

Approved: February 19, 2010

Date

MINUTES OF THE HOUSE GOVERNMENT EFFICIENCY AND FISCAL OVERSIGHT
COMMITTEE

The meeting was called to order by Chairman Jim Morrison at 3:37 p.m. on February 15, 2010, in Room 546-S of the Capitol.

All members were present except Representatives Tom Sloan and Melvin Neufeld, both of whom were excused.

Committee staff present:

Renae Jefferies, Office of the Revisor of Statutes
Gordon Self, Office of the Revisor of Statutes
Julian Efird, Kansas Legislative Research Department
Gary Deeter, Committee Assistant

Conferees appearing before the Committee:

Representative Sheryl Spalding,
Larry Baer, Assistant General Counsel, Kansas League of Municipalities
Bob Vancrum, Government Affairs Specialist, Blue Valley USD 229
Vicky Johnson, Chief Counsel, Kansas Department of Transportation

Others attending:

See attached list.

The minutes for the February 11 meeting were approved. (Motion, Representative Burgess; second, Representative Trimmer)

The Chair opened the hearing on HB 2540 - Municipal bonds; investment of bond proceeds.

Staff Renae Jefferies reviewed the intent and details of the bill, saying that the bill amends current law to expand how a municipality may invest idle bond fund monies (Attachment 1). She said the expansion allows a local unit of government to invest in federal government instruments that are unconditionally guaranteed.

Representative Sheryl Spalding spoke as a proponent for the bill, saying the proposed legislation costs the state nothing and gives municipalities another option for investing idle funds (Attachment 2). She commented that this one change in the law would have saved one school district's taxpayers over \$180,000 last year.

Larry Baer, Assistant General Counsel, Kansas League of Municipalities, testified as a proponent, stating that the change is permissive, not mandatory, and allows a city to be more flexible in investing idle funds (Attachment 3). Members questioned the difference between a "federal national mortgage association" and a "government national mortgage association" (line 29), collectively concluding that the terms represent the popular terms *Ginny Mae* and *Fannie Mae*.

Bob Vancrum, Government Affairs Specialist, Blue Valley USD 229, spoke as a proponent (Attachment 4).

CONTINUATION SHEET

Minutes of the House Government Efficiency and Fiscal Oversight Committee at 3:307p.m. on February 15, 2010, in Room 546-S of the Capitol.

He reviewed the process that led to USD 229 to request a change in the statute, a change he said clarifies the authority granted to municipalities without compromising high credit standards. Answering a question, he replied that the federal guarantee applies only to the principal, not the interest. He recommended an amendment to the bill to maintain consistency, on line 37 including a reference to section (7) as well as sections (3) and (6). Responding to other questions, he said that the original statute has no ceiling and that the principal was 100% guaranteed.

The Chair closed the hearing on **HB 2540** and opened the hearing on **HB 2631 - State-owned real estate; report from departments and agencies of the state to the legislature regarding the status of such real estate.**

Ms. Jefferies briefed the Committee on the bill, saying that the proposed legislation would require all state agencies to report annually to the legislature an inventory of all real estate owned or held by the state or the agency (Attachment 5).

Representative Spalding testified on behalf of the bill, saying the bill came about because attempts to gather such information informally had been less than successful (Attachment 6). She observed that unneeded land could be sold, providing the state with additional revenue; further, placing real estate on the local tax rolls would benefit local units of government. A question was raised about another legislative entity being assigned to track the state's real estate holdings; Ms. Jefferies said a statute requires deeds to be held by the Director of Accounts and Reports, but no oversight is assigned by the statute. Representative Spalding replied to another question that if an agency has the information, there would be no cost incurred by the agency in sharing that information; however, even with a cost, the state needs some centralized process for gathering such information.

Vicky Johnson, Chief Counsel, Kansas Department of Transportation (KDOT), reminded the Committee of her previous testimony (January 27, 2010) regarding excess real estate from right-of-way acquisition. She also reminded members that KDOT has currently gathered detailed right-of-way data from 80 counties and will complete the remaining 25 counties within a year or two (Attachment 7). She stated that what was not previously addressed was how the right-of-way properties were acquired. She explained that a former county road may have become a two-lane state highway with right-of-way acquired in 1940, which was upgraded in 1955 with wider shoulders, was upgraded further in 1990 to a four-lane roadway, and further upgraded with restricted access in 2000; all of these changes required acquisition of additional property. Since earlier acquisitions are yet undigitized, such incremental information will require hours of combing microfiche records. She commented that to accomplish what the bill requires would require about \$4.3 million in additional funding and, even then, would be impossible to meet the January 1, 2011, deadline. Answering a question, she agreed that an amendment granting KDOT additional time would be helpful.

Marilyn Jacobson, Director, Facilities Management, Kansas Department of Administration, responding to a request from a member of the Committee, said the state-wide Financial Management System includes a module that will create a state-wide inventory of all land and buildings of all state agencies with the exception

CONTINUATION SHEET

Minutes of the House Government Efficiency and Fiscal Oversight Committee at 3:307p.m. on February 15, 2010, in Room 546-S of the Capitol.

of KDOT. The system will go live on July 1, 2010.

The hearing on **HB 2631** was closed.

The Chairman invited members to consider two bills heard the previous day.

Regarding **HB 2408**, state agencies' periodic reviews of network security, a memo was distributed to assure members that the Division of Information Systems and Communications can accommodate the requirements of the bill with existing resources (Attachment 8).

A motion was made, seconded, and passed unanimously recommending that **HB 2408** be considered favorable for passage. (Motion by Representative Burgess; seconded by Representation Gatewood)

Regarding **HB 2572**, authorizing a feasibility study of consolidation opportunities for the information technology of the state, a motion was made, seconded, and passed unanimously recommending the bill as favorable for passage. (Motion, Representative Burgess; second, Representative McCray-Miller).

The meeting was adjourned at 4:29 p.m. The next meeting is scheduled for February 16, 2010.

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MEMORANDUM

To: House Committee on Government Efficiency and Fiscal Oversight
From: Renae Jefferies, Assistant Revisor
Date: February 15, 2010
Subject: HB 2540

HB 2540 concerns the investment of municipal bonds. The amendments to K.S.A. 10-131 expand how the governing body of a municipality may invest the bonds it has issued that are not currently needed to include in any direct obligation of the United States government or any agency thereof which is unconditionally guaranteed by the United States government and obligations of the government national mortgage association.

The act becomes effective upon publication in the statute book.

The fiscal note indicates there would be no fiscal effect on the state budget.

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SHERYL SPALDING
29TH DISTRICT

Testimony before the
House Government and Efficiency Committee

On

HB2540 –Municipal bonds; investment of bond proceeds

February 15, 2010

Mr. Chairman and Members of the Committee

Thank you for the opportunity to offer **HB2540** which would allow investments in a wider range of securities that are guaranteed by the federal government. I am in favor of this bill.

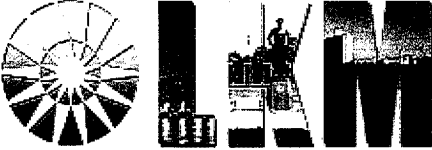
HB2540 costs the state no money. It causes no district or municipality to lose money. What it does do is allow any district or municipality which so desires to invest in certain federally guaranteed securities that are now prohibited.

I want to emphasize that this bill is permissive not mandatory. It merely allows school districts and municipalities to save their local taxpayers money. It is estimated that this one change in the law would have saved one school district's taxpayers over \$180,000 last year.

While money for every governing body is scarce it behooves each of us to look for ways to make every system we touch more efficient by saving money without hurting services. This bill does just that. I ask for your support.

Thank you for your consideration.

Attachment 2
GEFO 2-15-10



Date: February 15, 2010
To: House Committee on Government Efficiency and Fiscal Oversight
From: Larry R. Baer
Assistant General Counsel
Re: HB 2540
Testimony in Support

Thank you for allowing me to appear before you today and present testimony in support of HB 2540 on behalf of the League of Kansas Municipalities and its member cities.

HB 2540 amends K.S.A. 10-131 to allow cities, and others, who issue bonds under general Kansas bond law, to invest in "any obligation unconditionally guaranteed by the United States government", in addition to investments already permitted. This would allow cities to invest in GNMA's and other similar type federally guaranteed obligations.

The change proposed is permissive and provides more flexibility to a city when considering where and how to invest idle funds. A city can choose whether or not to take advantage of the change contained in the bill. As always, the choice remains a local option and a policy decision to be made by local elected officials.

For these reasons the League of Kansas Municipalities supports HB 2540 and asks for your support and that you pass it out favorably.

Thank you.

*Attachment 3
GEFO 2-15-10*

House Government Efficiency and Fiscal Oversight Budget Committee
on HB 2540

Testimony of Robert J. Vancrum,
Blue Valley USD #229 Government Affairs Specialist
February 15, 2010

KSA 10-131 (the "Statute") provides guidelines for how municipalities may invest the proceeds from the sale of their bond issues. The Statute provides numerous investment options that are generally considered to be of very high quality. The Statute has worked well for municipalities for several decades.

Unfortunately, during the recent turmoil in the financial markets, a number of the investments authorized under KSA 10-131 became difficult to obtain or were much less attractive due to widespread downgrades of financial institutions. As a result, the list of viable investment options became much narrower. For many municipalities that have a very cautious financial policies and practices, they were left with severely limited choices for the investment of their bond proceeds.

Upon further review of KSA 10-131, it became clear that there were several investment options that, while considered some of the safest investments available, were not permitted due to the wording of the Statute. In particular, there were two categories of investments that could be made much more accessible to municipalities without compromising prudent investing standards.

First, there are a number of securities issued by US agencies or other entities (such as the Government National Mortgage Association, Agency for International Development, Tennessee Valley Authority, etc.) that are not allowable investments because they are not specifically listed in the Statute. Additionally, many of these securities are structured in such a manner that does not allow them to fall under the Statute's provisions that permit the purchase of "direct obligations of the United States government or an agency thereof". However, these securities are unconditionally guaranteed by the US government and are considered of the highest quality. Expanding section (a)(3) and (a)(6) of KSA 10-131 as proposed will permit investment in these obligations.

Secondly, the language in the Statute allowing for the investment of bond proceeds in money market funds places significant restrictions on the type of such funds that would be eligible. Currently, KSA 10-131 only allows for money market funds "the portfolio of which is comprised entirely of...direct obligations of the United States government or any agency thereof...or...obligations of the federal national mortgage association, federal home loan bank or the federal home loan mortgage corporation". This definition limits the allowable money market funds only to those which are comprised of the highest credit quality investments. This is a reasonable and prudent requirement.

Unfortunately, most such money market funds have slightly expanded investment policies that actually allow for the use of repurchase agreements that are backed by the same types of securities. The repurchase agreements allow the money market funds to have more liquidity to meet daily inflows and outflows. Even with repurchase agreements, these money market funds are still considered

Attachment 4
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amongst the safest investments available. Unfortunately, KSA-131 does not allow municipalities to invest in money market funds that utilize repurchase agreements. This restriction severely limits the number of allowable money market funds and during the recent financial crisis many of these temporarily stopped accepting new deposits. At one point during 2009, only one such fund was found to be available and accepting new deposits. By modifying section (a)(6) of the Statute to allow for money market funds to hold repurchase agreements, municipalities will have access to potentially dozens of additional high quality money market funds.

The changes being proposed to KSA 10-131 are designed to clarify the authority granted to municipalities to investment bond proceeds without compromising high credit standards.

HOUSE BILL No. 2540

By Committee on Government Efficiency and Fiscal Oversight

1-26

9 AN ACT concerning municipal bonds; amending K.S.A. 10-131 and re-
10 pealing the existing section.

11

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

13 Section 1. K.S.A. 10-131 is hereby amended to read as follows: 10-
14 131. (a) The governing body of any municipality, as defined in K.S.A. 10-
15 101, and amendments thereto, which has issued or may issue bonds or
16 temporary notes for any purpose, is hereby authorized and empowered
17 to invest any portion of the proceeds of such bonds, notes or funds held
18 pursuant to the resolution or ordinance authorizing the issuance of such
19 bonds or notes, which is not currently needed, in: (1) Investments au-
20 thorized by K.S.A. 12-1675, and amendments thereto, in the manner
21 prescribed therein; (2) the municipal investment pool established pur-
22 suant to K.S.A. 12-1677a, and amendments thereto; (3) direct obligations
23 of the United States government or any agency thereof *which are uncon-*
24 *ditionally guaranteed by the United States government*; (4) the munici-
25 pality's temporary notes issued pursuant to K.S.A. 10-123, and amend-
26 ments thereto; (5) interest-bearing time deposits in commercial banks
27 located in the county or counties in which the municipality is located; (6)
28 subject to the limitations provided in subsection (b), obligations of the
29 federal national mortgage association, *government national mortgage as-*
30 *sociation*, federal home loan banks or the federal home loan mortgage
31 corporation; (7) repurchase agreements for securities described in (3) or
32 (6); (8) investment agreements with or other obligations of a financial
33 institution the obligations of which at the time of investment are rated in
34 either of the three highest rating categories by Moody's investors service
35 or Standard and Poor's corporation; (9) investments in ~~shares or units of~~
36 a money market fund or trust the portfolio of which is comprised entirely
37 of securities described in ~~(3) or (6)~~; (10) receipts evidencing ownership
38 interests in securities or portions thereof described in (3) or (6); (11)
39 municipal bonds or other obligations issued by any municipality of the
40 state of Kansas as defined in K.S.A. 10-1101, and amendments thereto,
41 which are general obligations of the municipality issuing the same; or (12)
42 bonds of any municipality of the state of Kansas as defined in K.S.A. 10-
43 1101, and amendments thereto, which have been refunded in advance of

(3), (6) or (7)

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MEMORANDUM

To: House Committee on Government Efficiency and Fiscal Oversight
From: Renae Jefferies, Assistant Revisor
Date: February 15, 2010
Subject: HB 2631

HB 2631 concerns real estate owned, operated, held or acquired for and in the name of the state of Kansas by state departments and agencies. The act would require all departments and agencies of the state to annually, on or before January 30th, make a report to the secretary of the senate and the chief clerk of the house regarding the location and status of such property. Such departments and agencies shall also report whether the property is unoccupied, rented or leased, unused or underused, up for sale or planned for future use.

The term real estate includes both land and buildings under the act.

The act takes effect upon publication in the statute book.

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SHERYL SPALDING
29TH.DISTRICT

Testimony before the
House Government and Efficiency Committee

On

HB 2631 – State owned real estate; report from departments and agencies of the state to the legislature

February 15, 2010

Mr. Chairman and Members of the Committee

Thank you for the opportunity to offer **HB 2631** which would require a report from departments and agencies of the state to the legislature regarding the status of the real estate within their control.

HB 2631 came about because of the activities of this committee last year when we tried to determine, without success, the real estate owned and operated by each of the state agencies and departments.

There has been anecdotal evidence of underused and unused land and buildings owned by state agencies and existing in locations around the state. If such real estate exists, it has the potential to be sold for profit by the state. This would not only benefit the state immediately, but over the long term the amount of money spent on upkeep would lessen the state obligations.

In addition, any property owned by the state does not pay property tax to local authorities and divesting ourselves of this property would allow others to buy the real estate and begin contributing to the local economy.

Thank you for your consideration.

Attachment 6
GEFO 2-15-10

**TESTIMONY BEFORE
HOUSE GOVERNMENT EFFICIENCY AND FISCAL OVERSIGHT COMMITTEE
REGARDING HOUSE BILL 2631
RELATING TO ANNUAL REPORTING OF KDOT REAL ESTATE**

FEBRUARY 15, 2010

Good afternoon Mister Chairman, members of the committee. I am Vicky Johnson, Chief Counsel for the Kansas Department of Transportation (KDOT), here today to testify on HB 2631.

HB 2631 requires that state agencies which own, operate, hold or have acquired real estate shall annually report to both the House and Senate regarding such real estate's location and status, including whether such real estate is unoccupied, leased, unused or underused, up for sale and planned for future use.

The agency categorizes its land and property holdings into non-infrastructure and infrastructure groups. Non-infrastructure property includes land for non-highway use such as for agency buildings, storage yards, land for communication towers, and maintenance material mixing strips not contiguous with right-of-way property. Infrastructure property includes all land which is part of the state highway system which would include property with pavement on it, rest areas, roadside parks, historical markers and adjacent material storage locations.

Non-infrastructure property is inventoried and digitally recorded in an agency database. As such, the agency would be able to supply the information required by HB 2631 for this section of the agency's property holdings within the timeframe outlined by the bill.

The agency maintains a large number of infrastructure property records. These records are in the form of highway plans and acquisition documents which provide information on the lands the Department and its predecessor agencies have been acquiring for highway purposes dating back to the 1920's. These records exist in many forms including hard copies, microfilm, and digitally. However, there is not a single comprehensive digital repository of all of the infrastructure property owned by the agency.

Compiling, reviewing, and digitally recording all of the agency's infrastructure property would be an extremely time and labor intensive project. For example, compiling and researching the many methods by which land has been acquired by the agency through the years would require the expertise of legal counsel, engineers, highways planners, as well as right-of-way professionals. In addition, the agency would need to develop a new property inventory system to digitally retain this information. Given the sheer volume of work, it is not likely the agency would be able to supply this information by the January 30, 2011 timeframe outlined in the bill.

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The short-term cost of implementing a computer-based right-of-way inventory system would be approximately \$4.3 million in FY 2011, excluding costs for temporary employees which are unknown at this time. The software to support an integrated digital system to serve as home to this aggregated right-of-way information would be approximately \$300,000 and the digital recording of the thousands of construction plan files could be completed for approximately \$4,000,000.

The costs associated with digitally recording all the infrastructure property are very burdensome to the agency, and cannot be accomplished within the FY 2011 budget.

Thank you for allowing me to testify on HB 2631. I will gladly stand for questions at the appropriate time.

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Division of Information Systems and Communications

Mark Parkinson, Governor
Joe Hennes, Director

<http://www.da.ks.gov/disc/>

MEMORANDUM

Date: February 15, 2010
To: Representative Mike Burgess
From: Morey Sullivan, DISC Deputy Director
Subject: HB2408

Dear Rep. Burgess,

After further review it is possible for DISC to use existing funds to accommodate the expenses incurred for HB2408 during FY11. We will consider this a test period to understand complete expenses and revenue derived for this activity. Since it will affect DISC cash flow we will include the activities stated in HB2408 in our rate base beginning in FY12.

If you have questions please contact me at the information provided below.

Sincerely,

Morey Sullivan
DISC Deputy Director
785.296.4285
Morey.sullivan@da.ks.gov

*Attachment 8
GEFO 2-15-10*