

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by Senator Paul Hess at \_\_\_\_\_  
Chairperson

11:00 a.m./p.m./ on March 1, 1983, 19\_\_ in room 123-S of the Capitol.

All members were present except:

## Committee staff present:

Research Department: Richard Ryan, Marlin Rein, Sherry Brown, Mary Galligan  
Revisor's Office: Norman Furse  
Committee Office: Mark Skinner, Doris Fager

## Conferees appearing before the committee:

Senator Tom Rehorn  
Peter Rickards, President, J. C. Penney Financial Corporation, Wilmington, Del.  
John Moyer, Budget Director, City of Kansas City, Kansas  
Jim Maag, Kansas Bankers Association  
Mary Ellen Conlee, City of Wichita  
Bernie Hayen, Finance Director, City of Manhattan, Kansas  
Ernie Mosher, Kansas League of Municipalities

SB 164 - Public Moneys; allowing investment in short-term corporate obligations

Senator Rehorn stated that for many years Government has been criticize for not operating in a more business-like fashion. He suggested that SB 164 would enable local units of government to increase earnings on idle funds by investing in commercial paper. He said that commercial paper is monitored very well, and therefore is secure; purchasers of prime paper have experienced no losses since current ratings have been established, and when there is an investment in a company worth \$500 million it is a sensible investment. He then explained the provisions of the proposal. (See written testimony, Attachment D) There were questions from committee members following Senator Rehorn's presentation.

Mr. Moyer distributed an outline of his testimony (See Attachment A). There were questions from committee members following his testimony.

Mr. Hayen distributed his testimony (Attachment B). There were questions from members of the committee upon completion of his presentation.

Mr. Mosher appeared in support of SB 164. He answered questions from committee members, but had no written testimony.

Ms. Conlee said the City of Wichita supports the bill. There were questions from committee members.

Mr. Rickards noted that J. C. Penney Company employs over 9,000 people in the state of Kansas, and pays well in excess of \$3 million in taxes. Therefore, his company does not consider that they are outsiders in the state. He noted that J. C. Penney Financial Corporation is considered a direct issuer of corporate IOU's. He said if there was an imbalance of assets and liabilities, a company would be prohibited from selling its debts in the market place. He added that 90% to 95% of all commercial paper outstanding is sold by companies with top ratings.

Mr. Rickards continued by stating that he is very much supportive of the proposal being considered; and said that many states have passed this legislation--some as long as 25 years ago.

SB 164 - Continued

For the purpose of comparison, Mr. Rickards said he had looked through records to find how much other states put into commercial paper during the course of the year. Some states and their investments last year are: Pennsylvania, \$235 million; Teachers retirement funds, etc, \$450 million; California, \$250 million; Michigan, \$390 million; New Jersey, \$230 million; and Nebraska, \$36 million. He said he is not always aware when a state is buying J. C. Penney's paper, because they may go through banks to get the rates. He explained that the underlying credit is the security of the company being dealt with, and this has been measured by rating agencies very effectively for years.

Mr. Rickards noted that someone had inquired about staff needed who know something about commercial paper. He said it is his understanding there is a participating Board that handles pooled funds for the State of Kansas, and he would assume that expertise is already in place.

In answer to a question from Senator Steineger, Mr. Rickards said no state has ever lost anything on the type of investment being considered. In answer to further questioning from Senator Steingeger, Mr. Rickards said the typical short-term borrowing mechanism for major corporations is (1) purchase agreements with banks and dealers (2) outright purchase of Government obligations and (3) the purchase of commercial paper.

When asked why J. C. Penney issues commercial paper, Mr. Rickard said the spread between the prevailing prime rate and the availability in the market has been wide. Commercial rates are approximately 8% and bank rates are well over 11%. Short-term investment can be anywhere between 30 days and 270 days.

Senator Hess asked if money market funds purchase the commercial paper of J. C. Penney. Mr. Rickard answered that they are very large buyers. There was then a discussion concerning investment in companies like J. C. Penney versus using the community bank. Mr. Rickards said it may be a question of an isolationist attitude preventing added yield. He suggested that when you can generate investment income and use that income to supplement internal financial needs, it is in the best interest of the state to pursue it. Mr. Rickard reminded the committee that, in terms of long-term financing, the State of Kansas uses vehicles to finance internal debt. The reverse is that outside sources would like to participate in the state's investment activity. He stressed that J. C. Penney has 60 stores in Kansas, and that the commercial paper being discussed is a market where funds flow on a national scale.

There was further discussion concerning the proposal. In answer to a question from Senator Hein, Mr. Rickards said that if money were deposited in a Kansas bank, some of it would get back to J. C. Penney via Chicago, etc.

Mr. Maag appeared in opposition to SB 164. He distributed his prepared statement (Attachment C). He noted that, if the bill is to be given serious consideration, there are technical problems which need to be addressed. Committee members were given opportunity to question Mr. Maag.

No action was taken on SB 164, and the meeting was adjourned by the Chairman.

KCK BUDGET DEPARTMENT

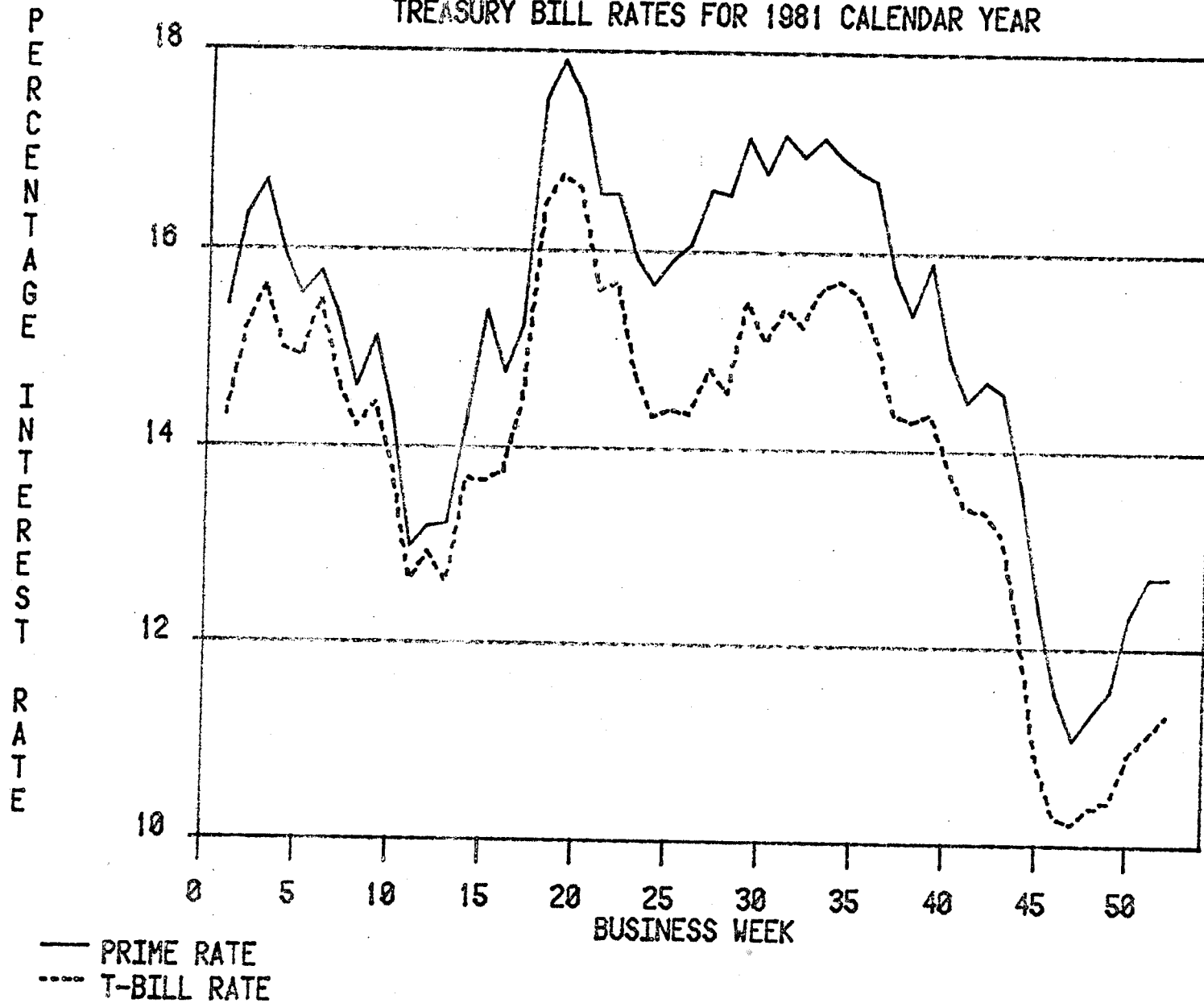
Testimony on Senate Bill 164

The importance of interest earnings for municipal revenue budgets:

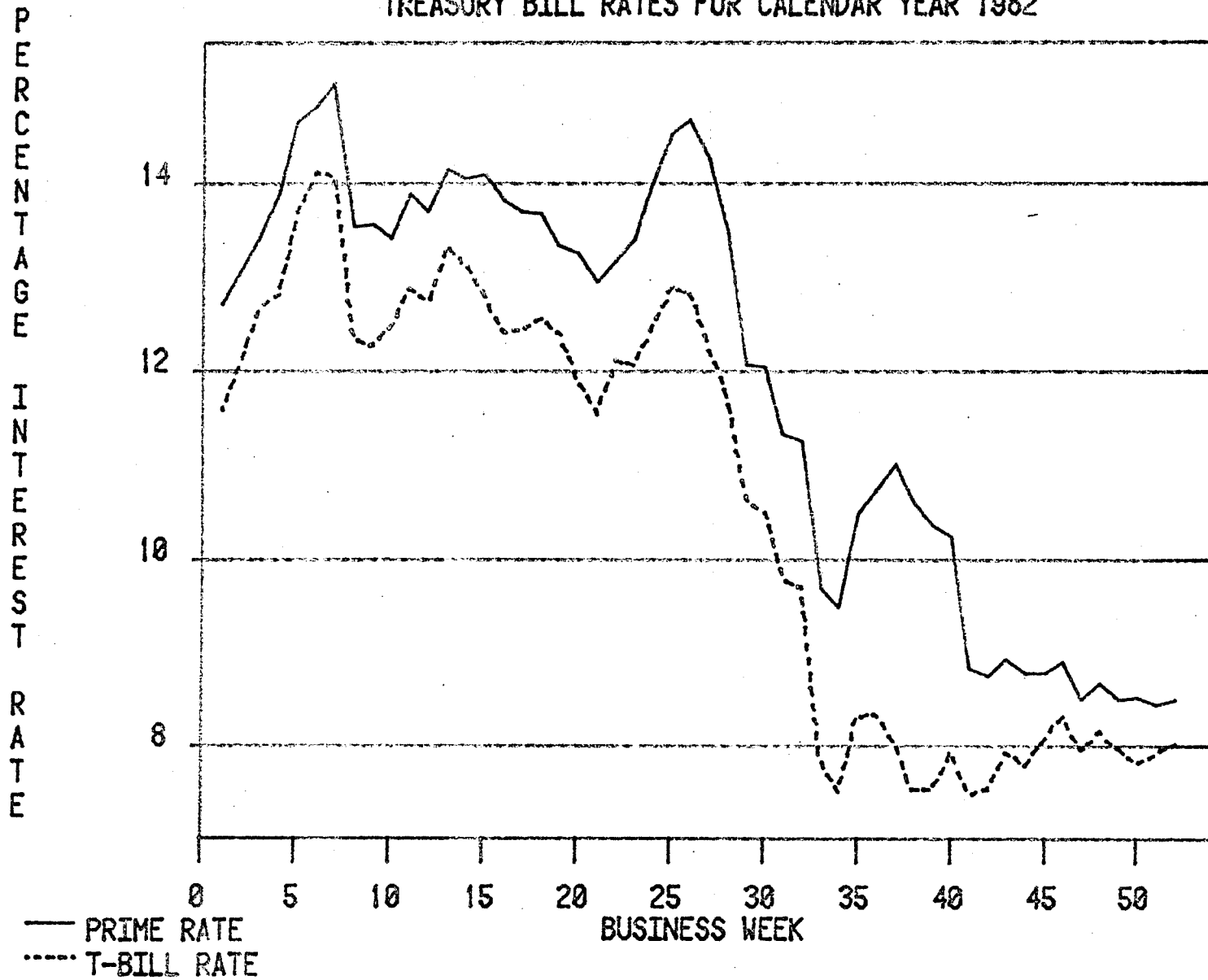
1. The revenue budget for the City of Kansas City, Kansas, grows at an annual rate of 2% without an increase in the general property tax rate.
2. Assessed valuation increases by less than 3% per year.
3. Interest earnings generated \$5.0 million in 1981 and \$4.2 million in 1982 equivalent to 15 mills and 12 mills, respectively.
4. By year end, shortterm interest rates had declined in excess of 30% over the same time period in the previous year.
5. Senate Bill 164 would enable government money managers to pursue other reasonable avenues for investment of public resources.

AAA, 3-1-83  
11:00 a.m.

COMPARISON BETWEEN PRIME COMMERCIAL PAPER RATES AND 91-DAY  
TREASURY BILL RATES FOR 1981 CALENDAR YEAR



COMPARISON BETWEEN PRIME COMMERCIAL PAPER RATES AND 91-DAY  
TREASURY BILL RATES FOR CALENDAR YEAR 1982



HISTORICAL COMPARISON OF VARIOUS INTEREST RATES

BUSINESS WEEK	90-DAY-CD	COMMERCIAL PAPER	BANKERS ACCEPT.	CORPORATE AAA BONDS	MUNICIPAL BONDS	FEDERAL FUNDS	91-DAY T-BILLS	FEDERAL BONDS	DISCOUNT RATE
81 01	16.55	15.43	16.03	12.59	9.49	20.06	14.31	11.81	13.00
81 02	17.42	16.33	17.08	12.76	9.57	19.64	15.19	12.02	13.00
81 03	17.82	16.67	17.38	12.91	9.68	19.35	15.65	12.21	13.00
81 04	17.03	15.94	16.38	12.98	9.91	18.12	15.01	12.22	13.00
81 05	16.38	15.53	15.92	13.07	9.90	17.19	14.90	12.45	13.00
81 06	16.71	15.77	16.23	13.41	9.99	16.51	15.51	12.88	13.00
81 07	16.31	15.34	15.48	13.51	10.22	15.81	14.68	12.72	13.00
81 08	15.31	14.60	14.90	13.45	10.27	14.96	14.19	12.76	13.00
81 09	15.74	15.11	15.22	13.61	10.40	15.73	14.44	12.88	13.00
81 10	14.92	14.30	14.31	13.31	10.34	15.53	13.79	12.51	13.00
81 11	13.53	12.96	13.09	13.06	9.81	14.13	12.63	12.20	13.00
81 12	13.82	13.19	13.44	13.52	10.09	13.48	12.91	12.74	13.00
81 13	13.65	13.22	13.31	13.41	10.21	14.93	12.60	12.68	13.00
81 14	14.89	14.22	14.59	13.72	10.45	15.43	13.67	13.02	13.00
81 15	15.38	15.38	14.89	13.89	10.70	15.33	13.66	13.11	13.00
81 16	15.37	14.75	14.92	14.02	10.80	15.55	13.74	13.12	13.00
81 17	15.95	15.24	15.55	14.26	10.94	16.28	14.52	13.37	13.00
81 18	18.36	17.52	17.85	14.50	10.90	18.91	16.44	13.78	14.00
81 19	18.80	17.89	18.18	14.53	10.83	18.21	16.75	13.60	14.00
81 20	18.51	17.51	17.89	14.18	10.73	18.89	16.61	13.27	14.00
81 21	17.57	16.55	16.73	14.00	10.64	18.71	15.61	13.01	14.00
81 22	17.37	16.56	16.77	13.84	10.59	18.40	15.69	12.93	14.00
81 23	16.72	15.91	16.17	13.73	10.63	19.33	14.79	12.73	14.00
81 24	16.60	15.65	16.15	13.61	10.73	19.10	14.31	12.62	14.00
81 25	16.97	15.92	16.26	13.77	10.74	19.20	14.39	12.92	14.00
81 26	17.10	16.07	16.58	14.04	10.85	18.84	14.34	13.22	14.00
81 27	17.68	16.60	17.03	14.19	10.97	19.93	14.82	13.28	14.00
81 28	17.47	16.55	16.86	14.25	11.09	18.76	14.56	13.29	14.00
81 29	18.18	17.13	17.55	14.55	11.34	19.05	15.50	13.74	14.00
81 30	17.82	16.77	17.26	14.61	11.44	18.54	15.07	13.76	14.00
81 31	18.04	17.16	17.41	14.82	11.63	18.25	15.43	14.04	14.00
81 32	17.88	16.95	17.23	14.62	11.94	18.29	15.25	13.71	14.00
81 33	18.03	17.15	17.34	14.78	12.49	18.19	15.63	13.89	14.00
81 34	18.02	16.94	17.24	15.21	12.97	17.41	15.71	14.45	14.00
81 35	17.74	16.80	17.07	15.50	13.10	16.89	15.59	14.64	14.00
81 36	17.61	16.71	16.78	15.61	13.21	16.50	15.14	14.63	14.00
81 37	16.57	15.78	15.89	15.30	12.79	16.09	14.35	14.29	14.00
81 38	16.01	15.36	15.44	15.35	12.57	15.33	14.29	14.49	14.00
81 39	16.48	15.89	15.83	15.85	12.93	15.00	14.37	15.05	14.00
81 40	15.50	14.95	14.91	15.40	12.73	15.46	13.81	14.42	14.00
81 41	15.03	14.48	14.53	15.18	12.53	14.93	13.41	14.34	14.00
81 42	15.28	14.70	14.81	15.35	12.99	15.32	13.37	14.61	14.00
81 43	15.14	14.57	14.57	15.51	12.99	14.87	13.14	14.72	14.00
81 44	14.13	13.64	13.54	14.88	12.44	14.79	12.21	13.81	13.00
81 45	12.77	12.41	12.34	14.13	11.43	14.01	10.93	13.16	13.00
81 46	11.97	11.57	11.51	13.91	11.71	13.17	10.31	12.78	13.00
81 47	11.51	11.09	11.14	13.92	11.98	12.42	10.23	12.71	13.00
81 48	11.62	11.35	11.37	13.99	12.18	12.48	10.39	12.73	12.00
81 49	11.96	11.61	11.71	14.16	12.89	12.04	10.47	13.21	12.00
81 50	12.68	12.34	12.31	14.11	13.00	12.26	10.94	13.19	12.00
81 51	13.16	12.71	12.83	14.36	13.17	12.43	11.14	13.54	12.00
81 52	13.03	12.71	12.67	14.50	13.30	12.54	11.35	13.69	12.00
	826.09	787.48	798.47	737.53	591.22	852.57	727.74	693.00	697.00

BUSINESS WEEK	90-DAY-CD	COMMERCIAL PAPER	BANKERS ACCEPT.	CORPORATE AAA BONDS	MUNICIPAL BONDS	FEDERAL FUNDS	91-DAY T-BILLS	FEDERAL BONDS	DISCOUNT RATE
82 01	12.91	12.70	12.48	14.81	13.36	12.98	11.59	14.07	12.00
82 02	13.22	13.04	12.90	15.29	13.44	12.42	12.07	14.35	12.00
82 03	13.66	13.42	13.32	15.36	13.16	12.96	12.66	14.27	12.00
82 04	14.24	13.88	13.72	15.26	13.15	13.98	12.79	14.01	12.00
82 05	15.11	14.65	14.68	15.34	13.13	14.77	13.68	14.28	12.00
82 06	15.40	14.82	14.93	15.49	13.09	15.19	14.12	14.50	12.00
82 07	15.66	15.05	15.01	15.34	12.96	15.61	14.06	14.01	12.00
82 08	14.03	13.53	13.63	14.92	12.70	13.86	12.31	13.54	12.00
82 09	13.99	13.55	13.53	14.61	12.53	14.07	12.26	13.29	12.00
82 10	13.92	13.40	13.57	14.55	12.53	14.35	12.47	13.37	12.00
82 11	14.40	13.89	13.95	14.55	12.99	14.89	12.85	13.39	12.00
82 12	14.20	13.67	13.81	14.53	13.04	14.48	12.72	13.31	12.00
82 13	14.70	14.15	14.22	14.66	13.13	14.99	13.32	13.56	12.00
82 14	14.56	14.04	14.17	14.63	12.99	15.15	13.10	13.50	12.00
82 15	14.60	14.10	14.14	14.53	12.54	14.68	12.77	13.18	12.00
82 16	14.34	13.81	13.91	14.31	12.29	15.01	12.39	13.07	12.00
82 17	14.21	13.69	13.79	14.31	11.97	14.72	12.42	13.12	12.00
82 18	14.15	13.65	13.67	14.36	12.04	15.53	12.54	13.10	12.00
82 19	13.82	13.32	13.36	14.22	12.04	14.97	12.38	12.96	12.00
82 20	13.76	13.23	13.26	14.23	11.96	14.67	11.90	13.04	12.00
82 21	13.44	12.94	13.03	14.21	11.99	13.70	11.54	13.10	12.00
82 22	13.72	13.15	13.29	14.50	12.13	13.43	12.09	13.49	12.00
82 23	13.83	13.39	13.46	14.62	12.40	13.60	12.06	13.51	12.00
82 24	14.55	13.98	14.16	14.79	12.63	14.24	12.46	13.83	12.00
82 25	15.13	14.55	14.65	15.10	12.62	14.17	12.88	14.03	12.00
82 26	15.21	14.68	14.73	15.07	12.58	14.81	12.81	13.85	12.00
82 27	14.80	14.24	14.15	14.95	12.47	14.47	12.23	13.68	11.50
82 28	13.96	13.46	13.50	14.64	12.36	13.18	11.71	13.40	11.50
82 29	12.58	12.05	12.03	14.32	12.01	12.14	10.64	13.11	11.50
82 30	12.01	12.01	11.71	14.39	11.97	11.02	10.51	13.30	11.50
82 31	11.43	11.33	11.23	14.21	11.87	11.15	9.80	13.08	11.00
82 32	11.63	11.50	11.23	14.14	11.86	10.90	9.70	13.02	11.00
82 33	9.77	9.68	9.66	13.48	10.82	10.11	7.88	12.17	11.00
82 34	9.73	9.48	9.59	13.15	10.38	9.04	7.50	12.04	10.50
82 35	10.42	10.48	10.18	13.20	10.74	10.15	8.31	12.16	10.00
82 36	10.58	10.72	10.38	13.04	10.75	10.14	8.34	12.03	10.00
82 37	10.94	11.00	10.73	13.08	10.74	10.27	8.03	12.02	10.00
82 38	10.73	10.62	10.52	12.83	10.58	10.31	7.53	11.68	10.00
82 39	10.43	10.35	10.21	12.66	10.48	10.12	7.52	11.54	10.00
82 40	10.46	10.23	10.15	12.49	9.75	10.77	7.93	11.28	10.00
82 41	9.16	8.83	8.96	11.94	9.25	9.60	7.48	10.50	10.00
82 42	9.02	8.75	8.83	11.95	9.69	9.53	7.54	10.57	9.50
82 43	9.14	8.93	8.98	12.00	10.05	9.44	7.93	10.74	9.50
82 44	8.96	8.78	8.78	11.68	9.96	9.43	7.78	10.31	9.50
82 45	9.01	8.77	8.85	11.62	9.92	9.45	8.07	10.39	9.50
82 46	9.19	8.91	8.96	11.70	10.20	9.61	8.31	10.49	9.50
82 47	8.69	8.48	8.61	11.67	10.20	8.91	7.94	10.50	9.00
82 48	8.78	8.67	8.68	11.83	10.23	8.69	8.14	10.69	9.00
82 49	8.67	8.50	8.58	11.79	10.13	8.84	7.96	10.59	9.00
82 50	8.70	8.52	8.59	11.82	10.05	8.80	7.80	10.64	8.50
82 51	8.59	8.43	8.54	11.94	9.84	8.69	7.91	10.62	8.50
82 52	8.57	8.50	8.58	11.82	9.54	8.79	8.01	10.52	8.50
	636.72	619.50	619.58	716.00	605.23	636.78	550.74	654.81	571.50

*City of*



MANHATTAN

## CITY COMMISSION:

E.A. KLINGLER, M.D., MAYOR  
WANDA L. FATELEY  
DAVID J. FISER  
SUZANNE LINDAMOOD  
T. RUSSELL REITZ

CITY HALL, 11TH AND POYNTZ, MANHATTAN, KANSAS 66502  
P.O. BOX 748 PHONE: (913) 537-0056

M. DON HARMON, CITY MANAGER

March 1, 1983

Kansas Senate  
State House  
Topeka, Kansas 66612

Dear Committee Members:

As a former County Clerk and City Administrator within our State and now as Director of Finance for the City of Manhattan, I want to encourage your support for Senate Bill 164. Let me say from the outset that virtually every public agency in Kansas needs considerably more latitude from our present investment statutes. Senate Bill 164 is a small step, but nonetheless an important step in giving public agencies that latitude.

First, this legislation will provide an option to many public agencies for securing a better rate of return on their investment instruments than they are presently able to obtain locally. By investing in corporate bonds, the City of Manhattan could increase their investment earnings well over \$25,000 annually at our most conservative estimates. Secondly, I believe this type of investment satisfies our City's rigid investment policy which places the safety of public funds as the highest priority of our investment program.

It should be remembered that our City, as well as every other public agency in Kansas, has a public responsibility to secure the maximum, safe investment return possible from monies assigned to its stewardship in order to relieve demands on property taxes and to otherwise reduce the cost of public services. To that end, I trust your support will be given to this important legislation.

Thank you for your consideration.

Respectfully,

Bernie Hayen  
Director of Finance  
City of Manhattan

BH:jrs

Att B 3-1-83  
11:00 a.m.





The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

March 1, 1983

TO: Senate Committee on Ways and Means

RE: SB 164 -- Investment of Public moneys in short term corporate obligations

Mr. Chairman and members of the Committee:

Thank you for the opportunity to appear before the Committee to discuss SB 164 which authorizes investment of not more than 25% of the idle funds of any local unit of government and the funds of several state accounts in short term obligations of U. S. Corporations with assets over \$500 million. While the provisions of the bill would be permissive for both of the governing bodies of local units of government and the Pooled Money Investment Board, we question whether it is in the best interests of the local units of government or the state to use this avenue of investment.

The laws relating to the investment of idle funds at the local and state levels have been carefully drawn over a number of years and have resulted in a very workable and efficient system. Since SB 164 does not provide for the pledging of securities for investments at either the local or state level in these short term corporate obligations, it does introduce an element of risk that is not otherwise present in our existing laws. Any serious consideration of SB 164 should include some provision for the securing of such investments by the state and local units in short term corporate obligations.

Above and beyond the technical problems of including investment in these short term obligations in the present investment statutes we would like to draw the Committee's attention to the fact that this would allow the tax revenues of local and state government to be invested outside of Kansas. In the past, we have discussed with legislative committees the need to keep tax revenue in the communities where they are raised. In a capital short state such as Kansas the ability to handle commercial and agricultural loans is critical much of the time. We have also discussed in the past the positive relationship between the investment of local and state moneys in Kansas banks and their relationship with the municipal bond market since municipal bonds are heavily used by banks for pledging on public funds.

Recent changes in federal law and regulations allow local units of government to get a money market rate of return on a maximum amount of their idle funds through investments with the home offices of Kansas banks and S&Ls. When this is combined with the safety of the existing system, we see no reason to further expand the investment statutes and introduce an element of risk which is not necessary. We would, therefore, request that this Committee not recommend SB 164 favorably.

STATE OF KANSAS

TOM REHORN  
SENATOR, FOURTH DISTRICT  
STATE CAPITOL BLDG.  
TOPEKA, KANSAS 66612



TOPEKA

SENATE CHAMBER

March 2, 1983

COMMITTEE ASSIGNMENTS  
MEMBER JOINT COMMITTEE ON ADMINISTRATIVE RULES  
AND REGULATIONS  
EDUCATION  
ENERGY AND NATURAL RESOURCES  
TRANSPORTATION AND UTILITIES  
LEGISLATIVE EDUCATIONAL PLANNING  
COMMITTEE  
CHAIRMAN, MID-AMERICA REGIONAL  
COUNCIL

MAR 3 1983

MEMO:

To: Members of the Senate Ways & Means Committee

From: Senator Tom Rehorn

RE: S.B. 164

I want to thank you for the fine hearing that you gave me and the conferees Tuesday, March 1. It was a good meeting and I hope that something substantial will come from it.

Because time was short, I abbreviated my testimony. Enclosed is a copy of it in full.

TR:bjh

encl.

Att D 3-1-83  
11:00a.m.

TESTIMONY ON BEHALF  
OF  
SENATE BILL NO. 164  
BY  
SENATOR TOM REHORN

FOR THE PAST SEVERAL YEARS GOVERNMENT HAS BEEN CHASTIZED FOR NOT OPERATING IN A MORE BUSINESSLIKE FASHION. SENATE BILL NO. 164 WILL HELP ALLAY THIS CRITICISM BY ENABLING GOVERNMENT TO PURSUE A MORE AGGRESSIVE AND SENSIBLE INVESTMENT POLICY MORE IN KEEPING WITH THE PRACTICES OF THE PRIVATE SECTOR. IN PURSUING SUCH A POLICY IT WILL RENDER A HIGHER YIELD TO THE TAXPAYERS OF KANSAS.

S.B. 164 WILL ALLOW THE STATE OF KANSAS AND ITS LOCAL UNITS OF GOVERNMENT TO INCREASE ITS YIELD ON IDLE FUNDS BY INVESTING IN COMMERCIAL PAPER. COMMERCIAL PAPER IS "UNSECURED SHORT TERM PROMISSORY NOTES ISSUED BY MAJOR CORPORATIONS TO FINANCE THEIR CURRENT CASH NEEDS." THIS BILL DEFINES A MAJOR CORPORATION AS ONE THAT HAS ASSETS EXCEEDING \$500 MILLION DOLLARS.

INVESTING IN COMMERCIAL PAPER IS NOT A NEW IDEA TO THE PRIVATE SECTOR. WHAT IS NOT WIDELY KNOWN IS THAT IT IS NOT A NEW IDEA TO GOVERNMENT. THE STATES OF CALIFORNIA, COLORADO, CONNECTICUT, MONTANA, NEBRASKA AND WISCONSIN ARE JUST A FEW OF THE 23 STATES THAT INVEST IN COMMERCIAL PAPER AND OTHER NON-FEDERAL INSTRUMENTS.

WHY DOES THE PRIVATE SECTOR INVEST IN COMMERCIAL PAPER AND WHY DO OTHER STATES FOLLOW THEIR EXAMPLE? IT IS BECAUSE COMMERCIAL PAPER IS A SAFE INVESTMENT THAT TRADITIONALLY RENDERS  $\frac{1}{2}\%$  TO  $1\frac{1}{2}\%$  HIGHER RATE THAN FEDERAL INSTRUMENTS OF INVESTMENTS.

IN CONCRETE TERMS IT IS DIFFICULT TO ESTIMATE WHAT THIS WOULD MEAN FOR LOCAL UNITS OF GOVERNMENT THROUGHOUT THE STATE. THE BUDGET DIRECTOR IN KANSAS CITY, KANSAS, ESTIMATES THAT IF WE HAD PURCHASED COMMERCIAL PAPER IN 1982, IT WOULD HAVE MEANT AN ADDITIONAL \$400,000 A YEAR IN INCREASED INTEREST TO THE TAXPAYERS OF OUR CITY. IN OUR CITY THAT IS JUST ABOUT TWO MILLS.

OTHER CONFEREES WILL SHOW THAT IN 1982, USING GENERAL FUND FIGURES, THE STATE OF KANSAS COULD HAVE INCREASED ITS YIELD \$5.3 MILLION. GENTLEMEN, AS SOMEONE ONCE SAID, USING MUCH LARGER FIGURES, "\$500,000 HERE, AND \$5 MILLION THERE, AND PRETTY SOON IT ADDS UP TO REAL MONEY.

AS I TALK WITH PEOPLE ABOUT THIS IDEA THERE IS ONE WORD ABOUT COMMERCIAL PAPER THAT FRIGHTENS THEM AND CAUSES THEM TO BELIEVE THAT GOVERNMENT SHOULD NOT INVEST IN IT. THAT WORD IS: "UNSECURED". IT IS TRUE THAT COMMERCIAL PAPER IS NOT SECURED BY THE FEDERAL GOVERNMENT. BUT THAT DOES NOT MEAN THAT THE COMPANY OR GOVERNMENT PURCHASING COMMERCIAL PAPER IS IN FACT UNSECURED. UNSECURED DOES NOT MEAN UNSAFE. THIS BILL WOULD NOT BE ALLOWING THE STATE TO SHOOT CRAPS WITH THE TAXPAYERS DOLLARS.

LET ME ILLUSTRATE THIS -----

FIRST, COMMERCIAL PAPER IS MONITORED VERY WELL. IT IS MONITORED BY THE FINANCIAL COMMUNITY, BY THE HOLDERS OF THESE OBLIGATIONS, BY DEALERS IN SECURITIES, AND FINALLY BY FOUR INVESTMENT RATING AGENCIES. COMPANIES ISSUING COMMERCIAL PAPER ARE THE MOST SCRUTINIZED AND ANALYSED IN THE PRIVATE SECTOR. THEY ARE AS GOOD AS THEIR RATING.

SECOND, PURCHASERS OF PRIME RATED PAPER HAVE EXPERIENCED NO LOSSES SINCE THE CURRENT RATING SYSTEMS HAVE BEEN ESTABLISHED. COMPARE THIS WITH THE FACT THAT NO LESS THAN FORTY BANKS WENT BANKRUPT IN 1982. WHAT IS IMPORTANT FROM OUR POINT OF VIEW AS ELECTED OFFICIALS IS THAT NO GOVERNMENT IN THIS COUNTRY HAS EVER LOST ANY MONEY BY PURCHASING COMMERCIAL PAPER.

THIRD, THE WAY THE BILL IS WRITTEN PROVIDES MORE THAN ADEQUATE SAFEGUARDS FOR OUR IDLE FUNDS. INVESTING IN COMPANIES WITH ASSETS OF \$500 MILLION IS NOT A CASUAL WAGER, BUT A SOUND AND WISE PRACTICE. IT IS CERTAINLY WISER THAN THE PRACTICE OF MANY BANKS THAT LOAN MONEY TO COUNTRIES CONSIDERABLY LESS SOLVENT AND STABLE THAN THE MAJOR CORPORATIONS IN THIS COUNTRY.

S. B. 164 REQUIRES THAT WE CAN INVEST IN ONLY THOSE COMPANIES THAT HAVE ONE OF THE TOP TWO RATINGS FROM TWO OF THE FOUR RATING SERVICES. MOST STATES ALLOW FOR THE TOP THREE RATINGS. AN A-1 OR A-2 RATING INSURES THAT WE ARE DEALING WITH THE TOP FLIGHT CORPORATIONS.

SENATE BILL 164 ALSO REQUIRES THAT ONLY 25% OF THE UNIT OF GOVERNMENTS IDLE FUNDS CAN BE INVESTED IN COMMERCIAL PAPER. THIS IS A CONSERVATIVE POLICY AND ONE THAT IS CONSISTENT WITH THE PRACTICES OF THE PRIVATE SECTOR.

ONE OTHER SAFEGUARD IN SENATE BILL 164 IS THE REQUIREMENT THAT THE STATE CANNOT PURCHASE MORE THAN 10% OF THE COMPANY'S OUTSTANDING INDEBTEDNESS.

THERE IS ONE OTHER REQUIREMENT THAT OTHER STATES HAVE IN THEIR INVESTMENT POLICIES. STATES ENTER INTO AN AGREEMENT WITH THE SELLER OF COMMERCIAL PAPER. IF THE RATING OF THE COMPANY FALLS BELOW THE TOP RATINGS, THE SELLER MUST AGREE TO RE-PURCHASE THE COMMERCIAL PAPER. IN MANY WAYS, THIS IS A MUTE POINT BECAUSE ONE OF THE ADVANTAGES OF COMMERCIAL PAPER IS ITS FLEXIBILITY, I.E., IT CAN BE SOLD BEFORE MATURITY WITHOUT PENALTY.

FINALLY, MR. CHAIRMAN, AND THE BOTTOM LINE, WHEN ONE PURCHASES COMMERCIAL PAPER, ONE ALSO LAYS CLAIM TO THE ASSETS OF THAT COMPANY. THEREBY SECURING THAT INVESTMENT.

WHILE THE OFFICIAL DEFINITION OF COMMERCIAL PAPER IS "UNSECURED PROMISSORY NOTES", IT IS BY NO MEANS INSECURE, UNSAFE, OR IN FACT, UNSECURED.

I WOULD LIKE, MR. CHAIRMAN, TO ANTICIPATE SOME OF THE OBJECTIONS TO S.B. 164 AND RESPOND TO THEM. THE FIRST, NO DOUBT, WILL BE TO THE NOTION OF THE "UNSECURED" INSTRUMENT. IF I HAVE NOT PUT THAT ISSUE TO REST, I AM SURE THAT THE OTHER CONFEREES WILL BE MORE SUCCESSFUL IN DOING SO.

ONE OF THE SECOND OBJECTIONS WILL COME FROM MY FRIENDS REPRESENTING THE KANSAS BANKERS ASSOCIATION. ONE OF THEIR THEMES WILL BE THAT WE SHOULD KEEP KANSAS MONEY IN KANSAS. THAT IS NOT WHAT THEY REALLY MEAN. THEY REALLY MEAN IS LET'S KEEP THE MONEY IN KANSAS BANKS. WHAT S.B. 164 WANTS TO DO IS TO KEEP TAXPAYERS MONEY IN TAXPAYERS POCKETS.

WE ALL KNOW THAT WHEN WE ARE TALKING ABOUT THE INVESTMENT OF IDLE FUNDS WHETHER IT BE A WEEKEND INVESTMENT, 28 DAYS, OR SIX MONTHS, WE ARE NOT TALKING, EXCEPT IN THE MOST REMOTE OF ALL SENSES, OF MAKING MONEY AVAILABLE FOR THE CONSUMER, THE FARMER OR THE BUSINESSMAN. THESE LIGHTENING SPEED TRANSACTIONS MEAN ONLY TWO THINGS: INCREASED INCOME FOR THE STATE AND INCREASED PROFITABILITY FOR THE BANK.

HERE IS OUR CHOICE IN KCK: WOULD WE RATHER INCREASE OUR INCOME \$530,000 AND LOWER OUR MILL LEVY BY 2 MILLS OR WOULD WE RATHER INCREASE THE PROFITABILITY OF VARIOUS BANKS? THE ANSWER IS OBVIOUS FOR THE PEOPLE OF MY DISTRICT AND I SUBMIT IT IS OBVIOUS TO EVERYONE ELSE THROUGHOUT THIS STATE.

SECOND, I ANTICIPATE THAT YOU WILL HEAR THAT AS A RESULT OF DEREGULATION AND NEW COMPETITION FROM OTHER DIMENSIONS OF THE PRIVATE SECTOR, BANKING HAS BECOME MORE DIFFICULT. FROM THIS IT SUPPOSEDLY FOLLOWS THAT WE SHOULD LEAVE PUBLIC MONIES IN BANKS. IT IS INTERESTING, IF NOT LAUGHABLE, THAT THERE IS NOT A BANKER IN THIS COUNTRY THAT WOULD CALL ON A BUSINESS IN THIS COUNTRY, USING THE LINE THAT LIFE IS TERRIBLY TOUGH, SO WHY DON'T YOU DO BUSINESS WITH ME. YET THEY SEEM TO HAVE NO COMPUNCTION ABOUT MAKING THAT APPEAL TO GOVERNMENT.

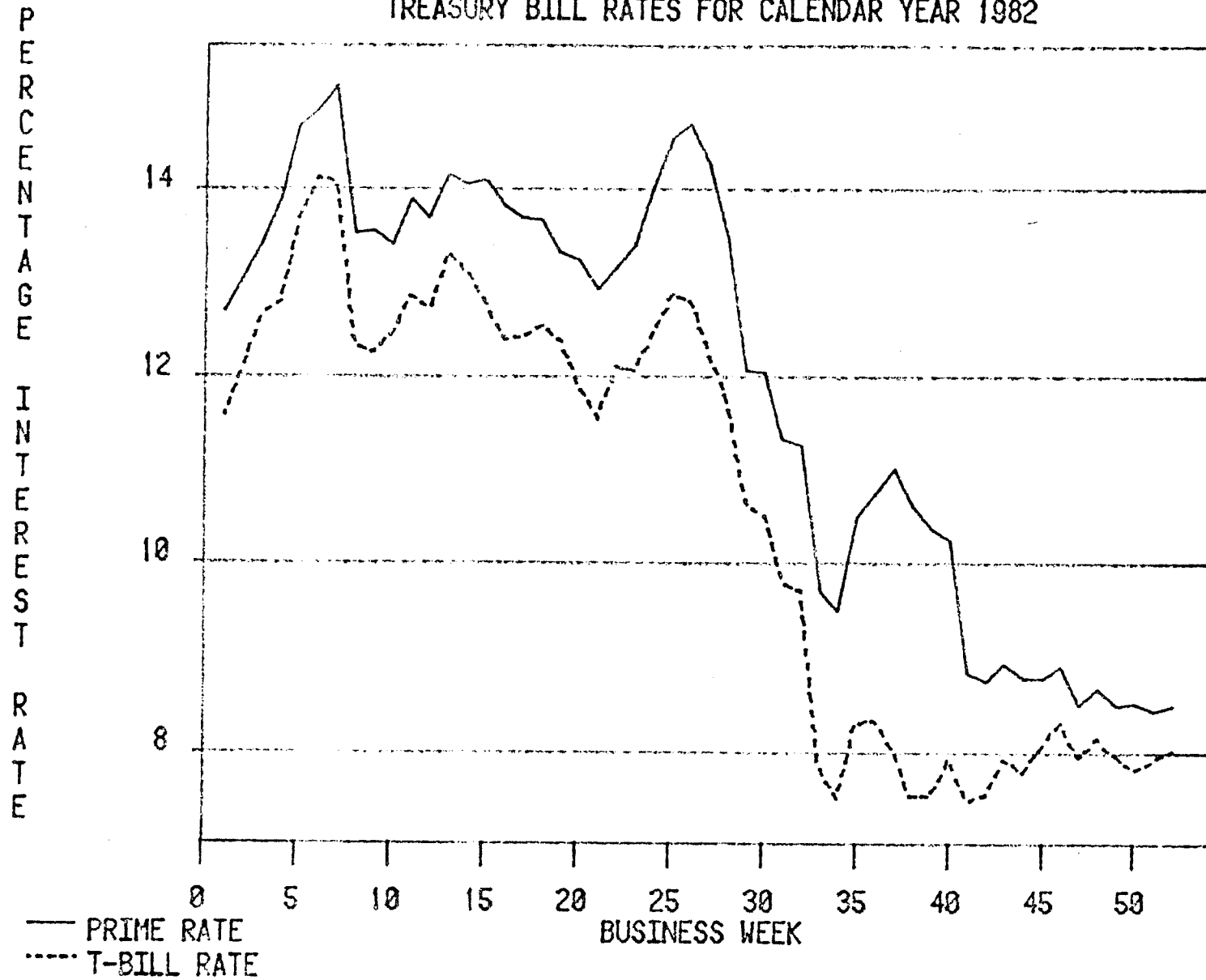
I RATHER IMAGINE THAT YOU WILL ALSO HEAR THAT LOCAL OFFICIALS ARE NOT COMPETENT ENOUGH TO HANDLE COMMERCIAL PAPER. I DO NOT BELIEVE THAT IS TRUE. BUT IF IT IS, WE SHOULD PURSUE S.B. 164 REGARDLESS. S.B. 164 DOES NOT FORCE A LOCAL OFFICIAL TO INVEST IN COMMERCIAL PAPER. IF HE OR SHE IS NOT COMPETENT TO DO SO I AM SURE THAT THE FINANCIAL COMMUNITY WILL BE MORE THAN HAPPY TO ADVISE HIM.

MR. CHAIRMAN, THE PLAIN FACT IS THAT LOCAL OFFICIALS ARE PUTTING ON THEIR SPURS AND THEY ARE MORE THAN ABLE TO DEAL WITH THIS CONCEPT. I HAVE TALKED WITH INVESTMENT OFFICERS IN WICHITA AND SEDGWICK COUNTY. THEY ARE READY. THE CASH MANAGEMENT REVIEW COMMITTEE AND THE LOCAL OFFICIALS OF K.C., KS., ARE READY. WE CAN DEAL WITH THIS. THE STATE OF KANSAS IS MORE THAN CAPABLE OF DEALING WITH COMMERCIAL PAPER. MEMBERS OF THE COMMITTEE, THE MUNICIPAL FINANCE OFFICERS ASSOCIATION HAS MADE ITS IN-ROADS INTO KANSAS. OUR LOCAL OFFICIALS ARE NOT INCOMPETENT.

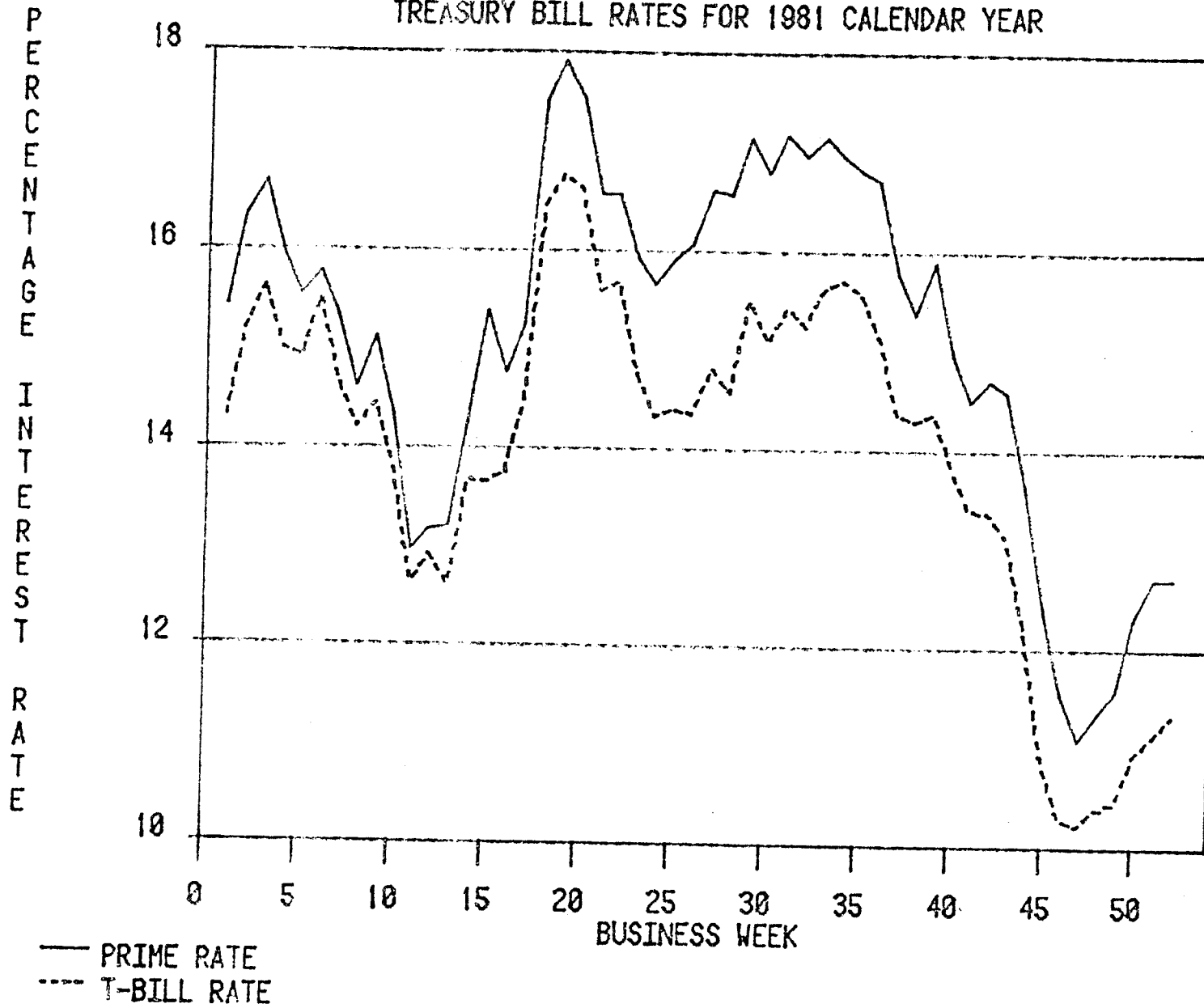


FINALLY, MR. CHAIRMAN, IT IS IMPORTANT TO REMEMBER THAT AS A BUSINESS, GOVERNMENT HAS ONLY TWO SOURCES OF REVENUE: THE TAXPAYER AND ITS SURPLUS CASH. WE CAN EITHER RAISE OUR TAXES OR RAISE OUR YIELD. S.B. 164 WILL RAISE THE YIELD AND HELP KEEP THE TAXES DOWN.

COMPARISON BETWEEN PRIME COMMERCIAL PAPER RATES AND 91-DAY  
TREASURY BILL RATES FOR CALENDAR YEAR 1982



COMPARISON BETWEEN PRIME COMMERCIAL PAPER RATES AND 91-DAY  
TREASURY BILL RATES FOR 1981 CALENDAR YEAR



HISTORICAL COMPARISON OF VARIOUS INTEREST RATES

BUSINESS WEEK	90-DAY-CD	COMMERCIAL PAPER	BANKERS ACCEPT.	CORPORATE AAA BONDS	MUNICIPAL BONDS	FEDERAL FUNDS	91-DAY T-BILLS	FEDERAL BONDS	DISCOUNT RATE
81 01	16.55	15.43	16.03	12.59	9.49	20.06	14.31	11.81	13.00
81 02	17.42	16.33	17.08	12.76	9.57	19.64	15.19	12.02	13.00
81 03	17.82	16.67	17.38	12.91	9.88	19.35	15.65	12.21	13.00
81 04	17.03	15.94	16.38	12.98	9.91	18.12	15.01	12.22	13.00
81 05	16.38	15.53	15.92	13.07	9.90	17.19	14.90	12.45	13.00
81 06	16.71	15.77	16.23	13.41	9.99	16.51	15.51	12.88	13.00
81 07	16.31	15.34	15.48	13.51	10.22	15.81	14.63	12.72	13.00
81 08	15.31	14.60	14.90	13.45	10.27	14.96	14.19	12.76	13.00
81 09	15.74	15.11	15.22	13.61	10.40	15.73	14.44	12.88	13.00
81 10	14.92	14.30	14.31	13.31	10.34	15.53	13.79	12.51	13.00
81 11	13.53	12.96	13.09	13.06	9.81	14.13	12.63	12.20	13.00
81 12	13.82	13.19	13.44	13.32	10.09	13.48	12.91	12.74	13.00
81 13	13.65	13.22	13.31	13.41	10.21	14.93	12.60	12.68	13.00
81 14	14.89	14.22	14.59	13.72	10.45	15.43	13.67	13.02	13.00
81 15	15.38	15.38	14.89	13.89	10.70	15.33	13.86	13.11	13.00
81 16	15.37	14.75	14.92	14.02	10.80	15.55	13.74	13.12	13.00
81 17	15.95	15.24	15.55	14.26	10.94	16.28	14.52	13.37	13.00
81 18	18.36	17.52	17.85	14.50	10.90	18.91	16.44	13.73	14.00
81 19	18.80	17.89	18.18	14.53	10.83	18.21	16.75	13.60	14.00
81 20	18.51	17.51	17.89	14.18	10.73	18.89	16.61	13.27	14.00
81 21	17.57	16.55	16.73	14.00	10.64	18.71	15.81	13.01	14.00
81 22	17.37	16.56	16.77	13.84	10.59	18.40	15.69	12.93	14.00
81 23	16.72	15.91	16.17	13.73	10.63	19.33	14.79	12.73	14.00
81 24	16.60	15.65	16.15	13.81	10.73	19.70	14.31	12.62	14.00
81 25	16.97	15.92	16.26	13.77	10.74	19.20	14.39	12.92	14.00
81 26	17.10	16.07	16.58	14.04	10.85	18.84	14.34	13.22	14.00
81 27	17.68	16.60	17.03	14.19	10.97	19.93	14.82	13.28	14.00
81 28	17.47	16.55	16.86	14.25	11.09	18.76	14.56	13.29	14.00
81 29	18.18	17.13	17.55	14.55	11.34	19.05	15.50	13.74	14.00
81 30	17.82	16.77	17.26	14.61	11.44	18.54	15.07	13.76	14.00
81 31	18.04	17.16	17.41	14.82	11.63	18.25	15.43	14.04	14.00
81 32	17.88	16.95	17.23	14.62	11.94	18.29	15.25	13.71	14.00
81 33	18.03	17.15	17.34	14.78	12.49	18.19	15.63	13.89	14.00
81 34	18.02	16.94	17.24	15.21	12.97	17.41	15.71	14.45	14.00
81 35	17.74	16.80	17.07	15.50	13.10	16.89	15.59	14.64	14.00
81 36	17.61	16.71	16.78	15.61	13.21	16.50	15.14	14.63	14.00
81 37	16.57	15.78	15.89	15.30	12.79	16.09	14.35	14.29	14.00
81 38	16.01	15.36	15.44	15.35	12.57	15.33	14.29	14.49	14.00
81 39	16.48	15.89	15.83	15.85	12.93	15.00	14.37	15.05	14.00
81 40	15.50	14.95	14.91	15.40	12.73	15.46	13.81	14.42	14.00
81 41	15.03	14.48	14.53	15.18	12.53	14.93	13.41	14.34	14.00
81 42	15.28	14.70	14.81	15.35	12.99	15.32	13.37	14.61	14.00
81 43	15.14	14.57	14.57	15.51	12.99	14.87	13.14	14.72	14.00
81 44	14.13	13.64	13.54	14.88	12.44	14.79	12.21	13.81	13.00
81 45	12.77	12.41	12.34	14.19	11.43	14.01	10.93	13.16	13.00
81 46	11.97	11.57	11.51	13.91	11.71	13.17	10.31	12.78	13.00
81 47	11.51	11.09	11.14	13.92	11.98	12.42	10.23	12.71	13.00
81 48	11.62	11.35	11.37	13.99	12.18	12.48	10.39	12.73	12.00
81 49	11.96	11.61	11.71	14.15	12.89	12.04	10.47	13.21	12.00
81 50	12.68	12.34	12.31	14.11	13.00	12.26	10.94	13.19	12.00
81 51	13.16	12.71	12.83	14.36	13.17	12.43	11.14	13.54	12.00
81 52	13.03	12.71	12.67	14.50	13.30	12.54	11.35	13.69	12.00
	826.09	787.48	798.47	737.53	591.22	852.57	727.74	693.00	697.00

BUSINESS WEEK	90-DAY-CD	COMMERCIAL PAPER	BANKERS ACCEPT.	CORPORATE AAA BONDS	MUNICIPAL BONDS	FEDERAL FUNDS	91-DAY T-BILLS	FEDERAL BONDS	DISCOUNT RATE
82 01	12.91	12.70	12.48	14.81	13.36	12.98	11.59	14.07	12.00
82 02	13.22	13.04	12.90	15.29	13.44	12.42	12.07	14.35	12.00
82 03	13.63	13.42	13.32	15.36	13.16	12.96	12.66	14.27	12.00
82 04	14.24	13.88	13.72	15.26	13.15	13.93	12.79	14.01	12.00
82 05	15.11	14.65	14.68	15.34	13.13	14.77	13.68	14.28	12.00
82 06	15.40	14.82	14.93	15.49	13.09	15.19	14.12	14.50	12.00
82 07	15.66	15.05	15.01	15.34	12.96	15.61	14.06	14.01	12.00
82 08	14.03	13.53	13.63	14.92	12.70	13.86	12.31	13.54	12.00
82 09	13.99	13.55	13.53	14.61	12.53	14.07	12.26	13.29	12.00
82 10	13.92	13.40	13.57	14.55	12.53	14.35	12.47	13.37	12.00
82 11	14.40	13.89	13.95	14.55	12.99	14.89	12.85	13.39	12.00
82 12	14.20	13.67	13.81	14.53	13.04	14.43	12.72	13.31	12.00
82 13	14.70	14.15	14.22	14.66	13.13	14.99	13.32	13.56	12.00
82 14	14.56	14.04	14.17	14.63	12.97	15.15	13.10	13.50	12.00
82 15	14.60	14.10	14.14	14.53	12.54	14.68	12.77	13.13	12.00
82 16	14.34	13.81	13.91	14.31	12.29	15.01	12.39	13.07	12.00
82 17	14.21	13.69	13.79	14.31	11.97	14.72	12.42	13.12	12.00
82 18	14.15	13.65	13.67	14.36	12.04	15.53	12.54	13.10	12.00
82 19	13.82	13.32	13.36	14.22	12.04	14.97	12.38	12.96	12.00
82 20	13.76	13.23	13.26	14.23	11.96	14.67	11.90	13.04	12.00
82 21	13.44	12.94	13.03	14.21	11.99	13.70	11.54	13.10	12.00
82 22	13.72	13.15	13.29	14.50	12.13	13.43	12.09	13.49	12.00
82 23	13.83	13.39	13.46	14.62	12.40	13.60	12.06	13.51	12.00
82 24	14.55	13.93	14.16	14.79	12.63	14.24	12.46	13.83	12.00
82 25	15.13	14.55	14.65	15.10	12.62	14.17	12.83	14.03	12.00
82 26	15.21	14.63	14.73	15.07	12.58	14.81	12.81	13.85	12.00
82 27	14.80	14.24	14.15	14.95	12.47	14.47	12.23	13.88	11.50
82 28	13.96	13.46	13.50	14.64	12.36	13.18	11.71	13.40	11.50
82 29	12.58	12.05	12.03	14.32	12.01	12.14	10.64	13.11	11.50
82 30	12.01	12.01	11.71	14.39	11.97	11.02	10.51	13.30	11.50
82 31	11.43	11.33	11.23	14.21	11.87	11.15	9.80	13.03	11.00
82 32	11.63	11.50	11.23	14.14	11.86	10.90	9.70	13.02	11.00
82 33	9.77	9.63	9.66	13.48	10.82	10.11	7.88	12.17	11.00
82 34	9.73	9.48	9.59	13.15	10.38	9.04	7.50	12.04	10.50
82 35	10.42	10.43	10.18	13.20	10.74	10.15	8.31	12.16	10.00
82 36	10.53	10.72	10.38	13.04	10.75	10.14	8.34	12.03	10.00
82 37	10.94	11.00	10.73	13.03	10.74	10.27	8.03	12.02	10.00
82 38	10.73	10.62	10.52	12.83	10.53	10.31	7.53	11.63	10.00
82 39	10.43	10.35	10.21	12.86	10.43	10.12	7.52	11.54	10.00
82 40	10.46	10.23	10.15	12.49	9.75	10.77	7.93	11.28	10.00
82 41	9.16	8.83	8.96	11.94	9.25	9.60	7.48	10.50	10.00
82 42	9.02	8.75	8.83	11.95	9.69	9.53	7.54	10.57	9.50
82 43	9.14	8.93	8.93	12.00	10.05	9.44	7.93	10.74	9.50
82 44	8.95	8.73	8.78	11.63	9.95	9.43	7.78	10.31	9.50
82 45	9.01	8.77	8.85	11.62	9.92	9.45	8.07	10.39	9.50
82 46	9.19	8.91	8.96	11.70	10.20	9.61	8.31	10.49	9.50
82 47	8.69	8.43	8.61	11.67	10.20	8.91	7.94	10.50	9.00
82 48	8.78	8.67	8.68	11.83	10.23	8.69	8.14	10.69	9.00
82 49	8.67	8.50	8.58	11.79	10.13	8.84	7.96	10.59	9.00
82 50	8.70	8.52	8.59	11.82	10.05	8.80	7.80	10.64	8.50
82 51	8.59	8.43	8.54	11.94	9.84	8.69	7.91	10.62	8.50
82 52	8.57	8.50	8.53	11.82	9.54	8.79	8.01	10.52	8.50
	636.72	619.50	619.58	716.00	605.23	636.78	550.74	654.80	571.50