

Approved February 13, 1992
Date

MINUTES OF THE SENATE COMMITTEE ON LOCAL GOVERNMENT

The meeting was called to order by Senator Audrey Langworthy at
Chairperson

9:10 a.m./~~p.m.~~ on Thursday, February 6, 1992 in room 531-N of the Capitol.

All members were present except: Senator Frahm was excused.

Committee staff present: Theresa Kiernan, Revisor of Statutes
Mike Heim, Legislative Research
Elizabeth Carlson, Committee Secretary

Conferees appearing before the committee:

Conferee Ernie Mosher, Research Counsel, League of Kansas Municipalities

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

Ernie Mosher, Research Counsel, League of Kansas Municipalities, stated this is a bill which was heard last year. (Attachment 1) He said there is a broad statute for K DFA to issue bonds for a variety of reasons; but then it says they cannot issue bonds unless authorized by the legislature. This bill is limited to the acquisition of equipment. It would bring significant savings to smaller local governments. He stated he did not believe this is an anti-private business bill. There are several bond companies in Kansas but the purchase of the smaller equipment is not very profitable for them. Larger municipalities would probably not use this bill.

Senator Steineger asked about bond ratings, and would the better bond ratings be penalized? Mr. Mosher said "yes". Senator Steineger also asked how this works, does the municipality have to wait until K DFA has enough other municipalities and requests for purchases to get this all together? Mr. Mosher said it will take a lot of contacts with local officials. Senator Steineger also asked about the cost and what does K DFA charge? Mr. Mosher said they are authorized a service fee to cover costs. If the fee is too high, it won't work. He said the bill concerns smaller amounts for smaller communities that have difficulty with acquisitions of equipment.

Marty Bloomquist and Carol Kelpin of K DFA rose to answer questions from the committee.

Senator Montgomery asked about using general fund money. Ms. Bloomquist said they have not used any general fund money. Senator Montgomery asked what is the fee? Ms. Bloomquist said it varies--it is usually $\frac{1}{2}$ of 1% of the amount of the bond issue. Senator Montgomery then asked how much money had been loaned out and the answer was "approximately \$7 million dollars". Senator Steineger asked about security for the lender, and she said the security is in the equipment until it has been paid for.

Senator Steineger asked if K DFA is authorized to do equipment for anybody but the state and Ms. Bloomquist stated "No, we are not."

The minutes of January 30 were approved. Motion made by Senator Montgomery and seconded by Senator Lee. Motion carried.

The meeting adjourned at 9:30 a.m.



**League
of Kansas
Municipalities**

**Municipal
Legislative
Testimony**

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TO: Senate Committee on Local Government
FROM: E.A. Mosher, Research Counsel, League of Kansas Municipalities
RE: HB 2172--KDFA Financing of Municipal Lease-Purchase Equipment
DATE: February 6, 1992

On behalf of the League and its member cities, I appear in support of HB 2172 which is recommended by a provision in our convention-adopted Statement of Municipal Policy.

While HB 2172 is written broad enough to permit KDFA 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 most 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 20 municipalities are involved with lease-purchases averaging \$50,000 each, KDFA 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 20 separate efforts by 20 municipalities to finance equipment acquisition. The efficiency of scale, with the elimination of some of the overhead costs 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 provision that the municipality is obligated only to make payments from funds budgeted and appropriated for that purpose during each current budget year.

*attachment 1-1
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President: Bob Knight, Mayor, Wichita * **Vice President:** Joseph E. Steineger, Jr., Mayor, Kansas City * **Past President:** Frances J. Garcia, Commissioner, Hutchinson * **Directors:** * Donald L. Anderson, Mayor, Lindsborg * Michael A. Conduff, City Manager, Manhattan * Ed Ellert, Mayor, Overland Park * Harry L. Felker, Mayor, Topeka * Idella Frickey, Mayor, Oberlin * William J. Goering, City Clerk/Administrator, McPherson * Ralph T. Goodnight, Mayor, Lakin * Jesse Jackson, Commissioner, Chanute * Stan Martin, City Attorney, Abilene * Mark Mingenback, Councilmember, Great Bend * John Naibandian, Commissioner, Lawrence * Mary E. Reed, City Clerk/Director of Finance, Parsons * **Acting Executive Director:** Jim Kaup

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.

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 6%, for example, we think it is unlikely that municipalities will enter into lease-purchase agreements with vendors or other private companies 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.

While the annual \$3 million in potential savings estimated by Allen Bell, former president of K DFA, was probably optimistic, we believe that passage of the bill would result in significant savings to Kansas local governments, at a time when there is strong pressures to reduce operating costs.

Finally, we would agree with the observation that "the private market is presently working". In addition to municipal securities dealers and local banks, "vendor-supported" financing is available. However, we suggest that private financing companies do not have any special right to make money off the public! Nor do we believe the bill is anti-private business--it may promote the use of local business when reasonable financing costs are available. Further, we believe that private financing companies will still be able to compete with K DFA for lease-purchase agreements of larger amounts. But we also believe that K DFA pooling is the only way presently available to obtain low cost, tax exempt financing for the many equipment leases that are for short terms and in comparatively small amounts.

*Attachment 1-2
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