Kansas Administrative Regulations

Department of Health and Environment

Article 29.—Solid Waste Management

28-29-2110. Financial assurance provided by the local government financial test.

(a) Local government financial test. Each owner or operator of a permitted solid waste disposal area or processing facility that is a local government subdivision of the state of Kansas may satisfy the requirements of K.A.R. 28-29-2101 or K.A.R. 28-29-2102, or both, for the closure, postclosure, or corrective action costs, or any combination of these, for a municipal solid waste landfill by use of a local government financial test as specified in this regulation.

(b) Definitions. The following terms used in this regulation shall be defined as specified below:

(1) "Annual debt service" means the principal and interest due on outstanding long-term debt during a stated time period, typically the current fiscal year, and payments on capital lease obligations during the same period.

(2) "Cash plus marketable securities" means all the cash and marketable securities held by the local government on the last day of a fiscal year but shall exclude the following:

(i) Cash and marketable securities designated to satisfy past obligations; and

(ii) cash and investments held in fiduciary funds.

(3) "Current year" means the most recently completed fiscal year.

(4) "Deficit" means total annual revenues minus total annual expenditures.

(5) "Long-term debt issued in the current year" means the amount of principal borrowing actually received during the current year from the issue of obligations due more than one year from the date of issue but shall exclude the following:

(i) The amount of capital lease liability incurred during the year; and

(ii) the proceeds of any long-term borrowing in the current year that remains in the capital projects fund at year's end.

(6) "Nonroutine capital expenditures" means capital expenditures of the capital projects fund and expenditures identified as capital outlays or asset additions in the audited annual financial statements of other governmental funds and enterprise funds.

(7) "Total annual expenditures" means the total of all expenditures but shall exclude the following:

(i) Debt principal repayments;

(ii) nonroutine capital expenditures; and

(iii) the expenditures of fiduciary or other trust funds managed by a local government on behalf of specific third parties.

(8) "Total annual revenues" means revenues from all taxes, fees, investment earnings, and intergovernmental transfers but shall exclude the following:

(i) The proceeds from borrowing and asset sales; and

(ii) revenues of fiduciary or other trust funds managed by a local government on behalf of specific third parties.

(c) The financial component.

(1) If the owner or operator has outstanding general obligation bonds that are not secured by insurance, a letter of credit, or other collateral or guarantee, the bonds shall have a current bond rating of AAA, AA, A, or BBB, as issued by Standard & Poor's, or a current rating of Aaa, Aa, A, or Baa, as issued by Moody's.

(2) If the owner or operator does not have outstanding and rated general obligation bonds, the owner or operator shall meet each of the following financial ratios based on the owner's or operator's most recent audited annual financial statements:

(A) A ratio of cash plus marketable securities divided by total annual expenditures equal to or greater than 0.05, referred to as the "liquidity ratio";

(B) a ratio of annual debt service divided by total annual expenditures equal to or less than 0.20, referred to as the "debt service ratio"; and

(C) a ratio of long-term debt issued in the current year divided by nonroutine capital expenditures of the current year equal to or less than 2.00, referred to as the "use of funds ratio."

(3) The owner or operator's annual financial statements shall be audited by an independent certified public accountant. The financial statements shall be prepared in conformity with one of the following accounting methods:

(A) Generally accepted accounting principles for governments; or

(B) a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the state of Kansas.

(4) An owner or operator who prepares the annual financial statements in conformity with generally accepted accounting principles for governments and uses the financial ratio test method of financial assurance may omit the ratio test stated in paragraph (c)(2)(C) of this regulation.

(5) A local government owner or operator shall not be eligible to use the financial test to assure closure, postclosure, corrective action, or any combination of these, for a municipal solid waste landfill if any of the following conditions exists:

(A) The owner or operator is currently in default on any outstanding general obligation bonds.

(B) The owner or operator has any general obligation bonds outstanding that are rated lower than BBB, as issued by Standard & Poor's, or Baa, as issued by Moody's.

(C) The owner or operator operated at a deficit equal to or greater than five percent of the total annual revenue in each of the two most recently completed fiscal years.

(D) The owner or operator receives an adverse opinion, disclaimer of opinion, or qualification of opinion in the report of independent certified public accountants accompanying the audited financial statements for the most recently completed fiscal year. A qualified opinion may be evaluated by the department. Use of the financial test may be approved or disapproved by the department based on its evaluation.

(d) Public notice component. The local government owner or operator shall place a reference to the cost of closure, postclosure, corrective action, or any combination of these, that is assured by the local government financial test in its comprehensive annual financial report or other audited annual financial report during each year in which the owner or operator is required to provide financial assurance by these financial assurance regulations. Disclosure shall be made in a note attached to the audited annual financial statements and shall include the following:

(1) The nature and source of the requirements to conduct closure, postclosure, corrective action, or any combination of these;

(2) the liability reported or calculated at the balance sheet date;

(3) the estimated total cost of closure, postclosure, corrective action, or any combination of these, remaining to be recognized following the reported balance sheet date;

(4) the percentage of landfill capacity on the reported balance sheet date;

(5) the estimated remaining landfill life in years, or the estimated period of corrective action remaining; and

(6) the method projected for use or the method currently in use to fund the actual costs of closure, postclosure, corrective action, or any combination of these, when required.

(e) Record keeping and reporting requirements.

(1) The owner or operator shall place a copy of the following items in the facility's operating record and shall file the originals with the department:

(A) A letter signed by the local government's chief financial officer that is identical to the form provided by the department and that includes the following:

(i) A list of all the current cost estimates covered by a financial test, including the municipal solid waste landfill and any other environmental obligations or guarantees assured by financial test in any jurisdiction;

(ii) a certification that the local government meets the conditions of subsection (c) of this regulation required for use of either the bond rating or the financial ratio method of the local government financial test;

(iii) a certification that the local government has satisfied the public notice component requirements of subsection (d) of this regulation; and

(iv) a certification that the local government has not exceeded the amount eligible to be assured by the financial test according to subsection (f) of this regulation;

(B) a copy of the local government's audited comprehensive annual financial report or other audited annual financial report for the latest completed fiscal year, including the report and opinion of the auditor, who shall be an independent certified public accountant; and

(C) a special report of independent certified public accountants that is based on applying agreed-upon procedures engaged in accordance with professional auditing standards and that identifies the procedures performed and states that the independent accountant has determined all of the following:

(i) The data used to calculate the financial test ratios in paragraphs (c)(2)(A), (c)(2)(B), and (c)(2)(C) of this regulation were derived from the audited annual financial statements for the most recently completed fiscal year, and the ratios calculated from this data equal or exceed the stated requirements.

(ii) The owner or operator satisfies the requirements of paragraphs (c)(5)(C) and (f)(1) of this regulation.

(iii) The annual financial report has been prepared on a basis of accounting required by paragraph (c)(3) of this regulation and is accompanied by an auditor's opinion satisfying the requirements of paragraph (c)(5)(D) of this regulation.

(2) The items required by paragraph (e)(1) of this regulation shall be placed in the facility operating record to fulfill the requirements of K.A.R. 28-29-108(q)(1)(G) and shall be filed with the department no later than the effective date for a new permit, and also annually before the end of the latest allowable day for filing the annual audited financial report with the Kansas department of administration, director of accounts and reports, without extension, according to the provisions of K.S.A. 75-1124, and amendments thereto.

(3) The local government owner or operator shall satisfy the requirements of the local government financial test at the close of each fiscal year. If the local government no longer meets the requirements of the financial test, it shall obtain alternate financial assurance as specified in K.A.R. 28-29-2101(b) within 90 days of discovering the failure or within 210 days following the close of the most recently completed fiscal year, whichever first occurs, and shall obtain approval from the department for its use.

(4) The local government owner or operator shall no longer be required to submit the items specified in paragraph (e)(1) of this regulation or otherwise comply with the requirements of this regulation if either of the following conditions occurs:

(A) The local government substitutes an alternate method or instrument of financial assurance as specified in K.A.R. 28-29-2101(b) and obtains the department's approval for its use.

(B) The local government is released by the department from further obligation for closure, postclosure, corrective action, or any combination of these, at the permitted facility.

(5) Additional reports of financial condition may be required by the department from the local government at any time for evaluation. If the department evaluation results in a determination that the local government no longer meets the requirements of the local government financial test, the local government shall provide alternate financial assurance as specified in K.A.R. 28-29-2101(b) within 90 days following notice to the local government from the department.

(f) Calculation of costs to be assured.

(1) The portion of closure, postclosure, and corrective action costs that an owner or operator may assure by the local government financial test shall be determined as follows:

(A) If the local government owner or operator does not assure other environmental obligations or guarantees by the financial test, it may assure closure, postclosure, and corrective action costs for the permitted facility up to an amount equaling 43 percent of total annual revenues.

(B) If the local government owner or operator assures other environmental obligations or guarantees in any jurisdiction by the financial test in addition to the closure, postclosure, and corrective action costs of the permitted facility, it shall add the current cost estimates of the additional obligations or guarantees to the closure, postclosure, and corrective action costs of the permitted facility, and the combined environmental obligations assured shall not exceed 43 percent of total annual revenues.

(2) The local government owner or operator shall provide alternate financial assurance as specified in K.A.R. 28-29-2101(b) for any environmental obligations or guarantees in excess of 43 percent of total annual revenues.

(g) The provisions of this regulation shall apply on and after February 24, 2000.

(Authorized by K.S.A. 1998 Supp. 65-3406; implementing K.S.A. 1998 Supp. 65-3407, as amended by L. 1999, Ch. 112, Sec. 1; effective Feb. 24, 2000.)