

Approved: February 20, 1996  
Date

## MINUTES OF THE HOUSE COMMITTEE ON LOCAL GOVERNMENT

The meeting was called to order by Chairperson Kent Glasscock at 1:30 p.m. on February 14, 1996, in Room 521-S of the Capitol.

All members were present except: Representative Tom Sloan, Excused  
Representative Belva Ott, Excused

Committee staff present: Mike Heim, Legislative Research Department  
Theresa Kiernan, Revisor of Statutes  
Fulva Seufert, Committee Secretary

Conferees appearing before the committee: Representative Clyde Graeber  
Representative Doug Mays  
Don Moler, General Counsel, League of Kansas Municipalities  
Representative Gwen Welshimer  
Anne Spiess, Representing Kansas Association of Counties  
Eileen King, Vice-President, Kansas City Treasurer's Assn.  
Kim Gulley, Assistant General Counsel, League of Kansas Municipalities  
Whitney Damron, P.A. -City of Kansas City, Kansas  
Kathy Peters of Burke, Williams, Sorensen, & Gaar  
Nancy L. Zielke, Director of Finance/Budget Director, City of Kansas City, KS (written testimony only)

Others attending: See attached list:

The minutes of the February 6, 1996 meeting were distributed. Representative Miller moved the minutes be approved, and Representative Grant seconded. Motion passed

Chairperson Glasscock asked the Committee to turn its attention to:

**HB 2782: An Act concerning the investment of proceeds of bonds and temporary notes; amending K.S.A. 1995 Supp. 10-131 and repealing the existing section.**

Representative Graeber was welcomed to the Committee, and he spoke in favor of **HB 2782**. He said that he really did not come prepared to speak, but explained that **HB 2782** as originally drafted was in error. He asked the Committee to look at lines 28 and 29 and the way in which the bill was originally drafted. He said that he would take responsibility for this. Lines 28 and 29 say that obligations of the federal national mortgage association; federal home loan banks or the federal home loan mortgage corporation; that you could not invest in those. That has been put back in because that was the part in error. He asked the committee to look at the balloon and you will see that what we were trying to do was say that no moneys may be invested in derivatives made up of those type of bonds. He said that derivatives are not the best type of investment unless you are a specialist and very knowledgeable in what you are doing. That's why this has been drafted simply saying no derivatives regardless of what they are made up particularly with this type of bonds. He said that was the purpose of this legislation. (Attachment 1.)

Vice-Chairperson Mays presented testimony as a proponent for **HB 2782**. He prefaced his remarks by saying that he is always interested in anything having to do with securities because he was a securities exchange commissioner and made his living about half his life one way or another in the securities industry. He said that **HB 2782** deals with investment of bond issues by Kansas municipalities. He said that when a bond issue has been successfully completed, many times there is an intervening period of time before the proceeds are actually appropriated. Kansas law allows the investment of these idle funds and dictates the manner in which they can be invested. He told the committee that recently he had discovered that some of the investment institutions approved under one section of the existing statute were offering, in addition to traditional securities, high risk, interest sensitive derivative products. He said derivatives are speculative, risky, volatile, and definitely not considered a conservative investment--as was the original intent of existing law. He asked the Committee to close up this unforeseen and dangerous loophole before a disaster occurs. (Attachment 2.)

Chairperson Glasscock called Don Moler, General Counsel, League of Kansas Municipalities, who spoke as a proponent for **HB 2782**. He said that the League understands this piece of legislation as limiting the investment of the proceeds of bond issues to only safe investment vehicles. The League's understanding of the bill's intent is to prohibit the investment of bond proceeds in investments which would put the public's money at risk. These at risk investments are commonly known as derivatives. He said that the League will qualifiedly support this legislation if the intent and effect is to safeguard the public's money without unduly hampering the ability of local governments to invest bond proceeds in a prudent fashion with a reasonable return. (Attachment 3.)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON LOCAL GOVERNMENT, Room 521-S Statehouse, at 1:30 p.m. on February 14, 1996.

Chairperson Glasscock closed the public hearing on HB 2782. He then opened the hearing for:

**HB 2832 - An Act concerning municipalities; relating to the consolidation of operations, procedures and functions; amending K.S.A. 12-3903 and repealing the existing section.**

The Chair recognized Representative Gwen Welshimer who spoke in favor of HB 2832. Representative Welshimer said that back in 1974, K.S.A. 12-3903 was changed to allow county commissioners to take statutory duties away from other elected county officers. She said that subject to an election, the elected office can be eliminated by this action. HB 2832 changes the statute to protect these elected officials from political and unjustified takings. (Attachment 4.)

Chairperson Glasscock next recognized Anne Spiess, representing Kansas Association of Counties, who spoke as an opponent of HB 2832. She presented their membership approved platform statement on this issue. She said that "the Kansas Association of Counties opposes mandatory consolidation for both judicial districts and local government units." She said that they also oppose "any legislation that would interfere with, diminish, or eliminate the authority or duties of county officials." She explained that the KAC supports HB 2832 because it clarifies issues connected with consolidation and prohibits the ability to eliminate elective county office. (Attachment 5.) During the questioning she was asked to explain about any specific instances where this problem has occurred. She said that this was very politically charged and that some of their affiliates were in the audience and could address these concerns.

Chairperson Glasscock asked Mike Heim, Research Staff, if he could shed some light on this. He said that this law that is being amended is the consolidation of operations and procedures law which was passed in 1974, and it does provide for the elimination of elective office if there is an election. He said that it was amended a few years ago to basically say that if some of the duties are to be eliminated there also has to be an election for an elected office. The counties under home rule do not have the ability to eliminate an office. They have to go this statute which is a consolidated function. He reported that it has been an issue in McPherson County and several others. When asked what this legislation does, he said that basically a county elected office cannot be eliminated under this act, so it excludes the elective officials from being abolished under this law. Theresa Kiernan, Advisor, explained that the only problem is that the county official has to be able to point to a statute that says this officer shall do this, and this is the only way it can be done. If the County Clerk has a duty to do something that has been traditionally done and there is no statute that can be referenced, that is not a statutorily mandated duty, and they can take that duty away without an election under current law. Several on the committee had difficulty understanding the intent of this bill and asked many questions. Chairperson Glasscock summarized by saying that as he understands it, the only way to lose a county office is elimination by consolidation and because that's the only way to do it, this language says that it is impossible to do away with a county office.

Mike Heim pointed out the key part of the bill is on page 2 in lines 11 and 12. This says, "(c) An elected county office may not be eliminated by consolidation under the provisions of this act." He said this sums it up in a nutshell. He added that he could provide some background reading material for the committee if it desired additional information.

Chairperson Glasscock called attention to the written testimony of Eileen King, Vice President of Kansas County Treasurers' Association, who supported HB 2832. (Attachment 6.)

Chairperson Glasscock next welcomed Kim Gulley, Assistant General Counsel, League of Kansas Municipalities, who spoke in opposition to HB 2832. She said that when a governing body seeks to consolidate services to avoid duplication, current law allows the citizens of the governmental unit to determine by election whether elected offices should be eliminated by the consolidation. She said that this legislation takes away the right of the citizenry to make that determination and provides that no county office may be eliminated by such consolidation. (Attachment 7.)

Since there was no additional testimony, Chairperson Glasscock closed the public hearing on HB 2832.

The Chairperson opened the public hearing on:

**HB 2830: An Act concerning bonds; relating to the sale thereof; amending K.S.A. 1995 Supp. 10-106 and repealing the existing section.**

Chairperson Glasscock welcomed Whitney Damron, P.A., representing the City of Kansas City, Kansas, who spoke in support of HB 2830. He reminded the committee that this bill was introduced at the request of the City of Kansas City, Kansas to provide additional flexibility to bond underwriters for the making of good

## CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON LOCAL GOVERNMENT, Room 521-S Statehouse, at 1:30 p.m. on February 14, 1996.

faith deposits for the purchase of municipal bonds. He said that apparently some municipalities already permit the use of surety bonds for financial guarantees, but others have been hesitant to utilize such mechanisms absent specific legislative reference. HB 2830 will simply clarify that this is an acceptable practice. (Attachment 8.)

The Chairperson called Kathy Peters, partner in the law offices of Burke, Williams, Sorensen & Gaar, who spoke in support of HB 2830. She said that this bill would amend K.S.A. 1995 Supp. 10-106 to permit the use of a surety bond as well as a certified or cashier's check as a good faith deposit for competitive bids to purchase municipal bonds. She explained that it provides flexibility for potential bidders, reduces the cost to the bidder of making a bid, enhances ability of the municipality to obtain bids, provides potential to reduce interest costs for long-term financing of capital projects, and does not lessen the protection to the municipality of a good faith deposit. (Attachment 9.)

Chairperson Glasscock recognized Alan J. Erickson, Vice President, Springsted Incorporated, who spoke in favor of HB 2830. He said that he endorses the modification in this legislation because it will allow for more bids on Kansas debt, which will result ultimately in lower costs for Kansas municipalities and the taxpayers of the State of Kansas. (Attachment 10.)

Representative Mays asked a question concerning the cost to the bidder for a surety bond. Mr. Erickson said that it was based on the volume and that it usually runs between \$25 and \$50 per surety bond. For clarification Representative Mays said that instead of having to come up with a two-hundred thousand dollars cashier's check, you would have to come up with only \$50. Mr. Erickson told the committee that attached to his testimony were some bid tabulations.

Chairperson Glasscock recognized Don Moler, General Counsel, Kansas League of Municipalities, who spoke in support of HB 2830. He said that when bonds are sold at public sale that purchasers may submit bids accompanied by a 2% surety bond, and that currently only certified or cashier's checks equal in an amount to 2% of the total amount of the bid are allowed. The League believes HB 2830 will help the public receive the lowest and best bid for the sale of public bonds. (Attachment 11.)

Written testimony was provided by Nancy L. Zielke, Director of Finance/Budget Director, City of Kansas City, Kansas Finance Department, who supports HB 2830 because with this modification to the Kansas municipal bond statutes, it will allow increased opportunities to the bidding on long term debt capital financing. (Attachment 12.)

Chairperson Glasscock announced the closing of the public hearing on HB 2830.

Chairperson Glasscock asked the Committee to turn its attention back to HB2782. Representative Mays moved that the bill be reported favorably for passage as amended and Representative Becker seconded. Motion passed.

Chairperson Glasscock asked the Committee to turn its attention to HB 2830. Representative Miller moved that HB 2830 be marked favorable for passage, and Representative Grant seconded. Motion passed.

The Committee was asked to turn to HB 2832. Representative Welshimer moved that HB 2832 be passed out of committee marked favorable for passage, and Representative Pettey seconded. During the discussion Representative Becker said that he was not prepared to vote on this now because of too many unanswered questions. Representative Becker made a motion to table HB 2832, and Representative Miller seconded. Motion failed. Representative Mays made a substitute motion that the bill be reported out of committee with no recommendation, and Representative Luthi seconded. Representative Mays said that he would be willing to withdraw his motion if staff wanted to work on some balloons to clarify the bill. Representative Mays' motion was withdrawn with approval of the second. Representative Welshimer also withdrew her motion with the approval of the second so the committee could take up the issue tomorrow.

The Chairperson again recognized Anne Spiess who told the committee that there were a number of county officials in the audience, and she hoped the committee members would take the time to ask them questions about HB 2832.

The meeting adjourned at 2:35 p.m.

The next meeting is scheduled for February 15, 1996.

# LOCAL GOVERNMENT COMMITTEE GUEST LIST

DATE: Wednesday, February 14, 1996

NAME	REPRESENTING
Cecile R. Allen	Senior Citizens
Gail McConaughy	Pottawatomie County
<del>Marci Siegel</del>	<del>Pottawatomie County</del>
<del>Jay [unclear]</del>	<del>Treasurer's Office</del>
Kathy Peters	Kansas City, Kansas
Anne Spiess	Ks. Assoc of Counties
Guy Wincholz	Ellis County Commission
Russell Breitenstein	City of NEK
Alvin J. Enichan	Springsted, Inc.
Lucie Palmer	Leav Co Register of Deeds
Lynia Sheer	Leav. Co. Clerk
Edward J. Mayfield	Wy Co Clerk
Whitney Dameron	City of KC, KS
Russ FREY	Riley Co. Comm.
Gita Cline	Shannon County Treasurer
Kim Sully	League of KS Municipalities
Don Molerz	League of KS Municipalities

# HOUSE BILL No. 2782

By Representatives Mays and Graeber

1-30

9 AN ACT concerning the investment of proceeds of bonds and temporary  
10 notes; amending K.S.A. 1995 Supp. 10-131 and repealing the existing  
11 section.

12  
13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. K.S.A. 1995 Supp. 10-131 is hereby amended to read as  
15 follows: 10-131. The governing body of any municipality, as defined in (a)

16 K.S.A. 10-101, and amendments thereto, which has issued or may issue  
17 bonds or temporary notes for any purpose, is hereby authorized and em-  
18 powered to invest any portion of the proceeds of such bonds, notes or  
19 funds held pursuant to the resolution or ordinance authorizing the issu- (1)

20 ance of such bonds or notes, which is not currently needed, in: (a) In- (2)

21 vestments authorized by K.S.A. 12-1675, and amendments thereto, in the  
22 manner prescribed therein; (b) the municipal investment pool established  
23 pursuant to K.S.A. 1995 Supp. 12-1677a, and amendments thereto; (c) (3)

24 direct obligations of the United States government or any agency thereof; (4)

25 (d) the municipality's temporary notes issued pursuant to K.S.A. 10-123, (5)

26 and amendments thereto; (e) interest-bearing time deposits in commer-  
27 cial banks located in the county or counties in which the municipality is  
28 located; (f) obligations of the federal national mortgage association, fed-  
29 eral home loan banks or the federal home loan mortgage corporation; (g)

30 (h) repurchase agreements for securities described in (c) or (f); (h): (g)  
31 investment agreements with or other obligations of a financial institution  
32 the obligations of which at the time of investment are rated in either of  
33 the three highest rating categories by Moody's investors service or Stan-  
34 dard and Poor's corporation; (i) (h) investments in shares or units of a (8)

35 money market fund or trust the portfolio of which is comprised entirely  
36 of securities described in (c) or (f); (j): (i) receipts evidencing ownership (9)

37 interests in securities or portions thereof described in (c) or (f); (k): (j)  
38 municipal bonds or other obligations issued by any municipality of the (10)

39 state of Kansas as defined in K.S.A. 10-1101, and amendments thereto,  
40 which are general obligations of the municipality issuing the same; or (f) (11)

41 (k) bonds of any municipality of the state of Kansas as defined in K.S.A.  
42 10-1101, and amendments thereto, which have been refunded in advance  
43 of their maturity and are fully secured as to payment of principal and

(6) subject to the limitations provided in subsection (b), obligations of the federal national mortgage association, federal home loan banks or the federal home loan mortgage corporation;

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House Local Government  
Amendment

1 interest thereon by deposit in trust, under escrow agreement with a bank,  
2 of securities described in (c) ~~or (f)~~. The interest received on any such  
3 investment shall upon receipt thereof be set aside and used for the pur-  
4 pose of paying interest on the bonds or notes issued or used for paying  
5 the cost of the project for which the bonds or notes were issued.

6 Sec. 2. K.S.A. 1995 Supp. 10-131 is hereby repealed.

7 Sec. 3. This act shall take effect and be in force from and after its  
8 publication in the statute book.

(b) No moneys authorized to be invested pursuant to subsection (a) shall be invested in a derivative.

For the purposes of this section, "derivative" means any investment instrument whose market price is derived from the fluctuating value of an underlying asset, index, currency, futures contract, including futures, options and collateralized mortgage obligations.

1-2

1-2

**DOUG MAYS**  
 REPRESENTATIVE, FIFTY-FOURTH DISTRICT  
 SHAWNEE COUNTY  
 1920 SW DAMON CT.  
 TOPEKA, KANSAS 66611-1926  
 (913) 266-4885

STATE CAPITOL—ROOM 182-W  
 TOPEKA, KS 66612-1504  
 (913) 296-7668



TOPEKA

HOUSE OF  
 REPRESENTATIVES

## House Bill 2782

COMMITTEE ASSIGNMENTS  
 CHAIRMAN — RULES AND JOURNAL  
 VICE CHAIRMAN — LOCAL GOVERNMENT  
 MEMBER — TAXATION  
 JUDICIARY  
 CHAIRMAN — SHAWNEE COUNTY DELEGATION

### Testimony of Representative Doug Mays

**House Bill 2782** deals with the investment of bond issues by Kansas municipalities. When a bond issue has been successfully completed, many times there is an intervening period of time before the proceeds are actually appropriated. Kansas law allows the investment of these idle funds and dictates the manner in which they can be invested.

Generally, the statutorily permitted investment vehicles are low risk, fixed income, and short term in nature. Recently, however, I was alarmed to discover that some of the investment institutions approved under one section of the existing statute, were offering, in addition to traditional securities, high risk, interest sensitive derivative products.

Derivatives, as they are commonly known, are not securities in the conventional sense. They invest in nothing. They have no tangible value as is the case with stocks, bonds or mutual funds. Instead, they draw their worth solely from the price or rate of an underling security, commodity, or index. They usually involve leverage, in many cases a great deal. The result is a product of which the value may fluctuate wildly with the up or down movement of the underlining vehicle.

Derivatives are speculative, risky, volatile, and definitely not considered a conservative investment-- as was the original intent of existing law.

The committee may recall the recent bankruptcy of Orange County, California (see attached newspaper articles). This financial disaster, which will ultimately cost California taxpayers, retirees, and vendors hundreds of millions of dollars, was the direct result of derivative speculation with municipal funds.

When this statute was originally passed, the derivatives now allowed did not exist and, I am certain, were not envisioned by the Kansas Legislature. While I am not aware of any instance where losses have occurred as yet, it is only a matter of time.

I ask the assistance of this committee to close up this unforeseen and dangerous loophole before a disaster occurs.

House Local Government  
 Attachment 2  
 2-14-96



**League  
of Kansas  
Municipalities**

LEGAL DEPARTMENT • 300 S.W. 8TH TOPEKA, KS 66603 • TELEPHONE (913) 354-9565 • FAX (913) 354-4186

**LEGISLATIVE TESTIMONY**

**TO:** House Local Government Committee

**FROM:** Don Moler, General Counsel

**RE:** Support for HB 2782

**DATE:** February 14, 1996

First I would like to thank the Committee for allowing the League to testify today in support of the changes contained in HB 2782. As we understand this piece of legislation, the idea is to limit the investment of the proceeds of bond issues to only safe investment vehicles. We understand it is the intent of the drafters to prohibit the investment of bond proceeds in investments which would put the public's money at risk and which are commonly known as derivatives. This testimony is written not based specifically on the initial form of the legislation but on the drafter's intent as it was explained to us yesterday. Therefore, the League will qualifiedly support this legislation if the intent and effect is to safeguard the public's money without unduly hampering the ability of local governments to invest bond proceeds in a prudent fashion with a reasonable return.

Thank you very much for allowing the League to testify on this today.

House Local Government  
Attachment **3**  
2-14-96



STATE OF KANSAS

GWEN WELSHIMER  
REPRESENTATIVE, EIGHTY-EIGHTH DISTRICT  
SEDGWICK COUNTY  
6103 CASTLE  
WICHITA, KANSAS 67218  
316-685-1930  
DURING SESSION  
LEGISLATIVE HOTLINE  
1-800-432-3924



TOPEKA

HOUSE OF  
REPRESENTATIVES

COMMITTEE ASSIGNMENTS  
MEMBER: TAXATION  
LOCAL GOVERNMENT  
ADMINISTRATIVE RULES & REGULATIONS

A handwritten signature in cursive script, appearing to read "Gwen Welshimer".

DATE: FEBRUARY 14, 1996  
TO: CHAIRMAN KENT GLASSCOCK, & HOUSE LOCAL GOVERNMENT  
COMMITTEE  
FROM: REP. GWEN WELSHIMER  
SUBJECT: ~~HB2811~~ 2782

IN 1974, K.S.A. 12-3903 WAS CHANGED TO ALLOW COUNTY COMMISSIONERS  
TO TAKE STATUTORY DUTIES AWAY FROM OTHER ELECTED COUNTY  
OFFICERS.

SUBJECT TO AN ELECTION, THE ELECTED OFFICE CAN BE ELIMINATED BY  
THIS ACTION.

THIS BILL CHANGES THE STATUTE TO PROTECT THESE ELECTED OFFICIALS  
FROM POLITICAL AND UNJUSTIFIED TAKINGS.

House Local Government  
Attachment 4  
2-14-96

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## Peterson Public Affairs Group

1200 SW 10th  
Topeka, KS 66604

phone 913-233-7050  
fax 913-233-3518

TO: House Local Government Committee  
Rep. Kent Glasscock, Chairman

FROM: Anne Spiess

DATE: Feb.14, 1996

RE: HB 2832

Thank you for the opportunity to submit testimony to you on HB 2832.

The Kansas Association of Counties has a member approved platform statement on the issue of consolidation and county officials. It is as follows: "The Kansas Association of Counties opposes mandatory consolidation for both judicial districts and local government units. Additionally, the Association opposes any legislation that would interfere with, diminish, or eliminate the authority or duties of county officials."

KAC supports HB 2832 since it clarifies issues connected with consolidation and prohibits the ability to eliminate elective county office. Thank you for your consideration of our position on this issue.

House Local Government  
Attachment 5  
2-14-96

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# KANSAS COUNTY TREASURERS' ASSOCIATION

OFFICERS:

NANCY WEEKS  
HASSELL COUNTY  
President

EILEEN KING  
RILEY COUNTY  
Vice President

GARY WATSON  
TREGO COUNTY  
Secretary

LARRY TUCKER  
RENO COUNTY  
Treasurer

February 14, 1996

Representative Kent Glasscock  
State Capitol Room 115-S  
Topeka, KS 66612

Dear Representative Glasscock;

On behalf of the Kansas County Treasurer's Association, we would like to be on record as supporting HB2832, relating to consolidations. In the event that an elective office should need to be eliminated, it is essential that the public have input. Anytime that an elective office could be eliminated without the the electorate's approval, it erodes the basis of our democratic process that our forefathers carefully put in place for us.

Thank you for your consideration.

Sincerely,

Eileen King, Vice President

House Local Government  
Attachment 6

2-14-96



League of  
Kansas  
Municipalities

Legal Department  
300 S.W. 8th  
Topeka, Kansas 66603  
Phone: (913) 354-9565/ Fax: (913) 354-4186

### Legislative Testimony

To: House Local Government Committee  
From: Kim Gulley, Assistant General Counsel  
Date: February 14, 1996  
Re: Opposition to HB 2832

Thank you for allowing the League to appear today in opposition to HB 2832. Whenever a governing body seeks to consolidate services to avoid duplication, current law allows the citizens of the governmental unit to determine by election whether elected offices should be eliminated by the consolidation. HB 2832 takes away the right of the citizenry to make that determination and provides that *no* county office may be eliminated by such consolidation.

This result flies in the face of the purpose of the act which authorizes consolidation of services. As stated in K.S.A. 12-3901 the purpose of consolidation of services is to allow political and taxing subdivisions to "efficiently and effectively serve the needs of their constituents." HB 2832 ties the hands of those constituents and prohibits them from eliminating county offices even when such elimination promotes efficiency and reduces costly duplication of services.

The League respectfully requests that you leave the determination of whether particular elected offices should be eliminated up to the affected citizenry by rejecting HB 2832.

House Local Government  
Attachment 7  
2-14-96

WHITNEY B. DAMRON, P.A.  
COMMERCE BANK BUILDING  
100 EAST NINTH STREET - SECOND FLOOR  
TOPEKA, KANSAS 66612-1213  
(913) 354-1354 ♦ 232-3344 (FAX)

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TO: House Local Government Committee  
FROM: Whitney Damron  
RE: HB 2830 - An Act concerning bonds, relating to the sale thereof.  
DATE: February 14, 1996

Chairman Glasscock and Members of the House Local Government Committee:

On behalf of the City of Kansas City, Kansas, I thank you for the opportunity to present comments in support of HB 2830 to you this afternoon. As you will recall, HB 2830 was introduced at the request of the City to provide additional flexibility to bond underwriters for the making of good faith deposits for the purchase of municipal bonds.

With me today is Mr. Alan Erickson, Vice President of Springsted Public Financial Advisors, and Ms. Kathy Peters of the law firm Burke, Williams, Sorenson and Gaar, both of whom perform work in this area for the City and other municipalities.

Also, I have visited with the Kansas Securities Industry Association, a client of mine, in regards to this bill and they are supportive of this legislation. Attached to this cover letter is a listing of KSIA's membership. In discussing this legislation with them, apparently some municipalities already permit the use of surety bonds for financial guarantees. However, others have been hesitant to utilize such mechanisms absent specific legislative reference. HB 2830 will simply clarify that this is an acceptable practice.

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Attachment 8  
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House Local Government Committee - HB 2830

February 14, 1996

On behalf of the City of Kansas City, Kansas, I thank you for the opportunity to discuss this bill with you and ask for your favorable consideration. I would be pleased to stand for questions at the appropriate time.

KANSAS SECURITIES INDUSTRY ASSOCIATION  
Preliminary  
Membership List  
1996

Mr. Chuck Bouilly  
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Mr. John Cooper  
Cooper Malone McClain, Inc.  
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Ms. Pat Hinojos  
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& Zuercher L.L.C.  
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JANET S. GARMS  
\*A PROFESSIONAL ASSOCIATION

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(714) 545-5559  
VENTURA COUNTY OFFICE  
2310 PONDEROSA DRIVE  
SUITE 1  
CAMARILLO, CALIFORNIA 93010-4747  
(805) 987-3468

February 14, 1996

Representative Kent Glasscock  
Chairman of House Local Government Committee  
Room 521-South State Capitol Building  
Topeka, Kansas 66601

Re: Support for House Bill 2830 - Concerning Bonds; Relating to  
Sale Thereof

Dear Representative Glasscock  
and Members of the House Local Government Committee:

We serve as Bond Counsel for the City of Kansas City, Kansas and other Kansas cities and counties. We appreciate the opportunity to present testimony in support of House Bill 2830.

House Bill 2830 would amend K.S.A. 1995 Supp. 10-106 to permit the use of a surety bond as well as a certified or cashier's check as a good faith deposit for competitive bids to purchase municipal bonds. We support this amendment for the following reasons:

- Provides flexibility for potential bidders
- Reduces the cost to the bidder of making a bid
- Enhances ability of the municipality to obtain bids
- Provides potential to reduce interest costs for long-term financing of capital projects
- Does not lessen the protection to the municipality of a good faith deposit

We encourage the House Local Government Committee to favorably consider the amendment of K.S.A. 1995 Supp. 10-106 to permit bidders to use a surety bond as a good faith deposit when bidding for the purchase of municipal bonds.

House Local Government  
Attachment 9  
2-14-96



Representative Glasscock  
February 14, 1996  
Page 2

Thank you for your consideration of House Bill 2830.

Sincerely,



Kathryn Pruessner Peters  
BURKE, WILLIAMS, SORENSEN & GAAR

KPP/lt

xc: Mayor Carol Marinovich  
City Council Members  
Dennis M. Hays, Interim City Administrator  
Nancy L. Zielke, Director of Finance/Budget Director  
Russel J. Breitenstein, Deputy Finance Director/City Treasurer  
Whitney B. Damron, City Lobbyist  
Alan Erickson, Vice President, Springsted Public Finance

**TESTIMONY TO KANSAS HOUSE OF REPRESENTATIVES  
LOCAL GOVERNMENT COMMITTEE**

February 14, 1996

BY: Alan J. Erickson, Vice President  
Springsted Incorporated

Springsted is pleased to be able to testify today, to the House Local Government Committee concerning surety bonds in lieu of good faith checks. As you are aware, many states currently allow underwriters the option of offering a surety bond with their bid on municipal bonds, rather than physically delivering a good faith check.

**How does this affect the market, and the ability of underwriters to bid on bond issues?** By utilizing a surety bond, underwriters can forego the additional cost, time, and inconvenience of preparing and physically delivering a good faith check. This gives them the flexibility to bid on more issues in a given day. Bids are typically taken at times ranging from 10:00 A.M. to 2:00 P.M. during the day. If an underwriter is bidding on an issue early in the day and does not win that bid they then would be able to bid on other issues later that day. However, it's not feasible for an underwriter to produce a good faith check for every possible sale each day. Therefore, the use of the surety bond gives the underwriter the flexibility to bid on a greater number of issues each day.

House Local Government  
Attachment 10  
2-14-96

**What advantage does this give to local governments in Kansas?** By providing greater flexibility to the underwriter through the use of a surety bond, local governments will see more bids for their issues that are sold on a competitive basis. More bids typically equates to lower net costs for the issuer of the debt. Governments for years have benefited from a bidding process for such things as vehicles, the construction of facilities, and the purchase of office supplies. Generally, the prices for those items have also been lower when the number of bids and the resulting competition increases.

**What has been Springsted's experience with surety bonds?** Springsted brings to market more municipal bond issues each year, than any other financial advisor in the country. It has been our experience in the states where the surety bond option is allowed, more bids tend to be received from a variety of underwriters on each issue. I have brought for your convenience today, copies of the surety bid compilations for several issues we have dealt with just this week. The particular examples here are for issues in Minnesota and in Iowa. The number of bids range from five on the low side, to ten on the high side. Also, the underwriters expressing an interest to bid are from the states of Minnesota, Wisconsin, Illinois, New York, California, Florida, and Alabama. It has also been our experience that to date we have not witnessed a single default on the delivery of the good faith deposit.

When administered by an insurance company with the ability to issue surety bonds, which are legal for these transactions, very few problems should be encountered. In addition, we feel that this is merely an evolutionary step being taken in the municipal

Page 3

bond industry, in relation to the use of electronic transmission of data. The entire industry is undergoing change due to the increased sophistication of technology. It may be possible that in several years we will be taking bids for bonds over the Internet.

In conclusion Springsted endorses this modification of Kansas statutes. We feel that it will allow for more bids on Kansas debt, resulting ultimately in lower costs for Kansas municipalities and ultimately the taxpayers of the State of Kansas.

I thank you once again, for allowing me to testify today.

jil\

Capital Guaranty Insurance Company  
 Steuart Tower - 22nd Floor  
 One Market Plaza  
 San Francisco, CA 94105



Sure-Bid Phone 415/995-8066  
 Sure-Bid Fax 415/995-8090

Attachment I - Authorized Principals List

To: Springsted Inc.  
 85 East Seventh Place  
 Suite 100  
 St. Paul, MN 55101-2143

FAX: 612/223-3002

DELIVER IMMEDIATELY TO: Wendy Olson

For: 96-0118  
 ISD #601, Fosston, Minnesota  
 \$5,600,000 G.O. School Building Bonds,  
 Series 1996A Due: February 1, 1999-2017  
 Date of Sale: 02/13/96 - 12:00pm Central Time  
 Good Faith Deposit Amount: \$56,000  
 Premium Per Bidder: \$30

The following are the Authorized Principals for the above captioned Issue:

- |   |          |
|---|----------|
| 1. Firststar Bank Milwaukee, N.A. (WI 146-49)           | 02/06/96 |
| 2. Dean Witter Reynolds Inc. (IL 134-13)                | 02/09/96 |
| 3. FBS Investment Services, Inc. (MN 139-23)            | 02/09/96 |
| 4. Piper Jaffray Inc. (MN 145-23)                       | 02/09/96 |
| 5. Smith Barney Inc. (IL 144-13)                        | 02/09/96 |
| 6. Griffin, Kubik, Stephens & Thompson Inc. (IL 111-13) | 02/09/96 |
| 7. Dain Bosworth, Inc. (MN 114-23)                      | 02/09/96 |
| 8. Juran & Moody, Inc. (MN 167-23)                      | 02/12/96 |
| 9. Nike Securities, L.P. (IL 135-13)                    | 02/12/96 |
| 10. Sterne, Agee & Leach, Inc. (AL 200-01)              | 02/12/96 |

02/12/96 - 14:46:49

*Leach*

Capital Guaranty Insurance Company  
 Steuart Tower - 22nd Floor  
 One Market Plaza  
 San Francisco, CA 94105



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 Sure-Bid Fax 415/995-8090

Attachment I - Authorized Principals List

To: Springsted Inc.  
 85 East Seventh Place  
 Suite 100  
 St. Paul, MN 55101-2143

FAX: 612/223-3002

DELIVER IMMEDIATELY TO: Wendy Olson

For: 96-0119  
 Clarksville Community SD, Butler Co., IA  
 \$1,220,000 G.O. School Refunding Bonds  
 Series 1996A Due: June 1, 2001 - 2009  
 Date of Sale: 02/14/96 - 11:00am Central Time  
 Good Faith Deposit Amount: \$24,400  
 Premium Per Bidder: \$30

The following are the Authorized Principals for the above captioned Issue:

1. Firststar Bank Milwaukee, N.A. (WI 146-49)	02/06/96
2. Dean Witter Reynolds Inc. (IL 134-13)	02/09/96
3. FBS Investment Services, Inc. (MN 139-23)	02/09/96
4. Dain Bosworth, Inc. (IA 114-15)	02/09/96
5. Nike Securities, L.P. (IL 135-13)	02/09/96
6. Piper Jaffray Inc. (MN 145-23)	02/09/96
7. Prudential Securities, Inc. (IL 110-13)	02/09/96
8. Banc One Capital Corporation (WI 170-49)	02/09/96
9. Griffin, Kubik, Stephens & Thompson Inc. (IL 111-13)	02/09/96

02/09/96 - 15:34:26

Capital Guaranty Insurance Company  
Steuart Tower - 22nd Floor  
One Market Plaza  
San Francisco, CA 94105



Sure-Bid Phone 415/995-8066  
Sure-Bid Fax 415/995-8090

Attachment I - Authorized Principals List

To: Springsted Inc.  
85 East Seventh Place  
Suite 100  
St. Paul, MN 55101-2143

FAX: 612/223-3002

DELIVER IMMEDIATELY TO: Wendy Olson

For: 96-0189  
ISD #276, Minnetonka, Minnesota  
\$18,800,000 G.O. Refunding Bonds,  
Series 1996A (MN SD Credit Enhancement  
Program) Due: February 1, 2003-2012  
Date of Sale: 02/15/96 - 10:30am Central Time  
Good Faith Deposit Amount: \$188,000  
Premium Per Bidder: \$95

The following are the Authorized Principals for the above captioned Issue:

1. Merrill Lynch & Company (CA 103-05)	02/09/96
2. J.P. Morgan Securities Inc. (NY 117-32)	02/09/96
3. Piper Jaffray Inc. (MN 145-23)	02/09/96
4. PalneWebber, Inc. (NY 130-32)	02/09/96
5. Dain Bosworth, Inc. (MN 114-23)	02/09/96

02/09/96 - 15:34:36

Capital Guaranty Insurance Company  
Steuart Tower - 22nd Floor  
One Market Plaza  
San Francisco, CA 94105



Sure-Bid Phone 415/995-8066  
Sure-Bid Fax 415/995-8090

Attachment I - Authorized Principals List

To: Springsted Inc.  
85 East Seventh Place  
Suite 100  
St. Paul, MN 55101-2143

FAX: 612/223-3002

DELIVER IMMEDIATELY TO: Wendy Olson

For: 96-0146  
ISD#622 (N St. Paul-Maplewood-Oakwood) MN  
\$61,075,000 G.O. Refunding Bonds, Ser.  
1996A (MN SD Credit Enhancement Program)  
Due: February 1, 1997 - 2025  
Date of Sale: 02/15/96 - 11:00am Central Time  
Good Faith Deposit Amount: \$610,750  
Premium Per Bidder: \$190

The following are the Authorized Principals for the above captioned Issue:

1. Morgan Stanley & Co., Inc. (NY 131-32)	02/07/96
2. Merrill Lynch & Company (CA 103-05)	02/08/96
3. J.P. Morgan Securities Inc. (NY 117-32)	02/09/96
4. Norwest Investment Services, Inc. (MN 112-23)	02/09/96
5. Lehman Brothers (NY 100-32)	02/09/96
6. Raymond James and Associates, Inc. (FL 177-09)	02/09/96
7. ABN AMRO Securities (USA) Inc. (IL 176-13)	02/09/96
8. Dain Bosworth, Inc. (MN 114-23)	02/09/96

02/09/96 - 15:34:31





**League  
of Kansas  
Municipalities**

LEGAL DEPARTMENT · 300 S.W. 8TH TOPEKA, KS 66603 · TELEPHONE (913) 354-9565 · FAX (913) 354-4186

**LEGISLATIVE TESTIMONY**

**TO:** House Local Government Committee

**FROM:** Don Moler, General Counsel

**RE:** Support for HB 2830

**DATE:** February 14, 1996

First let me thank the Committee for allowing the League to testify today in support of HB 2830 which allows, pursuant to K.S.A. Supp. 10-106, that when bonds are sold at public sale that purchasers may submit bids accompanied by a 2% surety bond. Currently, only certified or cashier's checks equal in an amount to 2% of the total amount of the bid are allowed. We believe allowing surety bonds allows for additional flexibility in the sale of municipal bonds, without creating any additional liability or problems for local governments. The League believes HB 2830 will help the public receive the highest and best bid for the sale of public bonds. It helps to create a winning situation for the citizens of a city or county and we believe this additional flexibility is warranted and we would support the modification to include surety bonds as an alternative for the security deposit required pursuant to K.S.A. Supp. 10-106.

Thank you very much for allowing the League to appear today in this matter.

House Local Government  
Attachment II  
2-14-96



**CITY OF KANSAS CITY, KANSAS**  
**FINANCE DEPARTMENT**

Nancy L. Zielke, Director of Finance

ONE McDOWELL PLAZA 701 NORTH 7TH STREET, 66101 (913) 573-5270  
FAX 573-5003



February 14, 1996

Representative Kent Glasscock  
Chairman of House Local Government Committee  
Room 521-South State Capitol Building  
Topeka, Kansas 66601

**RE: Support for House Bill 2830 - Revision to Municipal Bond Statutes**

Dear Representative Glasscock  
and Members of the House Local Government Committee:

The City of Kansas City, Kansas appreciates the opportunity to present the following testimony in support of House Bill 2830. The City has sought this legislative change to allow for increased opportunities for competitive bidding on municipal bonds to provide the lowest rates to the tax and ratepayers.

With the advent of a faster-paced and more volatile municipal markets, providing underwriters with options for setting up their good faith deposit makes it easier for underwriters to bid and may also be more cost effective for them. The process of physically cutting a check and shipping it to the municipality before the sale takes several days' lead time. However, municipal underwriters and investors are often now making their buying decision only hours before sale time to take advantage of pricing opportunities or sudden changes in market supply. In that event, the inability to secure a good faith check in time for the sale will typically be the only thing preventing the underwriter from submitting a bid. In addition, unsuccessful bids represent unearned income during the time the unreturned checks remain outstanding.

Offering a surety bond service in lieu of a good faith check makes it easier for an underwriter to bid and will cost them only the nominal fee charged by the insurance company offering the service. If a surety bond is used for a sale, it should be from an insurance company licensed to issue such a bond in the State of Kansas and it still must be submitted to the issuer or its Financial Advisor prior to the opening of bids. The cost of this service is borne by the underwriter and neither the issuer nor the Financial Advisor is charged for the use of the service. The City of Kansas City, Kansas supports proposed changes to the bond statute allowing the option to obtain a surety bond in lieu of a good faith check.

In closing, the City of Kansas City, Kansas urges the House Local Government Committee to consider this modification to the Kansas municipal bond statutes to allow increased opportunities to the bidding on long term debt capital financing. Your consideration of this proposed legislation would be appreciated.

Respectfully submitted,

Nancy L. Zielke  
Director of Finance/Budget Director

cc: Mayor Carol Marinovich  
City Council Members  
Dennis M. Hays, Interim City Administrator  
Whitney B. Damron, City Lobbyist  
Russell J. Breitenstein, Deputy Finance Director/City Treasurer  
Alan Erickson, Vice President, Springsted Public Finance Advisors

House Local Government  
Attachment 12  
2-14-96