

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANSThe meeting was called to order by Senator Paul Hess at  
Chairperson4:00 a.m./p.m. on February 13, 1964 in room 123-S of the Capitol.

All members were present except:

Senators Doyen, Harder and Hein

Committee staff present:

Research Department: Mary Galligan, Lynne Holt

Revisor's Office: Norman Furse

Committee Office: Mark Skinner, Doris Fager

Conferees appearing before the committee:

Senator Tom Rehorn

Keith Kaufman, Ashwell and Company, Detroit, Michigan

Barbara McRoberts, Ashwell and Company, Des Moines, Iowa

John Holliday, Waddell and Reed, Kansas City, Missouri

Albert Clark, GMAC, Denver, Colorado

Tom Colver, GMAC, Detroit, Michigan

Rich Stanley, GMAC, Topeka, Kansas

Ernie Mosher, League of Kansas Municipalities

Jim Maag, Kansas Bankers' Association

Harold Stones, Kansas Bankers' Association

Susan Bell, State Treasurer's Office

SB 557 - Investment of Public Moneys in Short Term Corporate Obligations

Senator Rehorn gave a brief review of the proposal before the committee. He said it is his intention to provide state and local governments with increased investment flexibility at potentially higher yield. He suggested that, by so doing, there would be additional funds available without raising taxes. (See Attachment A-1)

Mr. Kaufman appeared as a proponent of the bill. He stated that commercial papers are substantial securities. According to Mr. Kaufman, there are millions of corporations in America, and there are only 1,200 corporations who can obtain a prime rating on their commercial paper. He added that some notes are insured, some guaranteed by parent corporations, and some by banks.

Mr. Kaufman stated that commercial paper is rated by four rating agencies. and all of those agencies indicate there is little risk in buying that paper. He noted that no financial losses have been reported by any commercial paper buyers. The papers are negotiable, there is flexibility in purchasing them, and the yields are .25% to 3% more than other securities. Mr. Kaufman stated that these papers are currently purchased by thousands of municipalities, educational institutions, corporations and private institutions throughout the United States.

Mr. Holliday stressed to the committee that they have a responsibility to handle affairs of the state in a businesslike fashion. He commented that, in the area of investing idle funds, the State of Kansas has never been run as a well-operated business. Mr. Holliday said he manages short-term money market investments for corporations and individuals, and no major corporations would have guidelines for investing idle funds which contain restrictions as in Kansas statutes.

Mr. Holliday said the higher rates of return from commercial papers are justified for the State of Kansas because they aid the local economy. He concluded that this is important legislation and a small thing to ask for only 25% of idle reserves of the State of Kansas and local municipalities.

SB 557 - Continued

Mr. Clark distributed his written statement (Attachment A-2) and presented it to the committee. When asked by Senator Steineger how many other states permit this type of investment, Mr. Clark indicated his records show that 40 states have authority for commercial paper in various agencies, and approximately half of the states have authority to invest in commercial paper from the State General Fund. He said this has been a trend for municipalities in the last few years; Utah passed legislation last week; and Iowa is considering similar legislation at the present time.

There was extended discussion concerning brokerage fees in selling commercial paper, and the manner in which those fees are established. Mr. Holliday and Mr. Clark answered questions concerning those fees.

Senator Gaines asked for the interest spread paid by different banks and commercial markets in other states. Ms. Roberts said that a survey was made by Iowa City, Iowa during the month of December, 1983. It was determined that there would have been earnings of an additional \$4,000 for that month if they had been able to buy commercial paper. She said it might be \$40,000 to \$50,000 difference annually.

Ensuing discussion included conversation about banks needing collateral to bid on state funds in the State of Kansas, when no collateral would be required for purchase of commercial paper. Ms. McRoberts commented that Illinois recently withdrew the collateral provision, as did Utah. She said that most states require banks to collateralize deposits; but that the conferees assure the committee there are a variety of ways of securing an instrument, and that these are totally two different kinds of investments. Mr. Holliday indicated that if commercial paper is held, it is possible to sell it if there is an indication it may not be safe in the future.

There was further discussion concerning risk to municipalities in purchasing commercial paper. Mr. Holliday suggested there is also risk in leaving money unavailable to municipalities of this state because of the tight restrictions on their money. Senator Warren asked if it weren't necessary to have expertise in order to invest in commercial paper. Mr. Kaufman indicated he would be happy to appear before various organizations at no charge to explain procedures for investing.

Mr. Mosher appeared as a proponent of SB 557. He stressed that the ability to invest in commercial paper with higher rates of interest would reduce the tax burden. He suggested the bill probably would be used by a few taxing districts with fairly sophisticated management. He concluded by stating the League of Municipalities feels local units of government should have this discretion.

Senator Steineger asked if conferees had any idea of the savings to taxpayers if municipalities were to take advantage of SB 557. Senator Rehorn said that for the year 1982 it was estimated there would be a savings of \$9 million to state government alone.

There was discussion concerning the fact that commercial paper can be purchased on any day when banks are open, and that if it is necessary to have cash on a given day, the paper can be purchased to come due on that day.

When asked by Senator Gaines how important it is to municipalities in Kansas to have a viable market place for funds, Mr. Mosher answered that there is a tremendous change in the municipal bond market, specifically bank holdings of municipal bonds. Because of this, it is becoming important to have a different market place.

SB 557 - Continued

Ms. Bell indicated the State Treasurer's office conceptually supports SB 557 because it permits broader investment authority and offers potential to increase the interest earnings of idle funds. She distributed some suggested technical amendments (Attachment B). When asked were daily balances are now invested, Ms. Bell said they are generally invested in repurchase agreements. She said the Treasurer's office had compared investment income over a three-month period, and there was an average of 35 basis points difference between repurchase agreements and commercial paper.

Mr. Maag distributed his written statement (Attachment C) and reviewed the presentation before the committee. He then introduced Mr. Stones.

Mr. Stones distributed his remarks (Attachment D) and reviewed the statement before the committee. There were questions from committee members following his presentation. Senator Talkington asked if he would support SB 557 if it were amended so that banks would not have to pledge collateral. Mr. Stones said that, as a private citizen, he would not like to see that. Mr. Maag noted that other states study Kansas law when they want to revise their pledging statutes.

There was no action on SB 557. The meeting was adjourned by the Chairman.

TESTIMONY

IN SUPPORT OF S.B. 557

Tom Rehorn  
State Senator

ATA-1  
2-13-84  
4:00

Thank you Mr. Chairman. Members of the committee. I am sure you are wondering why I am again back to this committee and why you must listen again to a bill that was substantially defeated.

Before you begin to resent me or this bill for what may seem to be needless repetition, let me assure you of two things. First, I requested that this bill and I be thrown to a different and less stout-hearted den of lions. Second, last year, as I received a good and fair hearing from you, you heard interesting testimony from competent people. You will have the same experience today.

Senate Bill 557 allows state and local units of government to invest a portion of its idle funds in commercial paper. As you know, commercial paper is a short-term note issued by a major corporation to finance its current transactions. This bill is an effort to increase governments' investment flexibility in secure instruments at a higher yield.

It seems to me and to most taxpayers to be an act of irresponsibility to cut into the fiber of government or to increase taxes without first exhausting all other options. We can do one of three things. We can engage in anti-government diatribes. The diatribes, however, will not change the fact that Kansas does not have a gluttonous government. Or, we can raise taxes. A third option is to raise our revenue from our idle funds. Senate Bill 557, seeks to chart this third course.

This third option is really not at all difficult. All we have to do is stop worshipping sacred cows and begin doing what is in the best interest of the taxpayers. The sacred cow is, of course, the Kansas Bankers Association. Not surprisingly, the K.B.A. is the only group to oppose this measure. On the other hand, the cities of Kansas City, Manhattan and Wichita support this concept. The Kansas League of Municipalities also support S.B. 557. Last year we heard in support of this bill a representative of the J.C. Penney Finance Corporation. This company has many stores, over 7,000 employees and several thousand customers in Kansas. They also loan money to Kansans that Kansas banks cannot serve.

From the opposition you will hear a blatant and inaccurate appeal to provincialism. The theme is "Keep Kansans money in Kansas banks." This sounds nice. How could anyone be against it? The plain and simple truth is that the statement is a falsification of the facts.

We all know that all the money does not stay in Kansas, and in many cases not even half of it, and in some cases not even most of it.

The opponents of this bill are making a self-serving statement. They are saying, "Keep Kansas taxpayers money in Kansas banks."

I am saying with this bill, "Let's keep the money of the Kansas taxpayers in the taxpayers' pocket."

Mr. Chairman, we all have our vested interest. This is a matter of public record and there is certainly nothing wrong with it. Today, however, we sit on a different board of directors with a different set of stockholders. As Senators we sit on the Board of Directors of the State of Kansas. Our stockholders are the taxpayers. S.B. 557 is an effort to serve that interest.

STATEMENT BY

GENERAL MOTORS ACCEPTANCE CORPORATION

BEFORE THE

KANSAS SENATE WAYS AND MEANS COMMITTEE

IN SUPPORT OF SENATE BILL 557

FEBRUARY 13, 1984

AAA-2  
2-13-84  
4:00



GOOD AFTERNOON MR. CHAIRMAN AND COMMITTEE MEMBERS.

MY NAME IS ALBERT C. CLARK AND I AM THE DIRECTOR OF UNITED STATES BORROWINGS FOR GENERAL MOTORS ACCEPTANCE CORPORATION, WHICH IS HEADQUARTERED IN DETROIT. IN THIS CAPACITY, I AM RESPONSIBLE FOR MAKING ARRANGEMENTS TO MEET GMAC'S SHORT AND MEDIUM-TERM BORROWING REQUIREMENTS.

GMAC APPRECIATES THIS OPPORTUNITY TO SPEAK IN SUPPORT OF SENATE BILL 557.

GMAC IS A WHOLLY OWNED SUBSIDIARY OF GENERAL MOTORS CORPORATION. OUR PRINCIPAL FUNCTIONS ARE TO PROVIDE INVENTORY FINANCING FOR GENERAL MOTORS DEALERS AND RETAIL FINANCING FOR RETAIL PURCHASERS OF GM VEHICLES.

FOR MANY YEARS, GMAC HAS BEEN THE LARGEST SALES FINANCE COMPANY IN THE U.S. AT YEAR-END 1983, GMAC IN THE U.S. HAD 6 MILLION RETAIL ACCOUNTS OUTSTANDING, TALLING \$38 BILLION, AND WE WERE FINANCING 1.2 MILLION VEHICLES IN DEALER INVENTORIES, TALLING \$8.5 BILLION. GMAC'S CONSOLIDATED NET EARNINGS FOR THE YEAR WERE JUST OVER \$1 BILLION. DURING THE YEAR, WE FINANCED 41% OF ALL GM DEALER RETAIL DELIVERIES AND 79% OF GM DEALER INVENTORIES. THIS VOLUME REPRESENTS MORE THAN \$29 BILLION OF RETAIL DELIVERIES AND MORE THAN 4.3 MILLION VEHICLES FINANCED AT WHOLESALE TALLING MORE THAN \$54 BILLION.

GMAC FUNDS THIS ENORMOUS OPERATION BY BORROWING FUNDS IN THE MONEY MARKETS AND WITH STOCKHOLDER EQUITY OF \$4.1 BILLION.

ON A DAILY BASIS, OUR BORROWINGS OPERATIONS ARE MOST VISIBLE THROUGH OUR PRESENCE IN THE COMMERCIAL PAPER MARKET, WHERE WE CURRENTLY BORROW APPROXIMATELY \$15 BILLION. IN 1983, OUR TOTAL COMMERCIAL PAPER VOLUME WAS \$240 BILLION. A SIGNIFICANT PORTION OF THIS COMMERCIAL PAPER IS PURCHASED FROM TIME TO TIME BY VARIOUS AGENCIES OF MANY STATES AND, IN FACT, WE ESTIMATE THAT AT YEAR END 1983, THOSE AGENCIES HELD AS MUCH AS 7 TO 8% OF OUR COMMERCIAL PAPER AND 10 TO 12% OF OUR TOTAL DEBT. AGENCIES OF AT LEAST 40 STATES BUY COMMERCIAL PAPER. BECAUSE OUR "PAPER" CARRIES BOTH MOODY'S AND STANDARD AND POOR'S HIGHEST CREDIT RATINGS, WE ARE ABLE TO COMPETE ON FAVORABLE TERMS WITH EVERY MAJOR FINANCIAL INSTITUTION IN THE WORLD. ALSO, BECAUSE THERE IS A VERY ACTIVE SECONDARY MARKET FOR OUR PAPER, IT IS AN ELIGIBLE AND DESIRABLE HOLDING FOR MOST INVESTMENT PORTFOLIOS.

GMAC COMMERCIAL PAPER IS CONSIDERED BY MOST SOPHISTICATED INVESTORS TO BE AN INVESTMENT COMPARABLE AND, IN SOME CASES, SUPERIOR TO AN INVESTMENT IN BANK CD'S, BANKERS ACCEPTANCES AND REPURCHASE AGREEMENTS. IN FACT, NEXT TO THE U.S. GOVERNMENT AND THE COMBINED TELEPHONE COMPANIES (IF SUCH AN ENTITY EXISTS ANYMORE), WE ARE THE LARGEST SHORT-TERM BORROWER IN THE UNITED STATES.

WE AT GMAC BELIEVE THAT THE TREASURER, AGENCIES, AND MUNICIPALITIES OF THE STATE OF KANSAS SHOULD BE PERMITTED TO INVEST IN CORPORATE SECURITIES. HIGH QUALITY COMMERCIAL PAPER IN GENERAL, AND GMAC PAPER IN PARTICULAR, WOULD PROVIDE YOUR FUNDS MANAGERS WITH A LOW RISK, HIGH QUALITY, HIGHLY LIQUID, AND VERY FLEXIBLE ALTERNATIVE TO THE INSTRUMENTS YOU NOW USE. TERMS CAN BE TAILORED TO MEET INVESTOR REQUIREMENTS AND RATES ARE COMPETITIVE WITH OTHER ISSUERS.

OPPONENTS OF SENATE BILL 557 MAY ATTEMPT TO CHARACTERIZE THE SHORT-TERM SECURITIES OF LARGE CORPORATE ISSUERS AS BEING MORE "RISKY" THAN COMPARABLE BANK DEBT INSTRUMENTS. THE FACTS DO NOT SUPPORT THIS ASSERTION. DURING 1983, A YEAR GENERALLY CONSIDERED ONE OF ECONOMIC RECOVERY, MORE THAN FORTY BANKS FAILED IN THE U.S. MANY OTHERS WERE SALVAGED THROUGH MERGERS AND ACQUISITIONS. NO LARGE ISSUER OF COMMERCIAL PAPER CLOSED ITS DOORS, MUCH LESS DEFAULTED ON PAYMENT OF SCHEDULED MATURITIES. THIS IS NOT AN INDICTMENT OF BANKS, BUT MERELY AN INDICATOR OF COMMERCIAL PAPER ISSUERS' CREDITWORTHINESS.

IN TERMS OF FINANCIAL STRENGTH AND OVERALL CREDITWORTHINESS, GMAC COMPARES MOST FAVORABLY TO BANKS. AT YEAR-END 1983, GMAC'S TOTAL ASSETS WERE OVER \$50 BILLION, WHICH IF IT WERE A BANK, WOULD MAKE IT THE FIFTH LARGEST BANK IN THE U.S. FOR 1983, GMAC'S NET CONSOLIDATED EARNINGS OF \$1,002 MILLION WERE GREATER THAN ANY BANK IN THE U.S. A CUSTOMARY MEASURE OF RELATIVE SAFETY, OR RISK, IS A BANK'S RATIO OF

LIABILITIES TO EQUITY, MORE COMMONLY REFERRED TO AS LEVERAGE. HIGHER RATIOS REPRESENT GENERALLY GREATER RISK BECAUSE THERE IS A RELATIVELY SMALLER "CUSHION" OF STOCKHOLDER EQUITY FOR THE BANK TO RELY ON. TYPICALLY, BANKS ARE LEVERAGED SOMEWHERE BETWEEN 18 AND 25 TO 1. GMAC'S RATIO IS ONLY 10 TO 1.

NEARLY ALL OF GMAC'S LENDING ACTIVITIES ARE CONDUCTED ON A SECURED BASIS. IN OTHER WORDS, GMAC OBTAINS A SECURITY INTEREST IN THE VEHICLES IT FINANCES FOR DEALER INVENTORIES AND RETAIL PURCHASERS. IF A DEBTOR DEFAULTS, GMAC MAY EXERCISE ITS RIGHTS AS A SECURED CREDITOR AND RETAKE THE COLLATERAL, WHICH WOULD BE DISPOSED OF AND THE PROCEEDS APPLIED TO THE DEBT. FURTHER, OUR RISK IS SPREAD OVER 6.5 MILLION RETAIL CUSTOMERS WHOSE OBLIGATIONS ARE GENERALLY FOR A TERM OF 48 MONTHS OR LESS.

AS FURTHER SUPPORT, THE INVESTOR IN GMAC HAS A SIZEABLE CUSHION AGAINST OUR INABILITY TO COLLECT THE RECEIVABLES WE HAVE OUTSTANDING. IN ADDITION TO ITS \$4.1 BILLION OF EQUITY CAPITAL, GMAC CURRENTLY HAS OVER THREE QUARTERS OF A BILLION DOLLARS IN LOSS ALLOWANCES AND RESERVES WITHHELD FROM DEALERS. AT DECEMBER 31, 1983, THIS CUSHION TOTALLED \$4.9 BILLION AND WAS EQUIVALENT TO MORE THAN 11% OF RETAIL AND LEASE FINANCING RECEIVABLES OUTSTANDING. THIS CUSHION IS MORE THAN FORTY TIMES LARGER THAN GMAC'S 1983 LOSS EXPERIENCE. GMAC IS A MOST CREDITWORTHY BORROWER.

WE ANTICIPATE THAT SOME OF THE OPPONENTS TO SENATE BILL 557 WILL ALSO ATTEMPT TO PERSUADE THIS COMMITTEE THAT APPROVAL OF THE BILL WOULD RESULT IN STATE OF KANSAS MONEY "GOING OUT OF STATE" AND IN THE CONTROL OF "OUTSIDERS." GIVEN THE NATURE OF LARGE COMMERCIAL PAPER ISSUERS' BUSINESS IN GENERAL, AND GMAC'S ACTIVITIES IN THIS STATE IN PARTICULAR, THE FACTS DO NOT SUPPORT THIS ASSERTION. MOST ISSUERS OF HIGHLY RATED COMMERCIAL PAPER ARE COMPANIES WHICH OPERATE ON A NATIONWIDE BASIS. WE ASSUME MOST OF THESE COMPANIES DO SUBSTANTIAL BUSINESS AND MAKE SIGNIFICANT INVESTMENT IN THE STATE OF KANSAS. WHILE GMAC DOES NOT SPEAK ON BEHALF OF OTHER PAPER ISSUERS AND DOES NOT KNOW THE EXTENT OF THEIR OPERATIONS AND INVESTMENTS IN KANSAS, WE CAN TELL YOU ABOUT GM AND GMAC'S COMMITMENT TO THIS STATE AND THE IMPACT WE HAVE ON ITS CITIZENS.

IN THE STATE OF KANSAS, GMAC CONDUCTS ITS BUSINESS THROUGH FOUR BRANCH OFFICES SERVING 200 KANSAS AUTOMOBILE DEALERS. AS OF DECEMBER 31, 1983, THESE BRANCHES WERE SERVICING MORE THAN 58 THOUSAND RETAIL ACCOUNTS FOR KANSAS CITIZENS TOTALLING MORE THAN \$372 MILLION. AT THE SAME DATE, GMAC PROVIDED CAPITAL IN THE FORM OF INVENTORY FINANCING TO 157 KANSAS AUTO DEALERS REPRESENTING 12,518 VEHICLES AND MORE THAN \$115 MILLION. THE CREDIT APPROVAL DECISIONS TO MAKE THESE INVESTMENTS ARE MADE IN OUR FOUR KANSAS BRANCHES, NOT A FAR OFF CITY LIKE DETROIT. WE EXTEND MORE CREDIT TO KANSAS CONSUMERS THAN ANY BANK IN THIS STATE. IN FACT, IN TERMS OF TOTAL ASSETS IN KANSAS, THE \$487 MILLION OF

RECEIVABLES IN THE STATE WOULD MAKE US THE THIRD LARGEST BANK IN THE STATE. BECAUSE IT IS UNLIKELY THAT ANY LARGE BANK WOULD LIMIT ALL OF ITS LENDING ACTIVITY TO THE CONFINES OF ITS OWN STATE, ITS VERY LIKELY THAT GMAC TODAY HAS MORE MONEY INVESTED IN KANSAS THAN ANY KANSAS BANK. GIVEN GMAC'S TREMENDOUS INVESTMENT IN KANSAS CONSUMERS AND BUSINESS, GMAC PLAYS A SIGNIFICANT ROLE IN THE KANSAS ECONOMY.

OUR CORPORATE PARENT, GENERAL MOTORS, ALSO HAS A MAJOR COMMITMENT TO KANSAS AND ITS PRESENCE IN THE COMMUNITY IS WELL KNOWN. TO GIVE YOU AN IDEA OF THE EXTENT OF THIS COMMITMENT, CONSIDER THESE FACTS. GM HAS TWO MANUFACTURING PLANTS IN KANSAS--GMAD FAIRFAX IN KANSAS CITY AND THE DELCO REMY PLANT IN OLATHE. DURING 1983, THE AVERAGE EMPLOYMENT IN THESE PLANTS WAS 5,635 PEOPLE WITH A COMBINED PAYROLL OF NEARLY \$170 MILLION. DURING 1983, GM PURCHASED GOODS AND SERVICES FROM 880 LOCAL SUPPLIERS TOTTALLING MORE THAN \$56 MILLION.

GMAC AND GENERAL MOTORS ARE NOT "OUTSIDERS." OUR INVESTMENT IN AND OUR COMMITMENT TO THE STATE OF KANSAS ARE NOT SURPASSED BY THE OPPONENTS TO SENATE BILL 557.

TO SUMMARIZE, THE ABILITY TO INVEST IN CORPORATE SECURITIES WILL PROVIDE YOUR TREASURER, AGENCIES AND MUNICIPALITIES WITH A BROADER RANGE OF POTENTIAL INVESTMENTS WHICH THEY MAY USE TO ACHIEVE THEIR INVESTMENT OBJECTIVES. BY BROADENING THE RANGE OF POTENTIAL

INVESTMENTS, INCREASED COMPETITION FOR THE USE OF INVESTMENT FUNDS WOULD BE EXPECTED TO PROVIDE THE STATE'S FUNDS MANAGERS WITH GREATER RETURNS AT NO GREATER, AND PERHAPS REDUCED, RISK. FOR GMAC, INVESTMENT IN OUR SECURITIES DIRECTLY BENEFITS KANSAS CITIZENS BY AIDING OUR EFFORTS TO FUND WHOLESALE INVENTORIES FOR KANSAS AUTO DEALERS AND RETAIL CREDIT FOR KANSAS CONSUMERS. OUR ABILITY TO FUND GM DEALERS' AND RETAIL PURCHASERS' CREDIT REQUIREMENTS IS A CRITICAL LINK IN THE PROCESS OF DISTRIBUTING GM VEHICLES, SOME OF WHICH ARE BUILT IN KANSAS.

GMAC COMPETES WITH MANY OTHER FINANCE SOURCES IN MEETING THE AUTOMOTIVE CREDIT NEEDS OF KANSAS AUTO DEALERS AND CONSUMERS. WE WOULD WELCOME THE OPPORTUNITY TO COMPETE FOR OUR FUNDING NEEDS AS WELL.

GMAC SUPPORTS SENATE BILL 557 AND HOPES FOR A FAVORABLE REPORT BY THIS COMMITTEE.

WE THANK YOU FOR THIS OPPORTUNITY TO EXPRESS OUR POSITION AND WELCOME ANY QUESTIONS YOU MAY HAVE.

\* \* \*

SB 557

*Sec 15*

(d) When moneys are available, the board shall: (1) Purchase short-term corporate obligations; or (2) deposit for not to exceed 60 days in time deposit, open accounts. The board shall deposit such moneys in time deposit, open accounts in the banks and in the proportion prescribed by K.S.A. 75-4206 and amendments thereto for the making of such deposits of money OR (3) DIRECT OBLIGATIONS OF, OR OBLIGATIONS THE PRINCIPAL OF AND INTEREST ON WHICH ARE UNCONDITIONALLY GUARANTEED BY, THE UNITED STATES OF AMERICA. ~~If the board determines that it is impossible to purchase short-term corporate obligations or to deposit such moneys in time deposit, open accounts,~~ OR (4) it shall invest the same in repurchase agreements of less than 30 days' duration ~~with a Kansas bank~~ for direct obligations of ~~or obligations that are insured as to principal and interest by,~~ the United States government ~~or any agency thereof.~~

AHB  
2-13-84  
4:00





The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

February 13, 1984

TO: Senate Committee on Ways and Means

RE: SB 557

Mr. Chairman and members of the committee:

We appreciate this opportunity to appear before the committee to discuss the provisions of SB 557. As committee members are well aware, this bill is nearly identical to SB 164 of the 1983 session and our concerns relating to SB 557 are essentially the same as those expressed when we appeared before this committee last year on SB 164.

SB 557 essentially authorizes the 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 in excess of \$500 million. Thus a major change is being proposed in the legislative policy relating to the safety and security of public funds deposits.

Kansas laws regarding the investment of idle funds at the state and local levels have been carefully drawn over a number of years and have resulted in the very workable and safe system which Kansas taxpayers now enjoy. In fact, other states have looked to the Kansas pledging law as an example of a sound approach to insuring the safety of public funds.

The first responsibility of any taxing unit is to use the revenues raised from tax sources to provide services. If the collected tax revenues exceed the immediate needs of that governmental unit, then their next responsibility must be to make sure that those funds are safely invested. Kansas law has long provided for such safety and at the same time had assured governmental units a money market rate of return of those funds.

As the committee is aware, state law requires that if the home office of a bank or S&L is paying up to the 91-day T-bill rate for public funds deposits, then 70% of the deposit in excess of the insured amounts must be secured as provided in K.S.A. 9-1402 and K.S.A. 75-4201. If the financial institution is paying in excess of the 91-day T-bill rate, then any deposit in excess of the insured amount must be secured to 100%. There is no such pledging requirement for the investment in commercial paper as set forth in SB 557. Thus, the key question becomes, does the legislature desire to abandon the long standing policy of deposits being secured and allow a significant

A.H.C.  
2-13-84  
4:00

percentage of the deposits to be totally unsecured and invested in short-term promissory notes of private corporations?

SB 557, like 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 and it, therefore, introduces an element of risk that is not otherwise present in our existing laws, and embodies a concept that has been considered and rejected by other previous sessions of the Kansas legislature. To depart from this long standing policy position of not investing taxpayers dollars in unsecured private debt would be a major policy change.

The committee should also be aware that Kansas law (K.S.A. 9-1401 and 12-1675) allows local units of government to receive a negotiated rate of return of virtually all of their funds. Thus to imply that local units do not receive rates in excess of the 91-day T-bill rate is contrary to Kansas law and to what is actually happening in Kansas. Research done with some 79 banks in the 10 largest counties in the state of Kansas indicates that between April of 1982 and April of 1983 more than 1,500 CDs were issued by those banks to local units of government in excess of the 91-day T-bill rate and 650 CDs were issued above the commercial paper rate. This, of course, is only a sampling from 79 of the 623 banks in Kansas and we believe that a total survey would show a similar ratio with the remaining banks.

We would also like to point out to the committee that, as stated in our testimony last year on SB 164, the investment in corporate paper would allow the tax revenues of local and state governments in Kansas to be invested outside the state. As we mentioned, the need to keep tax revenues in the communities where they are raised in a capital short state such as Kansas has been a long standing legislative policy. The ability to provide the necessary capital for commercial, industrial and agricultural loans is critical to the economic well being of this state. We would also draw the committee's attention to the agricultural loan statistics which are included in this testimony showing that Kansas ranks number one in the nation in the percent of total farm loans held in banks among those states with over \$1 billion in farm loans. Whereas the national average for banks in all other states is 21% of the total farm debt financed by banks, in Kansas that figure is 31%. We believe this is strong evidence that the deposits in Kansas banks are being used to assist the agricultural economy so vital to the communities of our state. In addition, FDIC statistics for 1982 show that Kansas banks made real estate and commercial loans in excess of \$5 billion. As the attached editorial from the September 1, 1983 Topeka Capital-Journal states:

Senate Committee on Ways and Means  
February 13, 1984  
Page Three

"It's possible, even likely, that money invested in Kansas provides other benefits to the state besides the interest it earns. For the period it is invested, it contributes to the pool of capital available to launch or expand businesses which provide jobs and tax revenues for the state."

Once again, we would emphasize that the investment laws for local and state governments have been carefully considered by the Kansas legislature over many decades. The safety of these deposits of tax revenues for the various levels of government has been a first priority and the existing laws have worked well. The legislature has created a system which has been without scandal and has not resulted in the loss of one dime of public monies. We believe that to introduced into the system an element of risk such as that which is proposed in SB 557 and which, in addition, would take Kansas tax monies out of Kansas communities would be a major departure from the long standing legislative policy.

We would, therefore, respectfully request that the committee reject the proposed amendments to the local and state investment laws as contained in SB 557.

James S. Maag  
Director of Research

PUBLIC FUNDS SURVEY

Certificates of Deposits in excess of \$100,000 purchased by cities, counties and school districts during the period from April 1, 1982 to April 1, 1983.

Survey forms were sent to 10 counties in Kansas having a total of 145 banks in those counties with 79 of the banks participating in the survey (54.5% participation). (Crawford-6/11; Douglas-5/6; Johnson-10/28; Montgomery-7/8; Reno-11/14; Riley-5/7; Saline-5/7; Sedgwick-15/28; Shawnee-7/16; Wyandotte 8/28)

<u>91-DAY T-BILL INFORMATION</u>		<u>*COMMERCIAL PAPER RATE INFORMATION</u>		
<u>MONTH</u>	<u>NO. OF CD'S ISSUED ABOVE T-BILL RATE</u>	<u>MONTH</u>	<u>NO. OF CDs ISSUED AT CP RATE</u>	<u>NO. OF CDs ISSUED ABOVE CP RATE</u>
1982		1982		
APRIL	71	APRIL	2	14
MAY	110	MAY	2	24
JUNE	133	JUNE	3	28
JULY	108	JULY	5	64
AUGUST	147	AUGUST	3	103
SEPT.	164	SEPT.	3	34
OCT.	139	OCT.	1	58
NOV.	170	NOV.	5	83
DEC.	211	DEC.	8	114
1983		1983		
JAN.	114	JAN.	5	43
FEB.	85	FEB.	2	84
MARCH	144	MARCH	3	51
	<u>1,596</u>		<u>42</u>	<u>650</u>

\* - Commercial Paper Rate based on GMAC daily rate on 30-day, 60-day, 90-day and 120-day maturities.

AGRICULTURAL LOAN TOTALS

January 1, 1983

State	Non-R E Loans Held by Banks (millions)	R E Loans Held by Banks (millions)	Total Farm Loans Held by Banks (millions)	State*** Total (millions)	Bank %
KANSAS	\$2,224 (56%)*	\$211 (06%)**	\$2,434	\$7,809	31%
NEBRASKA	2,863 (49%)	115 (03%)	2,977	10,102	29%
MISSOURI	1,385 (51%)	559 (14%)	1,943	6,595	29%
OKLAHOMA	1,255 (47%)	228 (08%)	1,483	5,376	28%
CALIFORNIA	3,762 (58%)	532 (06%)	4,294	15,112	28%
ILLINOIS	2,379 (54%)	537 (08%)	2,916	10,781	27%
KENTUCKY	612 (40%)	409 (18%)	1,020	3,831	27%
TEXAS	2,552 (43%)	556 (09%)	3,107	11,998	26%
SOUTH DAKOTA	1,266 (44%)	50 (02%)	1,316	4,974	26%
IOWA	3,766 (51%)	343 (04%)	4,108	16,121	25%
MINNESOTA	2,256 (41%)	283 (05%)	2,539	11,154	23%
WISCONSIN	1,047 (35%)	475 (13%)	1,521	6,771	22%
INDIANA	997 (38%)	521 (11%)	1,498	7,225	21%
NORTH DAKOTA	913 (30%)	120 (05%)	1,033	5,379	19%

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\* % of all ag non-real estate loans held by banks

\*\* % of all ag real estate loans held by banks

\*\*\* % Total of all ag loans by all lenders

Kansas ranks number one (#1) in the nation in percent of total farm loans held in banks among states with over \$1 billion in farm loans. (National average = 21% Kansas = 31%)

Kansas ranks number two (#2) in the nation in the percent of non-real estate farm loans held by banks. (National average = 34% Kansas = 56%)



Thursday, September 1, 1983

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The Topeka Capital Journal

# Opinion

## Editorials

*In God We Trust*

### *No simple answers*

The best investment advice, of course, is contained in four little words: "Buy low, sell high."

Unfortunately, successful investing isn't that simple. If it were, we'd all be millionaires.

Investments, especially those made with tax dollars, are particularly subject to criticism. If government is too cautious, people may complain that the taxpayers have to pay extra because the investments aren't earning maximum returns. And if government leans too much the other way in investing, people may complain that the taxpayers have to bail the government out of its mistakes.

State Sen. Tom Rehorn, D-Kansas City, is among the first group. He says the law requiring the state to invest its idle funds in Kansas banks is "welfare for the well-to-do", and that the state could do better if it were allowed to shop elsewhere, particularly in corporate commercial paper, and to deal with New York City investment firms on repurchase agreements.

Rehorn cited a state treasurer's office study made last December that supports his contentions, and he has asked the chairman

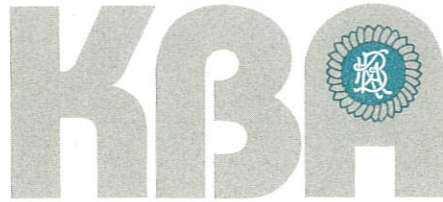
of the Special Committee on Efficiency in State Government to look into the state's investment policies and related laws.

True enough, taxpayers don't owe the Kansas bankers anything. But the other side of the coin is that they don't owe the New York brokerage houses anything either.

It's possible, even likely, that money invested in Kansas provides other benefits to the state besides the interest it earns. For the period it is invested, it contributes to the pool of capital available to launch or expand businesses which provide jobs and tax revenues for the state.

Any study undertaken should begin with the realization that the operation of the state treasurer's office and the policies of the Pooled Money Investment Board have been political footballs for several legislative seasons.

Investing tax money is a complex responsibility. It can't hurt if the Legislature looks for ways to improve this important part of the state's financial picture, but lawmakers must keep in mind that safety and security are as much a part of investing tax dollars as "buy low, sell high."



The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

February 13, 1984

TO: Senate Committee on Ways and Means

FROM: Harold Stones

RE: SB 557

Mr. Chairman and Members of the Committee:

- I. Since 1968, certain major policy positions have been reflected in public funds statutes.
  - A. Investment is not a proper function of taxation. Not one single Kansas taxpayer has ever been able to conclude that his or her hard-earned tax dollar has been placed in an "at risk investment", and if economic events turn, that some tax dollars may need to be levied all over again.
  - B. A reasonable rate of return should be allowed on those tax dollars not immediately needed --- but complex and stringent pledging laws have been in place to place maximum importance on safety. Safety has consistently been more important than maximum return.
- II. SB 557 contemplates investment of tax dollar in unsecured private debt --- a major policy change. There are many other forms of unsecured private debt that many analysts will promote that will bring a higher return than SB 557 contemplates. Major U.S. banks will promote higher yield Euromarket CD's; French and Japanese bankers will gladly visit with major investors about all the many safety factors involved in investing idle tax dollars in their portfolio.
- III. Current statutes allow money-market rates to be paid and the fund remain in the local unit. This results in the very best public policy for Kansas taxpayers. Their tax dollars are returning fair and adequate rates --- while maximum safety of the funds is guaranteed.

A handwritten signature in cursive script, appearing to read 'Harold A. Stones', is written over the typed name.

HAROLD A. STONES  
Executive Vice President