

Approved Jan. 25, 1983  
Date

MINUTES OF THE House COMMITTEE ON Pensions, Investments and Benefits

The meeting was called to order by Rep. Bob Ott at  
Chairperson

9:05 a.m./~~p.m.~~ on January 21, 1983 in room 526-S of the Capitol.

All members were present except:  
Rep. Meacham, Whitaker and Dyck  
Rep. Wisdom (Excused)

Committee staff present:

Richard Ryan, Research Department  
Louis Chabira, Research Department  
Gordon Self, Revisor's Office

Conferees appearing before the committee:

Lyell Ocobock, Executive Officer, Pooled Money Investments Board

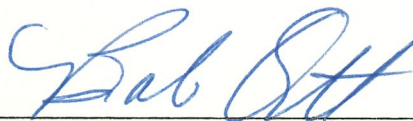
The meeting was called to order by Chairman Ott. The minutes of the January 19 committee meeting were approved and the minutes of the January 20 committee meeting were approved with two corrections. Chairman Ott announced some changes in the agenda for next week and a revised agenda will be sent to committee members and staff.

Chairman Ott then turned the meeting over to Richard Ryan of the Legislative Research Department who was to be assisted by Lyell Ocobock, Executive Officer of the Pooled Money Investments Board.  
(See Attachments A and B.)

Chairman Ott reminded the committee that as of next week the committee will meet in Room 527-S.

The meeting was adjourned at 10:00 a.m.

The next meeting will be January 25, 1983 at 9:00 a.m. in Room 527-S.



Rep. Bob Ott, Chairman



MEMORANDUM

Legislative Research Department\*

August 13, 1982  
Revised January 18, 1983

STATE MONEYS LAW AND FEDERAL REVENUE SHARING FUND LAW

As Amended Through 1982

This memorandum is designed to provide general background information concerning bank deposits and investments authorized under the state moneys law and the federal revenue sharing law.

The state moneys law (KSA 75-4201 through 75-4231) provides that the Pooled Money Investment Board (PMIB) shall designate banks to receive state active, time deposit/open, inactive, custodial, and fee agency accounts. That Board consists of the State Treasurer, who is the chairperson, and two appointees of the Governor. The PMIB also invests moneys in the Federal Revenue Sharing Fund (KSA 75-4257 through 4260).\*\*

State Moneys Law

Active Account

An "active account" is a state bank account which is payable or withdrawable, in whole or in part, on demand and is in a bank not having an inactive account. Moneys in the active account do not draw interest. No service charge for handling warrants or checks of the state shall be made by banks which have a state bank account (this prohibition applies to all state bank accounts, but is especially pertinent to the active account).

The PMIB must designate one or more banks to receive an active account. Such banks must have capital and surplus of at least \$2 million. In making awards of an active account, the Board shall give consideration to the amount of service to be required of each bank. There were 97 banks eligible to receive an active account for the contract period beginning August 1, 1982, and 6 banks submitted proposals for an award (3 other banks withdrew their initial proposals).

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\* This memorandum was prepared in cooperation with the executive officer of the Pooled Money Investment Board.

\*\* In addition, the PMIB is responsible for the investment of most special state funds or moneys (excluded are retirement funds, bequests and similar funds, and moneys not deposited in the state treasury). Such investments are specifically authorized by various statutes other than the state moneys and federal revenue sharing laws. See Appendix A.

All state moneys received by the State Treasurer are deposited daily in the active account, except moneys required to be otherwise deposited or invested, e.g., custodial accounts. The state moneys law provides that all disbursements shall be drawn from the active account, but in practice payments also are made directly from certain custodial accounts because they may be demand accounts under the law.

The law provides that the total amount in one or more active accounts shall not exceed \$40 million at any time. An exception is allowed for ten days in periods of anticipated peak disbursements.

The number of active account banks has been reduced in recent years.\* For instance, there were seven such banks during the contract period that ended in July 1975, there were five from August 1975 through July 1979, and the awards totaled \$36 million during both of those periods. From August 1979 through July 1982, there were three active account banks — awards totaled \$50 million until August 1981 when they dropped to \$38 million. Now, one bank (First National of Topeka) has the state's active account and its award is \$5.05 million.

However, actual daily balances in the active accounts had been less than the amounts awarded prior to August 1, 1982. Table I shows the PMIB's average daily balance in such accounts from August 1974 through July 1982, and the targeted daily balance for the contract period which began on August 1, 1982. This is a "compensating balance" to cover the services provided to the state by the bank which cannot levy a service charge therefor.

Amendments to the state moneys law enacted in recent years (especially in 1975 and 1982), and actions of the PMIB pursuant to those amendments, have resulted in a substantial reduction in the active account balances and an increase in the amount of money available for investment by the PMIB. In calendar year 1972, for example, the average daily balance in active accounts was \$39.6 million, with the lowest daily balance being \$16.8 million and the highest being \$69.6 million (during a period of large disbursements).

As a general rule, state warrants which are cashed by various banks are channelled back through the active account bank in Topeka to the State Treasurer, who then writes a check to that bank to redeem the warrants. Any bank may present state warrants to the State Treasurer directly, but few banks follow this procedure. Typically, banks located throughout the state find it more convenient to present state warrants they cash for redemption through regular banking channels.

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\* Until the law was amended in 1982, the PMIB had to designate not less than three nor more than nine banks to receive active accounts, and banks with such accounts had to agree to accept time deposit/open accounts equal to 200 percent of their active account award. Now, with only one active account bank there no longer is any reason to make an award greater than the targeted daily balance in the active account, and it was necessary to make banks other than the one with the active account eligible for time deposit/open accounts.

### Time Deposit/Open Accounts

Banks having combined capital, undivided profits, and surplus of \$8.5 million or more may accept time deposit/open accounts (TD/OA's), to be apportioned by the PMIB in proportion to each qualifying bank's capital, undivided profits, and surplus. Currently, 15 banks (all of those eligible) have agreed to accept such deposits. TD/OA's must remain on deposit at least seven days and they earn interest at a rate equal to the average yield before taxes on 91-day U.S. treasury bills as determined at the most recent public offering of such bills prior to each particular deposit. Interest earnings on TD/OA's are credited to the State General Fund.

Deposits are made in TD/OA's:

1. whenever moneys in the active account exceed 50 percent of the total amount awarded (50 percent of the current total award is \$2.525 million);
2. if moneys are available for deposit for not more than 60 days; and
3. if the PMIB is unable to deposit all state moneys available for inactive accounts.

TD/OA's under (1) and (2), above, must be in banks having combined capital, undivided profits, and surplus of \$8.5 million or more, while deposits under (3) may be in any Kansas bank or banks as determined by the PMIB to be in the best interest of the state. No deposits have been made under (3).

As shown by Table II, from CY 1975 through January 18, 1983, the most money in TD/OA's at any one time was \$170.8 million and the least was zero. There were 97 days in that period when no moneys were in such accounts. Since 1979, the lowest amounts in TD/OA's at any one time have declined and the number of days when there were no such deposits has increased.

### Repurchase Agreements

A repurchase agreement, or "repo," involves the sale of securities on the condition that after a stated period of time the original seller will buy them back at an agreed upon price or yield. The state moneys law authorizes the PMIB to invest in repos of less than 30 days duration with a Kansas bank (national or state) for direct or insured obligations of the U.S. government or any agency thereof, but only when it is impossible to deposit available moneys in TD/OA's.

The Board has made extensive use of this authority. When moneys are available for short-term investment, bids to sell qualified government securities to the state are solicited by telephone by the executive officer of the Board from five national or state banks. Each one is requested to respond within approximately 5 to 10 minutes if it is interested in entering into a repo for a specified amount and term, and to state

the rate of interest it will pay upon repurchase of the securities. The highest bid, or best combination of bids in terms of yield to the state, is accepted. The successful bidder then wires instructions to the Federal Reserve Bank in Kansas City, Missouri, to credit qualified securities to the state's safekeeping account maintained at the Fed. before any payment is made to the bank or banks. A safekeeping receipt for the securities is sent by computer to the State Treasurer.

By policy of the PMIB, terms of repos are limited to one day except for weekends and holidays. Furthermore, securities purchased by the state must have a maturity of no longer than three years from the date of the repo and a market value equal to the following percentages of the purchase price of the repo: 100 percent if the maturity is not over one year and 103 percent if the maturity is from one to three years.

The amounts invested in repos under the state moneys law from August of 1975 through January 18, 1983 have ranged from \$1 million to \$203 million, and there were very few days in that period when no moneys were so invested. Investments have always been made over a week-end when moneys were available for investment. The rate of return on repos has ranged from 2.0 percent to 20.35 percent. Many times, especially during periods of rising short-term interest rates, the repo rate has exceeded the 91-day treasury bill rate established at the most recent weekly offering. Also, it can be said that generally there has been a close correlation between the repo rate and the federal funds rate, which is the rate at which banks borrow reserves from one another. Interest earned on repos under the state moneys law is credited to the State General Fund, but a portion of such earnings attributable to balances in dormitory funds of Regents' institutions is credited to such funds monthly.

### Inactive Accounts

The PMIB decides at the beginning of each contract period (12 months beginning on August 1, with an option to extend for 12 months) how much state money to deposit in inactive accounts. The Board takes into consideration estimates of revenues which will be received and of expenditures to be made from the various state funds, and the total amount that banks entitled to inactive accounts "bid" for. Beginning in August 1982, the Board decided to determine how much money to place in such accounts on a quarterly basis; \$275 million was deposited in the August-October quarter.

Inactive accounts are apportioned among "bidding" banks in the proportion that each such bank's combined capital, undivided profits, and surplus bears to the total thereof of all such banks. If any bank does not accept the full amount for which it legally qualifies, the balance is apportioned among banks willing to receive additional deposits. No bank may have an active and inactive account at the same time.

Interest on inactive accounts is based on 100 percent of the average market yield before taxes on 91-day U.S. treasury bills during the three months preceding the monthly meeting of the PMIB prior to each quarterly interest period. The interest periods begin on the first day of August, November, February and May. Interest earnings are credited to the State General Fund.



Interest rates on inactive accounts and TD/OA's cannot be in violation of federal law or of rules and regulations of the Federal Reserve System or the Federal Deposit Insurance Corporation. This means, in effect, that if 100 percent of the average treasury bill rate is higher than a federally prescribed interest rate limitation on certain amounts of deposit, the federal limitation applies. For example, the current federal limitation is 8 percent on deposits of less than \$100,000.

There are 611 banks which now have inactive accounts, with the individual awards ranging from \$24,000 to \$11,146,000. There are 115 banks with less than \$100,000. Currently, the inactive account awards total \$245.3 million.

If the aggregate of all active accounts exceeds the statutory limitation thereon (\$40 million), sufficient moneys shall be withdrawn within 60 days to reduce the aggregate to below such limit. The moneys so withdrawn shall be deposited in inactive accounts in accordance with the same formula applicable to the initial apportionment of such accounts at the beginning of the 12-month contract period. The PMIB also may make additional deposits to existing inactive accounts for one month or more between award periods and must do so when moneys are available for investment for more than 60 days. Any bank which was entitled to an initial award of \$100,000 or more but contracted for less shall not be entitled to receive supplemental deposits.

Interest rates applicable to inactive accounts for each quarterly interest period since August 1975 are shown in Table III. It also shows the rates during each such period on deposits in TD/OA's and the low and high rate on repurchase agreements negotiated by the PMIB.

### Summary

A brief summary of the foregoing procedures relative to active, inactive, and time deposit/open accounts and to repurchase agreements is presented in Table VI.

### Transfer of Interest Earnings to Freeway Fund

As previously noted, interest on TD/OA's, inactive accounts, and repos is deposited in the State General Fund. A law enacted in 1979, however, requires monthly transfers from the General Fund to the State Freeway Fund of interest earnings attributable to moneys in the State Highway Fund, based on the average daily balance in the latter during the preceding month and on the average interest rate on TD/OA's in the same month (KSA 68-2313). Such transfers totaled \$13.4 million in FY 1980, \$9.3 million in FY 1981, and \$5.4 million in FY 1982.

### Custodial Accounts

Custodial moneys are state moneys deposited with the State Treasurer which, in the written opinion of the Attorney General, are required by contract, bequest, or law to be segregated from other bank accounts. Arrangements for custodial accounts must be made by the PMIB. The aggregate of such accounts in any bank may not exceed 10 percent of its deposits as of the last official call. A bank may have a custodial account and an active or inactive account or a TD/OA.

Custodial accounts may be either demand or interest bearing deposits, as determined by the PMIB. If the latter, the interest rate shall be the same as currently applicable to inactive accounts. The Board also may invest custodial moneys in repurchase agreements of less than 30 days duration.

There are three demand-type custodial accounts. By far the largest of these are the employment security clearing and benefit accounts, i.e., relating to the unemployment compensation program. Moneys belonging to the unemployment compensation benefit fund also are invested in repurchase agreements.

### Fee Agency Accounts

The PMIB designates one or more banks in various counties to have fee agency accounts for state institutions or agencies which collect fees, tuition, or charges. Such accounts having an average daily balance of \$10,000 or more must be rotated at least every two years among banks located in the county and conveniently located with respect to the institution or agency.\* With approval of the PMIB, an institution or agency having an account with an average daily balance of less than \$10,000 may select a bank located in the county to receive deposits. Fee agency accounts do not earn interest.

The law provides that collections from fees, tuition, or charges may be remitted to the State Treasurer less frequently than daily if authorized by the director of accounts and reports, but not less often than monthly, except for the balance to be maintained in any such account as specified by the director and for direct refunds of tuition (etc.) authorized under K.S.A. 76-738.

### Pledge of Securities

All state bank accounts must be secured by a pledge of qualified securities owned by the bank. That is, active, time deposit/open, inactive, custodial, fee agency, and federal revenue sharing bank accounts shall be secured in an amount equal to 70 percent of such accounts, less the amount protected by the FDIC (now \$100,000 each for interest-bearing accounts and demand accounts).

### Federal Revenue Sharing Fund Law\*\*

Federal revenue sharing moneys received by the state were credited to a special trust fund designated as the Federal Revenue Sharing Fund. Such moneys not immediately required for the purposes for which received shall be invested by the PMIB in:

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\* Two or more banks shall be designated to have fee agency accounts in a county having a population of more than 180,000 and not over 200,000. There is no such county according to the 1980 federal census.

\*\* K.S.A. 75-4257 through 75-4260, as amended.



1. U.S. treasury bills or notes with maturities not exceeding six months;
2. TD/OA's or CD's for periods not over six months in Kansas banks or trust companies; or
3. repurchase agreements of less than 30 days duration with a Kansas bank for direct or insured obligations of the federal government or any agency thereof, if it is impossible to place available moneys in time deposits.

The interest rate on TD/OA's or CD's shall be at the same rate currently applicable to state inactive accounts. Interest or earnings received from investments must be credited to the Federal Revenue Sharing Fund.

As of January 18, 1983, \$13.9 million of federal revenue sharing moneys were deposited in 37 Kansas banks.

#### Interest Earnings

Interest earnings during the 14-year period FY 1969 through FY 1982 are presented in Table IV. In that period, earnings credited to the State General Fund ranged from a low of about \$6 million in FY 1973 to a high of \$68.1 million in FY 1982. Earnings in FY 1976 included non-recurring receipts which resulted from changing the interest period on inactive accounts from semi-annual to quarterly, i.e., one semi-annual payment and three quarterly payments were received in FY 1976.

From FY 1973 through FY 1981, the state of Kansas received \$169.5 million from the federal government in general revenue sharing moneys. Interest credited to the Federal Revenue Sharing Fund through FY 1982 totaled \$25.2 million.

#### Growth of State Bank Accounts

Moneys available for investment are related to the amount of the total state budget. As shown by Table V, the state budget (all funds) increased by \$1.97 billion, or 296 percent, from FY 1969 to FY 1982. At the end of FY 1969, the active, inactive, and time deposit, open accounts totaled \$260.4 million. Those same accounts, plus repos and federal revenue sharing moneys on deposit in Kansas banks, totaled \$466.5 million at the end of FY 1982, which was an increase of \$206.1 million or 79.1 percent.

Besides the growth of the state budget, amendments to the state moneys law and implementation of those amendments by the PMIB have increased the amount available for investment. Active accounts, which earn no interest, totaled \$4.7 million at the end of FY 1982 in contrast to \$45.3 million at the close of FY 1969. Over the 14-year period, investments which earn interest for the General Fund rose from \$215.1 million to \$437.3 million.

TABLE I  
STATE ACTIVE ACCOUNTS

In Millions

| <u>Contract Period</u> | <u>No. of Banks</u> | <u>Total Awards</u> | <u>PMIB Average Daily Balance</u> |
|------------------------|---------------------|---------------------|-----------------------------------|
| 8/74-7/75              | 7                   | \$ 36.0             | \$ 18.5                           |
| 8/75-7/76              | 5                   | 36.0                | 10.2                              |
| 8/76-7/77              | 5                   | 36.0                | 9.9                               |
| 8/77-7/78              | 5                   | 36.0                | 9.5                               |
| 8/78-7/79              | 5                   | 36.0                | 9.5                               |
| 8/79-7/80              | 3                   | 50.0                | 7.8                               |
| 8/80-7/81              | 3                   | 50.0                | 7.8                               |
| 8/81-7/82              | 3                   | 38.0                | 6.0                               |
| 8/82-7/83              | 1                   | 5.05                | 5.05 <sup>a</sup>                 |

a) Targeted ADB for the contract period.

Actual PMIB Average Daily Balance

| <u>Month</u> | <u>Amount (000)</u> |
|--------------|---------------------|
| August 1982  | \$ 5,195            |
| September    | 5,086               |
| October      | 4,940               |
| November     | 5,238               |
| December     | 5,040               |
| January 1983 | 4,620 <sup>a</sup>  |

a) Through January 18.

TABLE II

STATE TIME DEPOSIT/OPEN ACCOUNTS  
CALENDAR YEAR 1975 TO DATE; IN MILLIONS OF DOLLARS

| <u>Amount on Deposit</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Zero                     | None        | None        | 2 days      | None        | None        | None        | 62 days     | 33 days     |
| Lowest (other than zero) | \$ 26.0     | \$ 10.0     | \$ 10.0     | \$ 80.0     | \$ 90.0     | \$ 30.0     | \$ 15.0     | \$ 10.0     |
| Highest                  | 92.0        | 120.0       | 147.0       | 141.0       | 160.0       | 132.5       | 76.0        | 170.8       |

TABLE III

INTEREST RATES ON STATE INACTIVE ACCOUNTS, TIME DEPOSIT/OPEN ACCOUNTS,  
AND REPURCHASE AGREEMENTS

|   | 1975<br><u>Aug.-Oct.</u>  | 1975-76<br><u>Nov.-Jan.</u>       | 1976<br><u>Feb.-Apr.</u>          | 1976<br><u>May-July</u>          | 1976<br><u>Aug.-Oct.</u>        | 1976-77<br><u>Nov.-Jan.</u>      | 1977<br><u>Feb.-Apr.</u>           | 1977<br><u>May-July</u>         |                                 |
|---|---|-----------------------------------|-----------------------------------|----------------------------------|---------------------------------|----------------------------------|------------------------------------|---------------------------------|---------------------------------|
| Inactive Accounts<br>Int. Rate <sup>1</sup> | 5.39%   | 6.33%                             | 5.63%                             | 4.92%                            | 5.16%                           | 5.15%                            | 4.67%                              | 4.63%                           |                                 |
| TD/OA Interest Rates <sup>2</sup>           | 6.456   | 5.602                             | 4.811                             | 4.921                            | 5.151                           | 4.862                            | 4.720                              | 4.807                           |                                 |
|   | 6.349   | 5.279                             | 4.872                             | 5.072                            | 5.181                           | 4.892                            | 4.625                              | 4.822                           |                                 |
|   | 6.452   | 5.471                             | 4.854                             | 5.250                            | 5.143                           | 4.890                            | 4.633                              | 4.996                           |                                 |
|   | 6.593   | 5.520                             | 4.870                             | 5.495                            | 5.138                           | 4.596                            | 4.668                              | 5.143                           |                                 |
|   | 6.381   | 5.550                             | 5.258                             | 5.578                            | 5.091                           | 4.466                            | 4.708                              | 4.993                           |                                 |
|   | 6.389   | 5.633                             | 5.060                             | 5.459                            | 5.087                           | 4.383                            | 4.652                              | 5.048                           |                                 |
|   | 6.444   | 5.491                             | 4.981                             | 5.380                            | 5.099                           | 4.360                            | 4.545                              | 5.000                           |                                 |
|   | 6.316   | 5.340                             | 4.890                             | 5.356                            | 5.028                           | 4.269                            | 4.553                              | 5.012                           |                                 |
|   |   |                                   |                                   |                                  | 5.072                           | 4.296                            | 4.609                              | 4.965                           |                                 |
|   | 6.547   | 5.208                             | 4.929                             | 5.368                            |                                 |                                  |                                    |                                 |                                 |
|   | 6.239   | 5.226                             | 4.957                             | 5.412                            | 5.087                           | 4.407                            | 4.585                              | 5.044                           |                                 |
|   | 6.045   | 4.826                             | 4.830                             | 5.190                            | 4.905                           | 4.613                            | 4.561                              | 5.163                           |                                 |
|   | 5.887   | 4.783                             | 4.763                             | 5.226                            | 4.799                           | 4.668                            | 4.494                              | 5.214                           |                                 |
|   | 5.685   | 4.763                             | 4.909                             | 5.194                            | 4.929                           | 4.700                            | 4.518                              | 5.163                           |                                 |
|   | Repurchase Agreements<br>Interest Rates<br>(Range, Low to<br>High) <sup>3</sup> | 5.45<br>(10/29)<br>6.31<br>(10/3) | 4.36<br>(11/5)<br>6.00<br>(12/31) | 4.37<br>(4/21)<br>6.05<br>(3/31) | 4.50<br>(5/6)<br>5.77<br>(6/30) | 4.50<br>(10/19)<br>5.18<br>(8/6) | 4.31<br>(12/20)<br>4.90<br>(11/15) | 4.00<br>(4/6)<br>4.60<br>(3/31) | 4.30<br>(5/2)<br>5.25<br>(7/29) |

Table III (continued)

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|   | 1977<br>Aug.-Oct. | 1977-78<br>Nov.-Jan. | 1978<br>Feb.-Apr. | 1978<br>May-July | 1978<br>Aug.-Oct. | 1978-79<br>Nov.-Jan. | 1979<br>Feb.-Apr.  | 1979<br>May-July   | 1979<br>Aug.-Oct.  |
|---|-------------------|----------------------|-------------------|------------------|-------------------|----------------------|--------------------|--------------------|--------------------|
| Inactive Accounts<br>Int. Rate <sup>1</sup>                                     | 4.84%             | 5.50%                | 6.11%             | 6.39%            | 6.48%             | 7.31%                | 8.57% <sup>a</sup> | 9.38% <sup>a</sup> | 9.38% <sup>a</sup> |
| TD/OA Interest Rates <sup>2</sup>   | 5.424             | 6.278                | 6.440             | 6.460            | 6.895             | 8.454                | 9.324              | 9.498              | 9.154              |
|   | 5.353             | 6.187                | 6.476             | 6.464            | 6.808             | 9.028                | 9.186              | 9.621              | 9.320              |
|   | 5.669             | 6.092                | 6.452             | 6.318            | 6.887             | 8.593                | 9.257              | 9.506              | 9.495              |
|   | 5.553             | 6.084                | 6.460             | 6.476            | 7.267             | 8.696                | 9.293              | 9.744              | 9.599              |
|   |                   |                      |                   |                  | 7.232             | 9.166                |                    | 9.526              | 9.680              |
|   | 5.574             | 6.057                | 6.429             | 6.658            |                   |                      | 9.451              |                    |                    |
|   | 5.554             | 6.049                | 6.349             | 6.626            | 7.659             | 8.984                | 9.364              | 9.554              | 9.855              |
|   | 5.887             | 6.073                | 6.302             | 6.618            | 7.695             | 8.929                | 9.475              | 8.956              | 10.531             |
|   | 5.851             | 5.985                | 6.207             | 6.666            | 7.884             | 9.237                | 9.498              | 8.869              | 10.353             |
|   | 5.982             | 6.152                | 6.310             | 6.967            | 8.106             | 9.336                | 9.498              | 8.802              | 9.989              |
|   | 6.108             | 6.144                | 6.417             | 7.058            | 8.161             | 9.388                | 9.593              | 8.968              | 10.313             |
|   | 6.156             | 6.682                | 6.373             | 7.188            | 8.256             | 9.316                | 9.649              | 9.265              | 10.808             |
|   | 6.282             | 6.535                | 6.140             | 7.113            | 8.209             | 9.411                | 9.613              | 9.336              | 11.836             |
| 6.207   | 6.429             | 6.294                | 6.935             | 7.900            | 9.289             | 9.115                | 9.479              | 12.932             |                    |
| Repurchase Agreements<br>Interest Rates<br>(Range, Low to<br>High) <sup>3</sup> | 5.18<br>(8/1)     | 5.90<br>(11/22)      | 6.25<br>(3/29)    | 6.25<br>(5/11)   | 7.20<br>(8/15)    | 8.94<br>(11/1)       | 8.551<br>(4/26)    | 8.951<br>(7/30)    | 8.901<br>(8/1)     |
|   | 6.65<br>(10/18)   | 6.45<br>(1/16)       | 6.55<br>(4 days)  | 7.60<br>(6/30)   | 8.88<br>(10/30)   | 10.17<br>(1-2-79)    | 10.07<br>(4/16)    | 10.125<br>(6/1)    | 15.355<br>(10/23)  |

Table III (continued)

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|   | <u>1979-80</u><br><u>Nov.-Jan.</u>   | <u>1980</u><br><u>Feb.-Apr.</u> | <u>1980</u><br><u>May-July</u> | <u>1980</u><br><u>Aug.-Oct.</u> | <u>1980-81</u><br><u>Nov.-Jan.</u> | <u>1981</u><br><u>Feb.-Apr.</u> |
|---|--|---------------------------------|--------------------------------|---------------------------------|------------------------------------|---------------------------------|
| Inactive Accounts<br>Int. Rate <sup>1</sup> | 9.67% <sup>a</sup>   | 11.84% <sup>a</sup>             | 13.35% <sup>a</sup>            | 9.62% <sup>a</sup>              | 9.15% <sup>a</sup>                 | 13.61% <sup>a</sup>             |
| TD/OA Interest Rates <sup>2</sup>           | 12.256   | 12.086                          | 10.788                         | 8.877                           | 13.344                             | 14.657                          |
|   | 12.098   | 12.307                          | 9.728                          | 8.723                           | 13.514                             | 15.397                          |
|   | 12.026   | 13.162                          | 8.604                          | 9.411                           | 14.309                             | 15.464                          |
|   | 11.944   | 13.700                          | 8.953                          | 10.025                          | 14.384                             | 14.103                          |
|   | 11.018   |                                 | 7.675                          |                                 |                                    |                                 |
|   | 11.927   | 15.136                          | 8.035                          | 10.124                          | 14.649                             | 14.463                          |
|   | 12.054   | 15.381                          | 6.500                          | 10.060                          | 16.335                             | 13.996                          |
|   | 12.228   | 15.053                          | 6.369                          | 10.638                          | 16.667                             | 12.758                          |
|   | 12.074   | 16.532                          | 7.077                          | 10.460                          | 14.992                             | 12.695                          |
|   | 12.105   | 15.037                          | 8.149                          | 11.524                          | 13.908                             | 12.501                          |
|   | 11.943   | 14.424                          | 8.209                          | 11.295                          | 13.601                             | 14.147                          |
|   | 11.904   | 13.818                          | 8.169                          | 11.338                          | 15.318                             | 13.783                          |
|   | 12.189   | 12.731                          | 7.880                          | 11.413                          | 15.595                             | 13.553                          |
|   | 12.038   |                                 | 8.221                          | 12.331                          | 15.199                             | 14.190                          |
|   | Repurchase Agreements<br>Interest Rates (Range,<br>Low to High) <sup>3</sup> | 8.251<br>(11-6)                 | 10.501<br>(2-12)               | 6.341<br>(5-23)                 | 7.250<br>(8-1)                     | 9.000<br>(11-4)                 |
| 13.626<br>(12-13)                           |  | 18.601<br>(4-7)                 | 11.600<br>(5-2)                | 12.670<br>(10-31)               | 19.421<br>(12-11)                  | 17.181<br>(2-3)                 |



Table III (continued)

- 4 -

|  | <u>1981</u><br><u>May-July</u> | <u>1981</u><br><u>Aug.-Oct.</u> | <u>1981-82</u><br><u>Nov.-Jan.</u> | <u>1982</u><br><u>Feb.-Apr.</u> | <u>1982</u><br><u>May-July</u> | <u>1982</u><br><u>Aug.-Oct.</u> | <u>1982-83</u><br><u>Nov.-Jan.</u> |
|--|--------------------------------|---------------------------------|------------------------------------|---------------------------------|--------------------------------|---------------------------------|------------------------------------|
| Inactive Accounts<br>Int. Rate <sup>1</sup>                                  | 14.39% <sup>a</sup>            | 14.91% <sup>a</sup>             | 15.05% <sup>a</sup>                | 11.75% <sup>a</sup>             | 12.80% <sup>a</sup>            | 12.42% <sup>a</sup>             | 9.32% <sup>a</sup>                 |
| TD/OA Interest Rates <sup>2</sup>  | 15.963                         | 15.674                          | 12.695                             | 13.850                          | 12.675                         | 9.633                           | 7.813                              |
|  | 16.433                         | 15.235                          | 11.128                             | 14.099                          | 12.248                         | 10.025                          | 7.964                              |
|  | 16.034                         | 15.705                          | 10.693                             | 14.740                          | 12.189                         | 8.616                           | 8.446                              |
|  | 16.750                         | 15.832                          | 10.560                             | 12.430                          | 11.480                         | 7.748                           | 7.944                              |
|  | 15.456                         | 15.583                          | 10.400                             | 12.450                          | 11.520                         | 8.604                           | 8.280                              |
|  | 14.982                         | 15.611                          | 10.404                             | 12.058                          | 12.074                         | 8.565                           | 7.956                              |
|  | 13.451                         | 14.412                          | 11.101                             | 12.909                          | 12.248                         | 8.161                           | 7.995                              |
|  | 14.337                         | 14.198                          | 11.037                             | 12.553                          | 12.588                         | 7.849                           | 7.857                              |
|  |                                |                                 | 11.690                             |                                 |                                | 7.801                           | 7.975                              |
|  | 13.909                         | 14.669                          | 11.658                             | 13.399                          | 13.269                         | 8.102                           | 7.896                              |
|  | 14.400                         | 14.206                          | 12.121                             | 12.893                          | 12.806                         | 7.429                           | 7.671                              |
|  | 14.558                         | 13.526                          | 12.505                             | 12.849                          | 11.797                         | 7.437                           | 7.619                              |
|  | 15.563                         | 13.613                          | 13.364                             | 12.497                          | 11.140                         | 8.031                           |                                    |
|  | 15.065                         | 13.352                          |                                    | 12.469                          | 10.559                         |                                 |                                    |
| Repurchase Agreements<br>Interest Rates (Range,<br>Low to High) <sup>3</sup> | 8.251<br>(7-29)                | 6.151<br>(9-30)                 | 5.201<br>(12-31)                   | 8.000<br>(3 times)              | 6.151<br>(7-28)                | 10.625<br>(8-5)                 |                                    |
|  | 20.350<br>(6-5)                | 19.281<br>(8-18)                | 14.051<br>(11-4)                   | 15.950<br>(4-2)                 | 15.718<br>(5-4)                | 2.000<br>(2 times)              |                                    |

- 1) Based on 100 percent of the average market yield before taxes of 91-day U.S. treasury bills during the three months preceding the monthly meeting of the Pooled Money Investment Board prior to each quarterly interest period.
  - 2) TD/OA's earn interest at a rate equal to the average yield before taxes on 91-day U.S. treasury bills as determined at the most recent (weekly) public offering of such bills prior to each particular deposit. The rate does not change weekly for pre-existing deposits.
  - 3) Investments in repos are made virtually every week-day and over week-ends. The interest rate is the best bid or combination of bids submitted by banks in Kansas. Rates bid vary from day to day. When there is a large difference between the low and high interest rates, the low rate typically applies to a small repo bid late in a day.
- a) 8.0 percent on deposits of less than \$100,000.

Note: The inactive accounts interest rate will be 7.90 percent for the quarter beginning February 1, 1983.

TABLE IV  
EARNINGS FROM INVESTMENTS AND BANK DEPOSITS\*  
In Thousands

| Fiscal Year | To State General Fund |          |                     |              |                   |        |                     | To Contribution Fund | To Fed. Revenue Sharing Fund |
|-------------|-----------------------|----------|---------------------|--------------|-------------------|--------|---------------------|----------------------|------------------------------|
|             | Inactive Accounts     | TD/OA's  | Repos               | Treas. Bills | Contribution Fund | Miscl. | Total               |                      |                              |
| 1969        | \$ 6,318              | \$ 1,063 | --                  | --           | --                | --     | \$ 7,381            | --                   | --                           |
| 1970        | 7,981                 | 1,154    | --                  | --           | --                | --     | 9,135               | --                   | --                           |
| 1971        | 9,431                 | 558      | --                  | --           | --                | --     | 9,989               | --                   | --                           |
| 1972        | 6,017                 | 576      | --                  | --           | --                | --     | 6,593               | --                   | --                           |
| 1973        | 4,592                 | 1,078    | --                  | 280          | --                | 33     | 5,983               | --                   | 278                          |
| 1974        | 10,509                | 4,179    | --                  | 497          | --                | 29     | 15,214              | 926 <sup>b</sup>     | 2,191                        |
| 1975        | 21,278                | 3,785    | 58                  | 58           | --                | 26     | 25,205              | 1,056 <sup>b</sup>   | 3,259                        |
| 1976        | 24,468 <sup>a</sup>   | 4,004    | 893                 | --           | 787 <sup>b</sup>  | 23     | 30,175 <sup>a</sup> | --                   | 2,623                        |
| 1977        | 16,149                | 3,140    | 1,135               | --           | --                | 94     | 20,518              | --                   | 2,230                        |
| 1978        | 15,574                | 7,017    | 2,286               | --           | --                | 86     | 24,963              | --                   | 1,796                        |
| 1979        | 23,621                | 11,059   | 5,865               | --           | --                | 96     | 40,641              | --                   | 2,941                        |
| 1980        | 40,486                | 14,060   | 7,388               | --           | --                | 115    | 62,048              | --                   | 2,962                        |
| 1981        | 49,104                | 6,363    | 8,593               | --           | --                | 92     | 64,153              | --                   | 3,035                        |
| 1982        | 52,231                | 5,731    | 10,015 <sup>c</sup> | --           | --                | 86     | 68,062              | --                   | 3,846                        |

\* Under the state moneys law and the federal revenue sharing fund law. Does not include earnings from investments authorized by other laws, except for minor miscellaneous revenue credited to the General Fund. Details may not add to totals due to rounding.

a) Includes one-time gain from change to quarterly interest period, i.e., semi-annual payment in August, 1975 plus quarterly payments in November, February, and May.

b) Prior to FY 1974 and beginning again in FY 1977, moneys received for the contribution (social security) fund established by K.S.A. 40-2307 were invested, prior to remittance to the federal government, along with other state moneys and interest was credited to the General Fund. In FY's 1974 and 1975, moneys in the contribution fund were invested by the director of accounts and reports and interest was credited to such fund and used to defray administrative expenses. In FY 1976, the contribution fund was invested separately by the PMIB, but interest was credited to the General Fund. The figures in the contribution fund columns include earnings from both CD's and repos.

c) Excluding earnings attributable to balances in dormitory funds of Regents' institutions.

TABLE V

AMOUNTS IN STATE ACTIVE ACCOUNTS AND IN SELECTED TYPES OF INVESTMENTS  
WITH KANSAS BANKS AT END OF FISCAL YEARS 1969 AND 1982

In Millions

| 1                                 | 2                                   | 3                            | 4                                      | 5                                | 6                               | 7   | 8                                | 9   |
|-----------------------------------|-------------------------------------|------------------------------|--|----------------------------------|---------------------------------|---|----------------------------------|---|
| <u>End of<br/>Fiscal<br/>Year</u> | <u>Active<br/>Bank<br/>Accounts</u> | <u>Inactive<br/>Accounts</u> | <u>Time Deposit,<br/>Open Accounts</u> | <u>Repurchase<br/>Agreements</u> | <u>Subtotal<br/>(Cols. 2-5)</u> | <u>Federal<br/>Revenue<br/>Sharing<br/>Fund</u> | <u>Total<br/>(Cols. 6 and 7)</u> | <u>Total State<br/>Budget<br/>(All Funds)</u> |
| 1969                              | \$ 45.3                             | \$ 205.1                     | \$ 10.0                                | --                               | \$ 260.4                        | --  | \$ 260.4                         | \$ 666.9                                      |
| 1982                              | 4.7                                 | 353.8                        | 25.0                                   | 58.5                             | 441.9                           | 24.6  | 466.5                            | 2,641.2                                       |
| Increase, 1969-1982               |                                     |                              |  |                                  | 181.5<br>69.7%                  | 24.6<br>—                                       | 206.1<br>79.1%                   | 1,974.3<br>296.0%                             |

TABLE VI

SUMMARY OF INVESTMENT PROCEDURE UNDER THE CURRENT STATE MONEYS LAW

Data as of  
January 18, 1983

|                               |   |  |
|-------------------------------|---|--|
| 1. ACTIVE ACCOUNTS            | <p>PMIB* solicits proposals and determines which banks (one or more) will receive active or demand accounts, the total amount of awards (limit \$40 million on deposit at any time) and the award to each bank, and what the average daily balance should be in order to compensate the banks which handle the daily transactions.</p>  | <p>→ 1 active bank</p> <p>→ \$5.05 million total award</p> <p>→ \$5.05 million target avg. daily balance</p>   |
| 2. INACTIVE ACCOUNTS          | <p>PMIB determines how much money can be deposited in inactive accounts for the first quarter of the one-year contract period, solicits proposals from all Kansas banks except those awarded an active account, and apportions the money available for deposit in proportion to each bank's combined capital, undivided profits, and surplus, as required by law.</p> <p>Inactive accounts earn interest at a rate equal to the average market yield before taxes on 91-day U.S. treasury bills during the three months prior to each quarterly interest period, unless a lower rate required by federal regulations.</p> | <p>\$245.3 million awarded to 611 banks for November-January</p> <p>→ 9.32% interest rate (November-January)</p> <p>→ 8% on deposits under \$100,000</p> |
| 3. TIME DEPOSIT/OPEN ACCOUNTS | <p>Banks having a combined capital, undivided profits, and surplus of \$8.5 million or more may accept TD/OAs. Deposits may be made in TD/OA's when (a) moneys in active accounts exceed 50 percent of the total active account awards, (b) moneys are available for not over 60 days in excess of the basic statutory limitation on active accounts, and (c) the PMIB is unable to deposit all moneys available for inactive accounts. Deposits under (a) and (b) must be in banks with \$8.5 million or more in capital, undivided profits, and surplus, but deposits under (c) may be in any Kansas bank or banks.</p> | <p>→ \$2.525 million (50 percent of \$5.05 million)</p> <p>→ \$40 million</p> <p>→ \$20.0 million on deposit under (a) and (b)</p>                       |

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\* Pooled Money Investment Board -- State Treasurer and two appointees of the Governor.

Data as of  
January 18, 1983

TD/OA's earn interest at a rate equal to the average yield on 91-day U.S. treasury bills, based on the most recent weekly public offering of such bills in effect at the time of each deposit.

7.975% avg. interest rate

4. SUPPLEMENTAL INACTIVE ACCOUNT DEPOSITS

During the 12-month contract period, inactive accounts must be supplemented if the active accounts exceed the statutory limitations thereon for 60 days. → \$40 million  
Supplemental deposits must be made on the basis of the initial apportionment of inactive accounts. In addition, the Board may supplement deposits at any time for one month or more during the award period.

5. REPURCHASE AGREEMENTS

When moneys are available for short-term investments, the PMIB may enter into repurchase agreements of less than 30 days duration with Kansas banks for direct or insured obligations of the U.S. government or any agency thereof, but only when it is impossible to make deposits in TD/OA's. Bids are solicited from 4 national or state banks located in 4 cities and the highest bid, or combination of bids, in terms of yield to the state is accepted.

\$93 million invested

7.969% avg. interest rate

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\$358.3 million invested

\$4.4 million in active account

## APPENDIX A

### SPECIAL FUNDS -- INVESTMENTS BY PMIB

Listed below are the special funds required to be invested by the Pooled Money Investment Board and the statutory citations thereto.

Debt Service Reserve Fund -- Secretary of Health and Environment (K.S.A. 12-3718). Article 37 of Chapter 12, KSA, relates to sewage disposal facilities of local units of government for which the Secretary may issue revenue bonds to provide grants to such units. Moneys in the Debt Service Reserve Fund may be invested in obligations of the United States or obligations which are guaranteed as to principal and interest by the United States, in interest bearing time deposits of banks or trust companies located in Kansas, or, if it is impossible to invest in such time deposits, in repurchase agreements of less than 30 days duration with a Kansas bank for direct or insured obligations of the United States or any agency thereof. The law permits the PMIB to contract with one or more financial advisors who may perform the functions of the Board with respect to investments to the extent provided in the contract.

Self-Insurance Reserve Fund (KSA 12-3724). Use of moneys in this fund is prescribed by KSA 1981 Supp. 12-3723. Investment authority is the same as for the Debt Service Reserve Fund, above, except there is no provision for contracting with financial advisors.

Health Care Stabilization Fund (KSA 40-3406). Article 34 of Chapter 40, KSA, relates to health care provider liability insurance. Purposes of the stabilization fund are set forth in KSA 40-3403. Investment authority is the same as for the Debt Service Reserve Fund, above, but with no provision for contracting with financial advisors.

Real Estate Recovery Revolving Fund (KSA 1981 Supp. 58-3066). Payments from this fund are governed by KSA 58-3066 through 3073. Moneys in the fund may be invested in (1) direct or guaranteed obligations of the United States, (2) interest bearing time deposits in Kansas banks or trust companies, not to exceed an amount equal to the capital and surplus of any such institution, which deposits must be secured as prescribed by KSA 75-4218, (3) repurchase agreements of less than 30 days duration with a Kansas bank for direct or insured obligations of the United States or any agency thereof, but only if it is impossible to invest available moneys in time deposits, or (4) shares or accounts in savings and loan associations insured by the FSLIC or other federal agency, to the extent covered by such insurance.

Freeway Construction Fund and Freeway Fund (KSA 68-2311). Moneys in the Freeway Construction Fund may be invested only in direct or guaranteed obligations of the United States, in interest bearing time deposits of Kansas banks or trust companies, or, if it is impossible to invest in such time deposits, in repurchase agreements of less than 30 days duration with a Kansas bank for direct or insured obligations of the United States or any agency thereof.



Investments of moneys in the Freeway Fund are governed by the "prudent man rule," except no moneys may be invested in common stock of any foreign or domestic corporation.

The PMIB is allowed to contract with one or more financial advisors who may perform the functions of the Board with respect to investment of moneys in either fund to the extent provided in the contract.

All Sports Hall of Fame Trust Fund (KSA 74-2913). Investment authority is the same as for the Debt Service Reserve Fund (see page 1 of this Appendix).

Jane C. Stormont Perpetual Endowment Fund (KSA 75-2527). Investment authority is the same as for the Debt Service Reserve Fund (see page 1 of this Appendix), plus authority to invest in insured savings and loan associations to the extent of insurance provided by the FSLIC.

Bonds Issued by the Secretary of Administration (KSA 1981 Supp. 75-3636). The PMIB was directed to purchase bonds issued for acquisition by the state of property between 5th and 6th streets on Kansas Avenue in Topeka. To purchase such bonds, the Board was authorized to use any moneys in the state's active or time deposit/open accounts. Interest on the bonds is a rate equal to the interest rate paid on state inactive accounts at the time such bonds were issued; the interest is credited to the State General Fund.

Bonds Issued by State Agencies — Surplus Proceeds and Surplus Reserves (KSA 75-4254). Moneys not immediately needed from the sale of bonds or in sinking or reserve funds shall be invested by the PMIB unless some other agency or person is required to invest the moneys by terms of the applicable bond statute, trust agreement, indenture or resolution. The investment authority is the same as for the Real Estate Recovery Revolving Fund (see page 1 of this Appendix).

Bond Proceeds — State Park and Resources Authority (KSA 74-4515). Revenue bond proceeds not currently needed may be invested in obligations of the United States which shall mature within one year from the date of purchase, in interest bearing time deposits in Kansas banks or trust companies, or, if it is impossible to invest in such time deposits, in repurchase agreements in less than 30 days duration with a Kansas bank for direct or insured obligations of the United States or any agency thereof. No such bonds have been issued.

All Faiths Chapel Building Fund of the State Penitentiary (KSA 76-2473). Investment authority is the same as for the Real Estate Recovery Revolving Fund (see page 1 of this Appendix).

Fish and Game Conservation Fund (Laws 1982, Ch. 171). Investment authority is the same as for the Debt Service Reserve Fund (see page 1 of this Appendix), except there is no provision for contracting with financial advisors.

POOLED MONEY INVESTMENT BOARD  
ANNUAL REPORT OF INVESTMENTS  
FOR FISCAL YEAR 1982

January 13, 1983

Atch. B

ANNUAL REPORT TO THE LEGISLATURE  
FOR FISCAL YEAR 1982

Pursuant to K.S.A. 75-4222(d), we respectfully submit this report of investments for fiscal year 1982, prepared by the staff of the Pooled Money Investment Board.

The investments are segregated in this report in two major categories, the first being "State Idle Funds," which represents the balance of moneys in the state treasury not needed for payment of demands and charges for pre-determined lengths of time, from which all interest income received is deposited to the state general fund according to law. The second category is, "Special Funds." This represents the investment of moneys belonging to funds having independent investment authority and requirements provided by statute and pertinent bond covenants, and interest income is deposited to funds other than the state general fund.

STATE IDLE FUND INVESTMENTS

All state idle fund investments were made pursuant to the state moneys law, Chapter 75, Article 42, Kansas Statutes Annotated, as amended, which provides the board with three investment tools with which to operate. i.e., inactive accounts (long-term), time deposit, open accounts (intermediate-term) and repurchase agreements (short-term). Each of these is summarized below as well as a brief review of the active accounts which are non-interest bearing. First, however, the following general review is provided.

Interest rates remained quite high throughout the year, however, the trend was downward, reversing the general direction that has existed over

the past several years. The weekly auction rate and the weekly average market yield on the 91-day United States Treasury bill exemplify this, being in the 14 to 15 percent range early in the year and generally in the 11 to 12 percent range during the latter part of the year.

The average rate of interest earned on all idle fund investments during the year was 14.026%.

Although total available moneys were down more than \$70 million (-12.4%) on an average each day throughout the year, high interest rates and our continuation of maximizing the return on investments and minimizing uninvested cash produced a record \$68.2 million interest income deposited to the general fund during the year. This represents a 6.4% increase in interest income over the preceding fiscal year. 98.7% of all idle funds were invested throughout FY 1982, compared to 98.6% in FY 1981.

Various amendments to the state moneys law were sought by the Pooled Money Investment Board and enacted by the 1982 Legislature. The following provisions became effective during fiscal year 1982:

- (a) Reduction of the minimum term for investments in time deposit, open accounts from 30 days to the minimum term allowed by the Federal Reserve, which is 14 days, except may be seven days when certain conditions exist.
- (b) Authority for Kansas state-chartered banks to enter into repurchase agreements with the PMIB under any statute authorizing the board to invest in repurchase agreements with a Kansas bank.

## INACTIVE ACCOUNTS

Inactive accounts provide the longest investment term allowed by law which is up to one year. All state and national chartered banks and trust companies located in Kansas, except any awarded a state active account, are eligible for an inactive account. Contracts for accounts are arranged for annually effective on August 1st. Moneys are apportioned in accordance with statutory formula and earn interest at rates established pursuant to law. Interest is paid on a quarterly basis. During the year, all moneys were placed in one year certificates of deposit.

On July 1, 1981, the inactive account balance was \$432,728,000.00 in 610 of the 620 banks and trust companies. The remaining ten consisted of seven banks which chose not to participate in the inactive program and three which were awarded active accounts.

On July 31, 1981, two Concordia banks merged reducing the total number of banks in Kansas to 619. Total dollars on deposit remained unchanged.

On August 1, 1981, the board renegotiated contracts for inactive accounts and placed a total of \$353,867,000.00 in 608 Kansas banks. Eight banks chose not to participate and three were awarded active accounts.

The balance was further reduced to \$353,751,000.00 on February 1, 1982, due to the closing of one account, and remained at that level through the end of the fiscal year.

Applicable interest rates for the year ranged from 14.39% in July to 14.91% in August, September and October; 15.05% for November, December and January; 11.75% for February, March and April; and 12.80% in May and June. Throughout the year, certificates of deposit issued in amounts of less than

\$100,000.00 representing generally about 1.6% of the total inactive accounts, were restricted by Federal Regulation Q to 8.00% per annum.

ACTIVE ACCOUNTS

During the month of July of this fiscal year, active accounts were maintained with three Kansas banks as set out below, under contracts initially established on August 1, 1979 and extended on August 1, 1980.

|                              | <u>Awards<br/>(Millions)</u> | <u>% of Total<br/>Awards</u> | <u>Avg. Daily<br/>Balance<br/>(Millions)</u> |
|------------------------------|------------------------------|------------------------------|--|
| First National Bank, Topeka  | \$ 22.0                      | 44.0                         | \$ 3.4                                       |
| Merchants Nat'l Bank, Topeka | 22.0                         | 44.0                         | 3.4  |
| Fourth Nat'l Bank, Wichita   | <u>6.0</u>                   | <u>12.0</u>                  | <u>.9</u>                                    |
| Totals                       | \$ 50.0                      | 100.0                        | \$ 7.8                                       |

Effective August 1, 1981, the board awarded active accounts that were maintained throughout the remaining eleven months of the fiscal year, as follows:

|                              | <u>Awards<br/>(Millions)</u> | <u>% of Total<br/>Awards</u> | <u>Avg. Daily<br/>Balance<br/>(Millions)</u> |
|------------------------------|------------------------------|------------------------------|--|
| First National Bank, Topeka  | \$ 31.7                      | 83.4                         | \$ 5.0                                       |
| Merchants Nat'l Bank, Topeka | 5.0                          | 13.2                         | .8   |
| First National Bank, Larned  | <u>1.3</u>                   | <u>3.4</u>                   | <u>.2</u>                                    |
| Totals                       | \$ 38.0                      | 100.0                        | \$ 6.0                                       |

TIME DEPOSITS, OPEN ACCOUNTS

This is the intermediate-term investment tool provided for idle funds. During the fiscal year, moneys were deposited in TDOAs in the banks having active accounts, in amounts and at interest rates determined pursuant



to statutory provision. Investment terms ranged from 14 to 44 days during the year.

There were no moneys on deposit in TDOAs throughout the first month of the fiscal year. On August 4th, \$76 million was deposited and continued at this amount for four months. During the next five months, the amount on deposit ranged from 10 to \$50 million before reaching a zero balance for one week in early June and closed the year with \$25 million on deposit.

Applicable interest rates ranged from 10.400% to 15.583%.

#### REPURCHASE AGREEMENTS

Repurchase Agreements, commonly known as "repos", are the short-term investment tool provided for idle funds for terms of less than thirty days, whereby the board makes arrangements with a Kansas bank for the purchase of direct or insured obligations of the United States Government or any agency thereof which the seller agrees to buy back on a specified date at an agreed rate of return.

For the majority of FY 82 security requirements remained unchanged from those in FY 81, i.e., obligations with maturities of less than one year, to be valued at 100% of market value; obligations with maturities of one year to not more than four years, 103% of market value; and obligations with maturities from four years to not more than seven years, 105% of market value.

In June of 1982, the board amended the security requirements to 100% of market value for obligations with maturities of one year or less and 103% of market value for obligations with maturities of more than one year but less than three years.

The amounts invested in repos ranged from \$8 million to \$180 million during the year.

Generally interest rates earned on repos were in the 16 to 19% area during the first two months of the year when they began to weaken somewhat in late August and continued downward through September reaching the 10% level in early October. An upswing in mid-October provided rates up to 15% before again declining to the 11% level in December. January through mid-April saw a general increase, again reaching the 15% level before dropping to the 12 to 13% range through the balance of the year.

Repos were transacted daily through competitive bid process. Bids were solicited by telephone from three to four banks located in Kansas City, Salina, Topeka and Wichita. At fiscal year's end, four banks were participating in the repo program. The terms for repos during the year ranged from one to five days. The board's established policy limits the term to one day with the exception of weekends and holidays.

The following presents a comparative statement of state idle funds showing: (1) the average daily balance maintained, (2) the interest received, and (3) the average weighted annualized rate of return realized on interest income received, for fiscal years 1981 and 1982:

|                          | Average Daily Balance<br>(000) |                  | Int. Income Received<br>(000) |                 | Avg. Rate of Return on Int. Income Rec'd (%) |              |
|--------------------------|--------------------------------|------------------|-------------------------------|-----------------|--|--------------|
|                          | FY 82                          | FY 81            | FY 82                         | FY 81           | FY 82  | FY 81        |
| Active Accounts          | \$ 6,152                       | \$ 7,801         | \$ N/A                        | \$ N/A          | N/A  | N/A          |
| Inactive Accounts        | 360,517                        | 432,618          | 52,232                        | 49,105          | 13.98  | 11.34        |
| Time Deposit, Open Accts | 42,540                         | 55,502           | 5,732                         | 6,363           | 13.84  | 10.66        |
| Repurchase Agreements    | 71,343                         | 62,105           | 10,283                        | 8,593           | 14.40  | 13.83        |
| Totals                   | <u>\$480,552</u>               | <u>\$558,026</u> | <u>\$68,247</u>               | <u>\$64,061</u> | <u>14.03</u>                                 | <u>11.54</u> |

## SPECIAL FUNDS

Special funds were invested during the year as provided by the appropriate statutes and/or bond indentures, where applicable. It should be noted that three funds were either wholly or partially managed by financial managers employed by the board, as authorized by law.

The amount of return from the investment of special funds is restricted due to statutory or particular bond covenant limitations as to types of investments that may be purchased and/or the rate of interest being set by statutory provision.

Some funds have investment options authorized which allow the board to maximize the return within the authorized limits primarily through investments in Kansas banks, by way of an established competitive bid program.

On June 30, 1982, there was nearly \$293 million in special funds invested by in-house management. Interest income from the investments of each of the special funds is deposited into the particular fund unless otherwise stated in the following review of the respective funds.

### Federal Revenue Sharing

During FY 1982, the federal revenue sharing funds continued to be invested in time deposit, open accounts in Kansas banks apportioned on a formula based on the bank's holdings of Kansas state and municipal bonds. The rate of interest applicable to these time deposit, open accounts is the same as the state inactive account rate pursuant to statutory provision. On June 30, 1982, revenue sharing deposits totaled \$24,624,962.79 in 90 Kansas banks as compared to \$30,558,422.12 on June 30, 1981 in 329 banks. Withdrawals of nearly \$9.9 million were made from invested moneys during

the year to meet obligations of the fund. Total interest income deposits during the year were \$3,845,889.01 while FY 1981 interest income was \$3,035,043.71.

#### Bonds Issued by the Director of Architectural Services

The outstanding bonds owned by the board on June 30, 1982, totaled \$910,000.00 which represented only those on the property located at 503 Kansas Avenue. The bond issue for 535 Kansas Avenue property was retired in September, 1982. The rate of interest applicable to these issues, established by statutory provision, was 2.9% on the 535 Kansas Avenue property and 5.39% on the 503 Kansas Avenue property. Total interest income received from the above two issues during FY 82 was \$54,928.50.

#### Surplus Proceeds and Surplus Reserves

These investments are bond proceeds and debt service moneys not immediately needed to pay obligations. Many of these funds have restrictions set out in the particular bond covenants limiting the investments to United States obligations, while others, in addition may authorize investments in time deposits with Kansas banks. In most cases where the broader authority was provided, the board was able to obtain a better return through the competitive bid program.

Whenever possible, the board pooled the moneys of the various funds for investments thereby providing a maximum return to the funds involved.

The total amount invested on June 30, 1982, was \$26,139,121.96 at an average annualized rate of 13.80%.

The following summarizes the investments purchased (at cost) and the income received during FY 1982:

|                     | U.S. Govt.<br>Sec. Purch. | Bank C.D.s<br>Purchased | Total<br>Purchased  | Income<br>Received  |
|---------------------|---------------------------|-------------------------|---------------------|---------------------|
| Emporia State Univ. | \$ 720,017                | \$ -0-                  | \$ 720,017          | \$ 117,572          |
| Ft. Hays St. Univ.  | 1,155,183                 | 1,523,000               | 2,678,183           | 196,678             |
| Kansas St. Univ.    | 3,805,704                 | 250,060                 | 4,055,764           | 734,583             |
| Pittsburg St. Univ. | 366,038                   | -0-                     | 366,038             | 38,887              |
| Univ. of Kansas     | 9,834,621                 | 2,665,877               | 12,500,498          | 1,344,411           |
| KU Med. Center      | 5,392,457                 | 3,550,700               | 8,943,157           | 623,597             |
| Wichita St. Univ.   | 5,176,548                 | -0-                     | 5,176,548           | 300,189             |
| Totals              | <u>\$26,450,568</u>       | <u>\$ 7,989,637</u>     | <u>\$34,440,205</u> | <u>\$ 3,355,917</u> |

#### Self-Insurance Reserve Fund

The Board has continued to invest these moneys in Kansas banks through the competitive bid process, however, six investments were in United States treasury bills which provided the best yield at the time. The maturing investments provided interest income totaling \$383,488.11 of which \$377,371.69 was invested and \$6,116.42 was deposited to the state treasury during the year. The invested balance on June 30, 1982 was \$3,420,089.70 at an average rate of 15.50%.

#### Real Estate Recovery Revolving Fund

This fund was invested in a Kansas bank through the competitive bid process for a term of one year. Interest income earned during the year totaled \$24,914.38, leaving an invested balance of \$181,687.85 on June 30th at the rate of 16.20%.

#### All-Faiths Chapel Building Fund

The balance in this account on June 30, 1981 was \$65,597.05. Interest income received during the year of \$9,093.32 increased the invested balance to \$74,690.37 on June 30, 1982. At year's end the fund was invested in a six-

month money market certificate of deposit in a Kansas bank, at the rate of 13.493%.

All-Sports Hall of Fame Trust Fund

Due to demands on the fund, a reduction in principal of \$4,858.37 was made on October 1, 1981. The invested balance on June 30, 1982 of \$21,056.97 was in a six-month money market certificate of deposit at the rate of 13.493%. The fund earned interest in the amount of \$2,983.82 during FY 1982.

Jane C. Stormont Perpetual Endowment Fund

This fund has a permanent balance of \$5,000.00. All investments are in United States Government securities. Pursuant to statute, interest received during the year from the investments, \$436.26, was deposited to the Stormont Library Fund.

Employment Security Benefit Fund

The investment of this custodial account is limited by statute to interest bearing deposits in Kansas banks or repurchase agreements with Kansas banks.

The initial investment of the fund occurred on January 4, 1982 and continued to be invested daily for the remainder of the year in repurchase agreements. Total earnings of \$225,774.72 was produced on an average daily invested balance of \$3,368,000. The average annualized rate of return was 13.824%.

Health Care Stabilization Fund

Investments totaling \$13,285,875.24 matured during the year, most of which was reinvested upon maturity. The invested balance on June 30, 1982, was \$11,963,432.00 at an average annualized rate of 14.57%. Sixty

percent of the balance was in Kansas banks placed through competitive bid process and the remainder in United States Government securities.

Total interest income received and deposited to the fund during FY 1982 was \$1,751,092.25.

#### Secretary of Health and Environment Debt Service Reserve Fund

This fund is required to be maintained in an amount adequate to meet the maximum debt service requirements of all outstanding bonds issued pursuant to Chapter 12, Article 37 of Kansas Statutes Annotated, as amended. Usage of the moneys in this fund is restricted to debt retirement and redemption of premiums. Investments are authorized in U.S. Government securities and with Kansas banks in time deposits or repurchase agreements.

The board maintained a contract throughout the year with First National Bank of Topeka as trustee and financial advisor. Total assets with the trustee/advisor on June 30, 1982 were \$302,863.41. Total interest received during the year was \$30,657.82.

#### State Freeway Construction Fund

On July 1, 1981 invested balance of this account was \$125.3 million and was invested both in-house and by four outside managers.

In December of 1981, the board assumed management of all cash and securities from the outside managers totaling approximately \$29 million and continued management of the entire fund in-house throughout the remainder of the fiscal year.

During the year \$15 million was withdrawn from invested moneys and deposited to the construction fund in the state treasury for use by the Department of Transportation for payment of construction expenses and related obligations of the fund.

The invested balance of the fund on June 30, 1982 was \$110.1 million, having the following asset diversification:

|                             | <u>Cost<br/>(millions)</u> | <u>Percent<br/>of Total</u> |
|-----------------------------|----------------------------|-----------------------------|
| U.S. Government Obligations | \$ 43.3                    | 39.3                        |
| Kansas Bank C.D.s           | 41.8                       | 38.0                        |
| Repurchase Agreements       | <u>25.0</u>                | <u>22.7</u>                 |
| Total                       | <u>\$ 110.1</u>            | <u>100.0%</u>               |

The average income rate of return for the fiscal year was 13.2%. Income totaling \$14 million was transferred to the State Freeway Fund during the year in accordance with statutory provision.

State Freeway Fund

The primary purpose of this fund is to provide moneys to service the debt for highway bonds issued pursuant to Chapter 68, Article 23 of Kansas Statutes Annotated. A major source of revenue is derived from a percentage of the state gasoline tax receipts. All interest and other income from the investment of this fund and the net interest and other income from the investment of the state freeway construction fund is deposited to this fund. Also, \$5,365,948.51 was transferred from the state general fund to this fund during the fiscal year. This amount represents the proportionate share of interest credited to the state general fund that was attributable to moneys in the state highway fund, pursuant to K.S.A. 68-2313. Additionally, \$20.4 million was transferred from the state highway fund to this fund during the year to return the \$20 million transferred out in fiscal year 1981, plus interest, pursuant to Chapter 260, Laws of 1981.



Statutes provide for investments of this fund to be made under the prudent-man rule, excluding investments in common stock. For eleven months of the year, the board retained three money managers and custodians of assets: Security National Bank, Kansas City, First National Bank, Topeka and Fourth National Bank and Trust Co., Wichita. Management of all securities and cash was assumed by the board on May 28, 1982.

During the year \$20.8 million was transferred to the Bond Service and Interest Sinking Funds to meet debt service requirements.

Total assets in the fund increased from \$64.4 million at the beginning of the fiscal year to \$111.0 million on June 30, 1982.

The asset diversification on June 30 was as follows:

|                             | <u>Cost<br/>(million)</u> | <u>Percent<br/>of Total</u> |
|-----------------------------|---------------------------|-----------------------------|
| U.S. Government Obligations | \$ 24.5                   | 22.1                        |
| Agencies                    | 3.0                       | 2.7                         |
| Corporate Securities        | 21.8                      | 19.6                        |
| Repurchase Agreements       | <u>61.7</u>               | <u>55.6</u>                 |
| Total                       | <u><u>\$111.0</u></u>     | <u><u>100.0%</u></u>        |

The average rate of return for the fiscal year was 13.4%. Total income for the year was \$9.1 million.

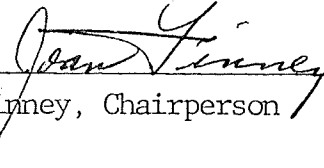
#### Performance Evaluation

The board has complied with K.S.A. 68-2311(h) by providing for performance evaluation of the state freeway fund and the freeway construction fund money managers throughout FY 82. The measurements are performed on a

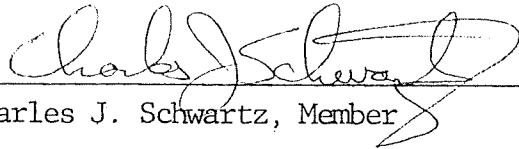
quarterly basis pursuant to contractual agreement.

Respectfully submitted,

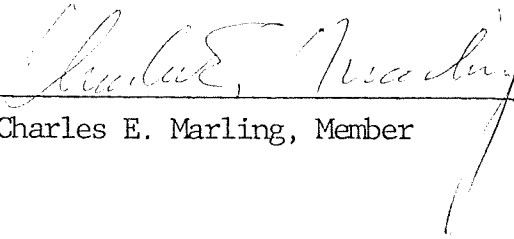
POOLED MONEY INVESTMENT BOARD



Joan Finney, Chairperson



Charles J. Schwartz, Member



Charles E. Marling, Member