

MINUTES OF THE HOUSE COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

The meeting was called to order by CHAIRMAN, DAVID F. LOUIS at
Chairperson

9:00 a.m./~~p.m.~~ on Thursday, February 7, 1985 in room 527-S of the Capitol.

All members were present except:

Representative Mayfield-Excused

Representative R.H. Miller-Excused

Committee staff present:

Alan Conroy

Richard Ryan

Gordon Self

Rosalie Black

Conferees appearing before the committee:

James Turner, Kansas League of Savings Institutions

Gordon Self, Kansas Legislative Research Department

Jim Maag, Kansas Bankers Association

Susan Seltsman, Representing the State Treasurer

Representative Jessie Branson

Jacque Oakes, Kansas Association of School Boards

Marshall Crowther, Executive Secretary, KPERS

The meeting was called to order by David F. Louis, Chairman,
who asked for a staff briefing on House Bill 2122.

HOUSE BILL 2122 - HEARING

Gordon Self explained that House Bill 2122 allowed pledging securities for public funds at market value 100% of the amount of the account instead of the current 70%.

Jim Maag said Section I of HB 2122 would increase the required pledging to 100% for all deposits regardless of the rate paid and require that securities being pledged are at market value. He added that it should be noted, however, that by moving the requirement to 100% pledging of public fund deposits, it creates a situation where banks may find it difficult in certain circumstances to have adequate securities to cover large public fund deposits. Attachment 1.

Even though many school boards' funds currently are backed by 100% pledging, Jacque Oakes testified the school board association is concerned about their funds that are not pledged at 100%.

Susan Seltsman, representing the State Treasurer, reported that 100% pledging of securities would not be a burden on active state accounts.

Testifying that savings institutions have not yet studied House Bill 2122,

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS,
room 527-S, Statehouse, at 9:00 a.m. on February 7, 1985

Page 2

House Bill 2122 - Hearing (con't.)

James Turner indicated it would not have an adverse affect on them.

PROPOSAL - KANSAS POLICE AND FIREMEN'S RETIREMENT SYSTEM - MEMBERS'
SPOUSES

Representative Jessie Branson discussed the proposal she is sponsoring with Representative Clinton Acheson concerning remarriage of a spouse. She requested the words "or remarries" be stricken from Page 2. Attachment 2.

Marshall Crowther told the committee the cost of continuing Kansas police and firemen's retirement benefits to spouses after remarriage would cost the state \$11 million and local governments \$80 million. Annually, the cost to the state would be \$30,000.

If the committee decided not to strike the words "or remarries," Mr. Crowther said the proposal would have no fiscal implication.

Representative Sand moved that the KP&F members' spouses proposal be introduced by the committee and referred back as written; seconded by Representative Peterson. The motion carried.

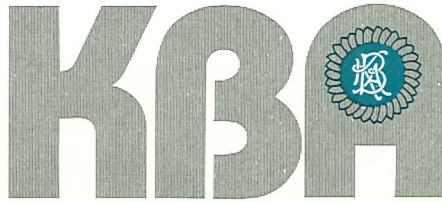
The meeting adjourned at 10:05 a.m.



Please PRINT Name, Address, the organization you represent, and the Number of the Bill in which you are interested. Thank you.

Feb. 7, 1985

NAME	ADDRESS	ORGANIZATION	BILL NO.
Susan Seltman		St. Louis Office	2122
Jacque Dakes	Jopoka	KASB	2122
Heaven Flint	Smith Center	Smith County	
Harry Jones III	Smith Center	Smith Co.	2122
Mike Bellinger	HAYS	ELLIS Co	2122



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 7, 1985

TO: House Committee on Pensions, Investments and Benefits

FROM: James S. Maag
Kansas Bankers Association

RE: HB 2122

Mr. Chairman and members of the Committee:

Thank you for this opportunity to discuss the provisions of HB 2122. The bill amends the Kansas statutes relating to the pledging of securities for deposits of state and local units of government. The safety of public funds deposits in Kansas banks has always been a high priority of the Kansas legislature and the Kansas banking industry and this bill is offered in the continuing desire to assure taxpayers that tax revenues deposited in Kansas banks will always be fully covered. We would emphasize that there has never been a dime of public funds lost and this bill is presented in the continuing tradition of assuring safety and soundness for public funds deposits.

The pledging requirements for deposits of local units of government are set forth in K.S.A. 9-1402 which outlines what securities can be used by Kansas banks and savings and loans to secure local public funds deposits. That particular statute also currently requires that if the rate paid by the bank or s&l is at or below the 91-day T-bill rate the deposit must be secured by securities with a market value which are equal to no less than 70% of the total deposit less federal insurance coverage. If banks or s&ls pay above the 91-day T-bill rate, then 100% pledging is required. Section one of HB 2122 would increase the required pledging to 100% for all deposits regardless of the rate paid and require that the securities beingpledged are at market value.

Pledging requirements for deposits of the state of Kansas are set forth in K.S.A. 75-4218 and section 2 of HB 2122 amends that statute to require 100% pledging rather than the current 70% pledging of securities on state deposits. Under current law there is no time when the required pledging exceeds 70% of any deposit of state monies. Therefore, the statute for state deposits is somewhat different than that for local public funds.

The State Affairs Committee of the Kansas Bankers Association endorsed the introduction of HB 2122 because of the concern expressed by local and state officials. Incidents have arisen recently in other states where public funds deposits have not been adequately secured and local and state governments may lose significant amounts in the closing of financial institutions. As stated above, while there has never been a dime of Kansas public funds lost thanks to the diligent work of the Kansas legislature and the Kansas banking industry, we must always be concerned about the comfort level of elected officials and the public concerning the deposit of tax revenues. Therefore, to clear away any concern on this issue, the decision was made by the State Affairs Committee to request this bill requiring 100% pledging.

It should be noted, however, that by moving the requirement to 100% pledging of public funds deposits it does create a situation where banks may find it difficult in certain circumstances to have adequate securities to cover large public funds deposits. In addition, they may not be as interested in bidding on these monies because of the increased pledging requirements. It might be well to note that one of the reasons for setting the pledging requirements at 70% originally was to attract a better rate of interest for the local and state deposits and by moving the pledging requirement to 100% it may have a depressing fact on the rates which are bid on the funds of local units of government. Therefore, we believe state and local units need to weigh carefully the positive and negative aspects of this type of legislation.

Kansas banks are very proud of the long tradition of service and cooperation they have with local and state governments in Kansas and we stand ready to work with them in deciding what are the best policies for the investment of their tax revenues.

Again, Mr. Chairman and members of the Committee, we appreciate the opportunity to present this issue to the Committee and ask for your favorable consideration of HB 2122.

9-1405. Deposit of bonds and securities; custody receipts. (a) All bonds and securities given by any bank, trust company, savings and loan association or federally chartered savings bank to secure public moneys of the United States or any board, commission or agency thereof, shall be deposited as required by the United States government or any of its designated agencies.

(b) All bonds and securities pledged to secure the deposits of any municipal corporation or quasi-municipal corporation shall be deposited with a state or national bank or trust company having adequate modern facilities for the safekeeping of securities or the federal home loan bank of Topeka, and a joint custody receipt taken therefor with one copy going to the municipal corporation or quasi-municipal corporation making the public deposit and one copy going to the bank, trust company, savings and loan association or federally chartered savings bank which has secured such public deposits. No bonds or securities pledged to secure public deposits shall be left for safekeeping in any safe deposit vault owned or controlled directly or indirectly by the bank, trust company, savings and loan association or federally chartered savings bank securing such public deposits.

(c) All such bonds and securities shall be deposited under a joint custody receipt issued by a bank within the state of Kansas or the federal reserve bank of Kansas City or the federal home loan bank of Topeka. All bonds or securities held by any depository and for which a joint custody receipt has been issued shall be retained by such depository and not released except upon consent of both the municipal corporation or quasi-municipal corporation making the deposit and the bank, trust company, savings and loan association or federally chartered savings bank taking or securing such deposit. In every report required to be published by any bank, trust company, savings and loan association or federally chartered savings bank it shall show in full all of the assets pledged or deposited as security for public moneys.

(d) A bank, trust company, savings and loan association or federally chartered savings bank which fails to pay according to its terms any deposit of public moneys of any municipal or quasi-municipal corporation shall immediately take such actions as are required to enable bonds and securities pledged to secure such deposit to be sold to satisfy its obligation to the municipal or quasi-municipal corporation. (L. 1982, ch. 52, § 4; L. 1983, ch. 47, § 5; July 1.)

9-1406. Exemption from liability of public deposit. No public officer nor the sureties upon such officer's bond shall be liable for any loss sustained by the failure or default of any designated depository or depositories after a deposit or deposits have been made in an officially designated bank, trust company, savings and loan association or federally chartered savings bank as provided in this act. This exemption from liability shall apply even though other statutes shall require the furnishing of a bond or other securities by the designated depositories of public moneys. (L. 1947, ch. 102, § 68; L. 1983, ch. 47, § 6; July 1.)

9-1407. Exemption of security for insured portion of public deposits. That portion of any deposit of public moneys or funds which is insured by the federal deposit insurance corporation, or its successor, or the federal savings and loan insurance corporation, or its successor, need not be secured as provided in this act. (L. 1947, ch. 102, § 69; L. 1982, ch. 52, § 5; July 1.)

Article 42.—STATE MONEYS

75-4201. Definitions. As used in this act, unless the context otherwise requires:

- (a) "Treasurer" means state treasurer.
- (b) "Controller" means director of accounts and reports.
- (c) "Board" means the pooled money investment board.
- (d) "Bank" means a state or national bank or trust company doing business within the state of Kansas.
- (e) "State moneys" means all moneys in the treasury of the state or coming lawfully into the possession of the treasurer.
- (f) "Custodial moneys" means state moneys deposited with the treasurer which, in the written opinion of the attorney general, are required by contract, bequest or law to be segregated from other bank accounts.
- (g) "Special moneys" means moneys which are required to be or are deposited in a custodial bank account or a fee agency account by the state or any agency thereof.
- (h) "State bank account" means state or special moneys deposited in a designated bank in accordance with the provisions of this act.
- (i) "Active account" means a state bank account which (1) is payable or withdrawable, in whole or in part, on demand, and (2) is in a bank not having an inactive account.
- (j) "Inactive account" means a state bank account which is not payable on demand but shall not include custodial accounts.
- (k) "Time deposit, open account" means a state bank account which is a deposit, other than a time certificate of deposit, with respect to which there is in force a written contract which provides that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity or the expiration of the period of notice which must be given by the board in writing.
- (l) "Custodial account" means a state bank account of custodial moneys.
- (m) "Fee agency account" means a state bank account of any state agency consisting of fees, tuition or charges authorized by law prior to remittance to the state treasurer.
- (n) "Disbursement" means a payment of any kind whatsoever made from the state treasury or from any active account, except transfer of state or special moneys between or among active accounts and inactive accounts or either or both of them.
- (o) "Interest period" means three months commencing on the date an inactive account is initially deposited, and each three months thereafter, and in the case of time deposit, open accounts means the period of the deposit but not exceeding three months.
- (p) "Securities" means any one or more of the following:
 - (1) Direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof.
 - (2) Kansas municipal bonds which are general obligations of the municipality issuing the same.
 - (3) Revenue bonds of any agency or arm of the state of Kansas.
 - (4) Revenue bonds of any municipality, as defined by K.S.A. 10-101, within the state of Kansas or bonds issued by a public building commission as authorized by K.S.A. 12-1761 if approved by the state bank commissioner, except (A) bonds issued under the provisions of K.S.A. 12-1740 *et seq.* unless such bonds are

rated at least MIG-1 or Aa by Moody's Investors Service or AA by Standard & Poor's Corp. and (B) bonds secured by revenues of a utility which has been in operation for less than three years. Any expense incurred in connection with granting approval of revenue bonds shall be paid by the applicant for approval.

(5) Temporary notes of any municipal corporation or quasi-municipal corporation within the state of Kansas which are general obligations of the municipal corporation or quasi-municipal corporation issuing the same.

(6) Warrants of any municipal corporation or quasi-municipal corporation within the state of Kansas the issuance of which is authorized by the state board of tax appeals and which are payable from the proceeds of a mandatory tax levy.

(7) Bonds of any municipal or quasi-municipal corporation of the state of Kansas which have been refunded in advance of their maturity and are fully secured as to payment of principal and interest thereon by deposit in trust, under escrow agreement with a bank, of direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America. A copy of such escrow agreement shall be furnished to the treasurer.

(8) All of such securities shall be current as to interest according to the terms thereof.

(9) Whenever a bond is authorized to be pledged as a security under this section, such bond shall be accepted as a security if (i) in the case of a certificated bond, it is assigned, delivered or pledged to the holder of the deposit for security; (ii) in the case of an uncertificated bond, registration of a pledge of the bond is authorized by the system and the pledge of the uncertificated bond is registered or (iii) in a form approved by the attorney general, which assures the availability of the bond proceeds pledged as a security for public deposits. (L. 1982, ch. 362, § 1; L. 1983, ch. 49, § 96; May 12.)

75-4202. Active accounts. All state moneys and credits received by the treasurer shall be deposited daily in one or more active accounts or time deposit, open accounts except custodial moneys which shall be so deposited in custodial accounts. All disbursements shall be drawn from active accounts. All banks having a state bank account shall service all warrants, drafts or checks of the state or its agencies without charge. (L. 1967, ch. 447.)

75-4205. Active bank accounts; designation of banks; limitations on deposits; deposits in time deposit, open accounts and investments in repurchase agreements, when. (a) The board shall designate one or more banks to receive active accounts. The capital and surplus of any bank having an active account shall be not less than \$2,000,000. In determining the amount of the award of an active account to any bank designated under this subsection therefor, the board shall give consideration to the amount of service to be required of it. Active accounts shall bear no interest.

(b) The aggregate moneys in all active accounts shall not exceed \$40,000,000 at any time, except that in periods of anticipated peak disbursements, the board, in its discretion, may cause the aggregate moneys in the active accounts to exceed such amount for the duration of such periods of peak disbursements, not to exceed 10 days. At any time moneys in active accounts exceed 50% of the award of such accounts, additional moneys may be deposited in time deposit, open accounts.

(c) If the aggregate of all active accounts exceeds the limit prescribed in subsection (b), the board shall direct the treasurer to make withdrawals within 60

HOUSE BILL NO. _____

AN ACT concerning the Kansas police and firemen's retirement system; relating to retirement benefits of members' spouses; amending K.S.A. 1984 Supp. 74-4958 and repealing the existing section.

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

Section 1. K.S.A. 1984 Supp. 74-4958 is hereby amended to read as follows: 74-4958. (1) Any member who retires on or after such member's normal retirement date shall be entitled to receive an age and service retirement benefit equal to 2% of such member's final average salary multiplied by the number of years of credited service except that in no case shall such retirement benefit exceed 70% of such member's final average salary.

(2) Any member who retires before such member's normal retirement date shall receive an early retirement benefit equal to the annual retirement benefit payable had the member retired on the normal retirement date reduced by an amount equal to the product of (A) such annual retirement benefit payable had the member retired on the normal retirement date, multiplied by (B) the product of .4% multiplied by the number of months difference, to the nearest whole month, between the member's attained age at the time of retirement and age 55.

(3) Upon the death after retirement of a member who was covered, up to the entry date of the member's employer, by a pension system under the provisions of K.S.A. 12-5001 to 12-5007, inclusive, and any amendments thereto, or K.S.A. 13-14a01 to 13-14a14, inclusive, and any amendments thereto, or K.S.A. 14-10a01 to 14-10a15, inclusive, and any amendments thereto, and who had not elected to retire under one of the options provided under K.S.A. 74-4964 and amendments thereto, the member's spouse, if such spouse was the member's lawfully wedded spouse for a

period of not less than one year at the time of the member's retirement or if such spouse had been the member's lawfully wedded spouse for at least five years after the time of the member's retirement, shall receive a lump-sum benefit equal to 1/2 the member's final average salary at the time of the member's retirement and shall receive an annual spouse's benefit equal to 75% of the member's retirement benefit payable in monthly installments, to accrue from the first day of the month following the member's date of death and ending on the first day of the month in which the spouse dies or remarries. However, if such member's spouse who remarries later becomes an unmarried person, such member's spouse shall be entitled again to receive annual benefits in an amount equal to that which such member's spouse was receiving when such annual benefits were terminated due to remarriage. Such annual benefit shall accrue from the first day of the month following the date such member's spouse again becomes an unmarried person. If there is no surviving spouse, or if after the death of the spouse there remain one or more unmarried children under the age of 18 years, the annual spouse's benefit shall be payable in equal shares to such children and each child's share shall end on the first day of the month in which such child attains the age of 18 years, dies or marries, whichever occurs earlier. All payments due under this section to a minor shall be made to a legally appointed conservator of such minor as provided in subsection (7) of K.S.A. ~~1982-Supp.~~ 74-4902 and amendments thereto.

(4) Upon the death after retirement of a member who had not elected to retire under one of the options provided under K.S.A. 74-4964 and amendments thereto, such member's beneficiary shall receive an amount equal to the excess, if any, of such member's accumulated contributions over the sum of all retirement benefit payments made.

Sec. 2. K.S.A. 1984 Supp. 74-4958 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.