA financing will be competitive.



# Memorandum

**Donald A. Wilson**  
President

February 18, 1991

TO: House Local Government Committee

FROM: Kansas Hospital Association

RE: **House Bill 2172**

The Kansas Hospital Association appreciates the opportunity to comment regarding the provisions of House Bill 2172. This bill would make it clear that state law would not prohibit the issuance of bonds by the Kansas Development Finance Authority for the purpose of acquiring equipment and entering into a lease agreement for such equipment with a municipality.

Over one-half of the general hospitals in Kansas are "governmental" hospitals, meaning that they are owned or operated by a governmental unit, such as a city, county or hospital district. The vast majority of those governmental hospitals are small and rural, which means that they are the ones most likely to be having financial difficulties. Obviously, hospitals are interested in different types of lease purchase arrangements. Hospitals are required to utilize many different kinds of equipment, and often that equipment is very expensive. Providing the financing for such a lease purchase arrangement has an impact on tax levies and budgets of governmental units. We see House Bill 2172 as potentially helpful in lowering the costs of these lease purchase arrangements and, therefore, providing a savings to governmental hospitals in some instances.

Thank you for your consideration of our comments.

TLB / pj

YJ  
2-19-91  
Attach. 7

**STATEMENT**

**PRESENTED TO**

**THE HOUSE LOCAL GOVERNMENT COMMITTEE**

**THE HONORABLE MARY JANE JOHNSON,  
CHAIRPERSON**

**ON BEHALF OF THE**

**KANSAS MUNICIPAL SECURITY  
DEALERS ASSOCIATION**

**TUESDAY  
FEBRUARY 19, 1991**

**RE: HOUSE BILL 2172**

*JJ  
2-19-91  
Attach. 8*

Madam Chairman and Members of the Committee:

The Kansas Municipal Securities Dealers Association appreciates this opportunity to voice its opposition to HB 2172.

The original proposal creating the Kansas Development Finance Authority was very broad, and the Kansas Legislature specifically limited its power to those functions which are not available to local governments and municipalities. Municipalities throughout the State of Kansas have the authority and have done numerous lease financings for machinery, equipment, vehicles, and personal property at competitive market rates. The Kansas Development Finance Authority traditionally charges one-half of one percent of the principal amount of the transaction which creates an additional unnecessary cost for the ultimate borrower. There is no need for the Kansas Development Finance Authority to be involved in a market that is presently working.

We appreciate your attention and consideration of our opposition to this bill. We would be pleased to answer questions or provide any additional information regarding this matter. Thank you.

Charles M. Bouly  
Vice President, Public Finance  
Kirchner Moore  
100 N. Main, Suite 810  
Wichita, Kansas 67202  
(316) 264-9351



# MEMORANDUM

## Kansas Legislative Research Department

Room 545-N -- Statehouse  
Topeka, Kansas 66612-1586  
(913) 296-3181

February 18, 1991

To: House Local Government Committee  
Re: Summary of Bills to Be Heard February 19 and 21

The following are summaries of bills that will be heard on February 19 and 21.

### H.B. 2173

H.B. 2173 creates a new county parks capital fund account for the Wyandotte County Board of Park Commissioners in the county treasury. All moneys received from gifts and up to 50 percent of revenues other than property taxes shall be paid into this account. The Park Board is given exclusive use of moneys and without regard to the budget.

### H.B. 2172

H.B. 2172 authorizes the Kansas Development Finance Authority to issue bonds for acquiring equipment and entering into leases for such equipment with municipalities. Equipment is defined to include equipment, machinery, vehicles, and other personal property. Note K.S.A. 74-8902(n) defines the term "political subdivision" and perhaps the term should be used in the bill, rather than "municipality."

### H.B. 2189

H.B. 2189 expands the membership of the Wichita Airport Authority from five to 12 members and provides that five members shall be appointed by the Sedgwick County Board of Commissioners. The bill also clarifies that Airport Authority property shall be exempt from property taxes levied by other taxing subdivisions.

### H.B. 2194

H.B. 2194 clarifies that property owned by the Wichita Airport Authority is exempt from property taxes levied by other taxing subdivisions.

91-183/MH

*LD*  
*2-19-91*  
*Attack. 9*