Approved MARCH 22, 1990
Date

MINUTES OF THE HOUSE COMMITTEE ON PENSION, INVESTMENTS AND BENEFITS.

The meeting was called to order by Rep. Vernon L. Williams at
Chairperson

10:00 a.m./p.m. on January 17, 1990 in room 527-S of the Capitol.

All members were present except: All present

Committee staff present:

Alan Conroy, Legislative Research
Richard Ryan, Legislative Research
Gordon Self, Revisor's Office
Mary Meier, Committee Secretary
Marshall Crowther, KPERS
Jack Hawn, KPERS

Conferees appearing before the committee:

James R. Turner, President, Kansas-Nebraska League of Savings Institutions

Rep. Williams welcomed the Committee and introduced the staff. He then introduced the two new committee members: Robert Watson and J. W. (Jim) Long, who spoke briefly about their background.

Rep. Williams stated that in the '89 session a number of bills were incorporated either in whole or in part, in the Omnibus Bill 2403. Rep. Williams asked for a MOTION to pass out those bills with the recommendation they be not passed in order to reduce the number of bills on the Committee's agenda. Rep. J. C. Long made the MOTION to pass out House Bills 2357, 2400, 2405, 2407, 2410, 2414, and 2417, and Senate Bills 208, 356 and 391. The MOTION was SECONDED by Rep. Wisdom. The MOTION CARRIED by unanimous voice vote.

Rep. Williams asked for approval of introduction of certain bills. A list of bills (Attachment 1) was distributed. Rep. Williams explained briefly the bills on list. Rep. Sader made a MOTION that those bills be introduced as Committee bills. The MOTION was SECONDED by Rep. Wilbert and the MOTION CARRIED by unanimous voice vote.

Rep. Williams introduced Marshall Crowther, Executive Secretary, KPERS. Rep. Williams congratulated Mr. Crowther on awards and commendations he had received in 1989. Mr. Crowther then presented a review of the current status of KPERS. (Remarks attached as Attachment 2).

Rep. Sader requested that at the beginning of next meeting Mr. Crowther be available to answer questions about the KPERS Annual Report.

Rep. Williams introduced James R. Turner, President, Kansas-Nebraska League of Savings Institutions, who presented his request for introduction of a proposal dealing with the authority of savings and loan institutions in Kansas to bid on State fee agency accounts (Attachment 3).

Rep. Sader made a MOTION that the Committee approve introduction as a Committee bill. MOTION was SECONDED by Rep. Wells. MOTION CARRIED by unanimous voice vote.

Committee adjourned at 10:55 A.M.

Vernon L. Williams

Rep. Vernon L. Williams
Chairman

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

Proposals for possible introduction as House Pensions, Investments and Benefit Committee bills:

(1) Four percent cost of living increase for all retirants. These provisions will include insured disability recipients (9 RS 1820).

(2) Monthly retirement benefit increase equal to $1 for each year of credited service and $1 for each year retirement for retirants who retired prior to July 1, 1971, with at least 10 years of credited service (9 RS 1821).

(3) When compensation for the last year of credited service exceeds 125% of any other year used in the calculation of final average salary, the excess will be disallowed and contribution on the excess will be returned to the member (9 RS 1825).

(4) Provides a normal retirement date of 62 years of age with the completion of 30 years of credited service (9 RS 1852).

(5) Allow adjustment of final average salary at the time of retirement for long-term disability recipients who are members of the Kansas police and firemen's retirement system and who elected the special provisions in 1989 House Bill No. 2403 (9 RS 1853).

(6) The maximum amount of the KPERS long-term disability payment is raised from 65% to 66 2/3% of the member's annual rate of compensation (9 RS 1877).

(7) Provide that pension or benefit or accumulated contributions due and owing from the system to a member of KPERS shall be subject to enforcement of a decree or a claim for child support or maintenance (9 RS 1902).

(8) Allow purchase of KPERS credit for service by an employee of the state board of regents and institutions under its management for which the employee will receive no future benefits (9 RS 1951).

(9) Provide retirants with at least 10 years of credited service with a medicare health care benefit in the amount of $50 a month for each year of service above 10 years. The amount of such benefit shall not exceed $10 a month (9 RS 1950).

ATTACHMENT 1

1-17-90

HOUSE COMM. PENSIONS INVESTMENTS & BENEFITS

MARSHALL CROWTHER'S REMARKS (JANUARY 17, 1990)

TO HOUSE PENSIONS, INVESTMENTS AND BENEFITS COMMITTEE

Thank you, Mr. Chairman.

It's good to be back and have the opportunity to be with the committee again, and say "hello" to new members and to those with whom we've had some contact in the past. I know that you have some constraints on time and you will probably need some time at the end of the meeting for some housekeeping sort of things so I'll try to make just a few comments about KPERS and retirement for public employees in Kansas in general; to talk briefly about our Annual Report which I think you all have received copies through Legislative Services; and make some general comments about KPERS. Hopefully, there will be some time for a few questions at the end of my presentation. If I can supply anything else for the committee I'll be happy to.

I think it is important to just keep in mind as you consider the many things that come before you, such as deleting 10 bills and adding 9 more all on top of what you already have, the amount of retirement legislation that comes to this committee -- such as bills carried over from the 1989 session -- retirement is a matter that's very important to many of our citizens.

We have over 38,000 beneficiaries that receive benefits each month, approximately 1,500 totally disabled KPERS members that receive monthly benefits and over 110,000 members of the system that have not yet retired and are participating or are vested and waiting to make application for retirement benefits. The fact that last year we paid out more than $145,000,000 in monthly benefits to our retirants and over $19,000,000 in life and disability benefits through the insurance program indicates this is a significant program for many of our citizens and for most citizens that are in public service.

Aside from the City of Wichita and the City of Great Bend and certain departments of two or three other cities; the public employees throughout the State of Kansas, if they have a retirement plan other than social security, are in one of the KPERS administered programs.

Attachment 2
1-17-90
House Comm. on Pensions,
Investments + Benefits

KPERS includes all state employees, the public school employees, the county employees and employees of over 300 cities. There are approximately 1200 local units that make up KPERS. Kansas used to have separate retirement plans for many local unit employees, the public school employees had a different retirement system, and in the police and fire there were multiple employers with their own plans as opposed to one plan.

The trend in the last 20 years has been to have an "umbrella" program which provides the basic benefit for public employees in this state and then gives local opportunities for modification. For example, the early retirement incentive programs in schools can be locally tailored to individual situations. Deferred compensation and the tax shelter annuity programs for state employees add another aspect to what some people call the 3-legged stool of retirement -- that is social security, the benefits through employment and whatever the individual supplies from their own means. So one of the policy decisions you make is whether to have a large umbrella organization with a benefit program for public employees or whether you are going to start having various provisions for individual groups within a program.

KPERS is a defined benefit plan. I mention that because benefits are based on a formula of years of service times a percentage of salary. That is different than what some people encounter in the private sector. For some people in the tax sheltered annuity, school employees with deferred compensation, or some other employees in a defined contribution plan, it's a different approach. In a defined contribution plan it's very important what goes in, what's in a member's account, how much his or her earnings on those contributions are -- all those things affect the benefits at the time of retirement. In a defined benefit plan what affects that benefit is the years of service and a percentage of salary. Whether zero interest is credited to a member's account or ten percent, it doesn't change the monthly benefit at retirement.

When I mention public policy -- this is sometimes not understood -- I mean that almost all of the provisions of KPERS benefits are set by state statute. These are public policy decisions that are made by the legislature. There are some benefit levels within the KPERS group insurance program that are at the discretion of the board of trustees. However, these decisions are made within guidelines, the amount of money available, and <u>limitations set by statute</u>.

Public policy is made by you through the legislative process. So you are the policy makers. One of the things that is sometimes not understood is that the KPERS system is not an advocate in the process. KPERS does not have a legislative program or legislative agenda. We are not in the policy making business. We are here to provide information. Those who know me know I'm not hesitant to give some personal observation, but the only legislative position the KPERS Board will take is on matters that affect the operation of the system because that is their responsibility.

The level of benefits is decided in a public forum and that's the area where the legislature makes these decisions. Certainly, we provide the fiscal notes to assist the budget division, legislative research and your committee on any legislation that's introduced. Sometimes -- and I've said this before -- we're extremely pleased that the old custom of killing messengers that bring bad news has been abolished because it's perceived that the messenger has some bias in legislation if what seems like a good idea costs $10 million and as you know that may have some effect on what happens or what doesn't happen. What we are doing is simply the reporting of facts.

KPERS is governed by a seven member board of trustees appointed to overlapping four-year terms, by the Governor and confirmed by the state Senate. The board employs an executive officer who is the executive secretary. Currently, that's me. The administration of the policy set by the board is my responsibility.

There's a very excellent summary of the various provisions of the various systems legislative research has available. I believe you have all been sent a copy.

The KPERS system is funded on an actuarial reserve basis. That's an innocent little statement, but it has significance because the theory is that the policy decision of this state is to pay for services as they are performed and not to give IOU's so that the cost of current retirement is not passed on to future generations. For many years, the idea that was prevalent in retirement systems was what was called a "pay as you go" plan. All that was important was to raise enough revenue to pay the benefits that were due that year and the next year we'll just raise more revenue, if we can.

That approach has some problems. It's a real easy theory to fund when the system is just getting started and you don't have many people being paid benefits and you have a lot of new workers coming in! They are all young and the money just keeps rolling in. As the system becomes more mature you have more people that are retiring, and because of many factors you start to make cut-backs in the workforce. There are fewer people becoming members and money to pay benefits becomes a problem. It's the same sort of thing you see now, for example, with social security. When social security was started you had one retirant and 15 workers. Now we're down to one retirant and three workers. This ratio is continuing to go down.

The idea of actuarial reserve funding is to look at the potential liability. For example, when KPERS started members got credit for prior years of service. There hadn't been any money contributed for those services. So there was an unfunded liability. The decision was made to give credit and to pay for this service. Each year as you go along the employer and the employee's contributions to the fund have to be sufficient to meet the cost of service performed plus the employer contributed an amount to pay off the unfunded liability over a period of time. At the end of the year not only had the worker received paychecks, but money had been put into the trust fund to pay for that year's proportion of benefits to be received at time of retirement.

What happens is that you accumulate a large trust fund. Because we're accumulating money for the 25 year-old worker who is 40 years from retirement the trust fund looks like a lot of money and it looks like it ought to be something that can be spent -- because it's extra money or it's surplus money of some kind. The fact of the matter is that all of the dollars in the KPERS fund have already been spent. It's obviously cheaper in the long run to finance future retirement benefits as you go along because of the opportunity to earn while waiting to pay those benefits. Because of this it doesn't take as many dollars -- you just do it at an earlier point in time. Not all public funds take the same approach or have done the same job of funding their plan as Kansas.

Our funding ratios are around 90%. That means that if no more service were added, that money to pay for 90% of the benefits earned to date is already there. Compare that to, for example, Oklahoma. The Oklahoma funding ratio is somewhere between 40% and 45%. They don't have funds sufficient to pay for promised benefits. In times of serious recession that can be scary for a retirant. There are many variations on this theme, but I can tell you that Kansas is, depending on what happens each year, one of the top three or five public funds in the country in terms of being soundly funded. Actuarial reserve funding is a different approach and it certainly does result in a large fund. The KPERS fund is about $3.8 billion. That's a lot of money and the public policy decisions you made about advance funding is the reason that it's reached that level. If you make an enhancement, you put in the money to pay for it.

We have an annual report that I'm really proud of. We were the first public system to decide to make the commitment that the annual report should be something other than a puff-piece or something that you put out to prove whatever point you wanted to. Each year, since I have been Executive Secretary, we have submitted our annual report to the Government Finance Officers' Association (GFOA) to be reviewed against their criteria to determine eligibility for a Certificate of Achievement for Excellence in Financial Reporting. We were the first public retirement system in the United States to receive this certificate and we have received the award every year since I've been the Executive Secretary, starting in 1981. This doesn't mean that the information in the report is good news, but it does mean that it's presented in a recognized manner and fully discloses what is discussed. We think that's important for the integrity of what we're doing.

I recognize the tight budget situation this year so I'd like to recognize Ron Bleidissel who's the head of our accounting and who's really responsible for the annual report, and that's your raise for this year Ron. And while I'm taking care of some of these budget saving things, Jack Hawn, who is my deputy, is responsible for the budget document. Stand up Jack. We also send the budget document to the Government Finance Officer's Association, and have received an award for Distinguished Budget Presentation. On page 6 of the annual report is a copy of this award. We were the first public system to receive this award and are the only public system that has received both awards. Sorry about that Jack, but that's all the raise you get this year. These documents require a lot of hard work, but we think it's important to have the integrity of how you report and how you present information.

There are a couple of things that have happened this last year that I'd like to report to you because they were the subject of a discussion in this committee. A couple of years ago there were hearings about the wire transfer of state employees' paychecks directly to their bank, and the wire transfer of the retirants' benefits for direct deposit. There was legislation that enabled us to move forward -- we had been interested in this area for some time. Obviously, our responsibility was only with regard to our retirants. As you know, the state does not have that in operation for its employees at this time for whatever reason and I'm not sure when it's scheduled to move forward; however, we were able to start the wire transfer for those of our retirants that wanted direct deposit in that manner last year.

We have completed that process for all of our retirants that were interested in having their retirement benefit sent directly to their account. There are 14,500 retirants who are having their monthly benefits deposited directly by wire transfer. That procedure has been completed for some four months and we are wiring to financial institutions all over the country. We're pleased to report that the retirement part of the legislation has been accomplished.

The annual report has several items on a couple of pages you may want to glance at to keep in mind. One is the 10-year highlights that appear on page 14. This is an overview. Sometimes it's helpful just to look at what's happened and the changes that we've gone through. One thing that is fairly tough to fit into this presentation is the employer contribution rates. For the members of KPERS or any of the other systems -- the Police and Fire, and the Judges system -- the employees have a statutory contribution. At KPERS it's 4%; Police and Fire is 7% and Judges' is 6%.

The employers do not have a statutory rate of contribution. The employers have the obligation under the law to contribute whatever is needed to meet the actuarial requirement for funding the benefits of the employees. That is a two-edged sword. It means that if a good many improvements and enhancements are enacted, then the money to pay for them has to come from someplace. There are only three sources of revenue for the retirement system: 1) what the employees contribute; 2) what the employers contribute; and, 3) the investment income. If you take a look at page seven in the annual report you will see that the biggest share of revenue is from investment income.

The employee contribution rate is set by law, the employer contributions rate can go up or down depending on experience and what the systems needs are. If there are improvements that have to be paid for, or if there's experience that isn't as favorable as was expected, then the money comes from the employers and the employer rates go up. When you look back over the 10-year highlights you will see that although the employer rates trended down it's generally been higher than the employees. In some instances the employers have contributed almost 8%; however, the 5%-6% range is most common. Right now, the employers are contributing less than the employees. Their rates are below the 4% of the KPERS employee because of good experience. So the employer, if you will, has the risk of unfavorable experience or enhancements that have not been funded in the past which add to the cost. Good experience reduces the cost. For many years, we had exceptional experience and had the best of both worlds. The employer rate declined slightly and we had benefit improvements made by using some of the good experience from the declining rate.

At the present time, we have an employer rate under KPERS for the state and for the schools. As you probably remember, the local school districts do not make employer contributions to KPERS. That is a State General Fund Appropriation and goes back to the merger of the State School Retirement System with KPERS in 1971 which was the starting of the funding of the benefits for school employees. The policy decision was to not place that obligation on the local school districts, but to make that as part of the State's obligation to education through the payment of the employer contribution rate. This is part of state aid for education. So, the State has the obligation for state employees and for the local school district employees. That is one rate! There's another rate calculated for the local units of government -- the cities, the counties, the various special districts.

Right now, in fiscal '90 for the state, the state employees and the school, the current employer contribution rate is 3.1% On July 1, the beginning of FY 1991, the employer rate will go to 3.2% for the state, for the school and for the state's employees. This fall we certified the rate for fiscal year 1992 to be 3.6%. These are actuarially determined and are calculated each year. For the local units of government, because their composition of employees and other factors, are different, and because they operate on a calendar year as opposed to a fiscal year, of July 1-June 30 the present rate is 2.6% and in 1991 we have certified 2.4%.

Obviously, the investment income is an important factor for funding of benefits. Anything that's done through the return on the money, of course, lessens the obligation of the local units of government, the state and the taxpayers. It is important to have productive use of those sums that are accumulated for future benefits, and that is a major responsibility of the board. They employ investment managers. On page 69 of the report is a highlight of the last 10 years investment returns.

For anyone who has had or has taken the time to examine this year's annual report and compared it carefully to last year's annual report, you will see that there are some changes in some of the past years investment numbers. These changes result from the fact that in past years we had used preliminary numbers because we didn't have the final numbers available at the time we went to press and simply had not gone back and corrected to the actual numbers when they were received.

This year through a lot of hard work on the part of staff, and some improvements that our investment consultant made in their data processing capability, we were able to generate the data in a more timely manner and have received actual numbers for this year much earlier.

We realized that we had not made changes from preliminary to final numbers in past years. This year we did go back and make these adjustments. Ron told me that out of 36 numbers 12 went up and 9 went down. If anyone has done that comparison the question that springs to mind is what effect does that have on the bottomline of what has been done in the calculations of the needs of the system.

The answer is it has no effect because the only rate that's taken into account for actuarial calculations is the very top line of the table on page 69 which is called the "accounting rate of return" which is actual money received. Those rates didn't change. The accounting rate is determined by dividing income (interest, dividends and net realized gains and losses) by average assets. The weighted rates of return are calculated by assuming that you bought the fund at the start of the period and that you sold it at the end and is the rate that it took to get from the beginning to the end. The accounting rate uses what is in the "cash register", while the weighted rates uses market value so it does include paper profits or losses. The weighted rates are certainly important and certainly something that we follow closely, but they are not, because the money hasn't been realized, used in any of the actuarial calculations.

While we are speaking about rates of return, that is one of the things that was of particular concern to the board in analyzing the performance of the investment managers. The board has 15 different managers who have different areas of responsibility. The board has an investment consultant that assists them in research and performance measurement and other things such as that. One of the parts of the fund that was of concern was the "equity" or the "common stock" segment because it had not, for a variety of reasons, been performing as they would have liked.

A year ago in August, the board initiated an asset allocation study which resulted in changes concerning how much was in the various categories of stocks, bonds, foreign investments, real estate or direct placements. After finishing that in November of that year, the board initiated another study of the equity portion and concluded that changes were appropriate.

In April of last year, the board replaced two of the mangers who had a growth stock bias with managers that had a value and income focus. The board continued with their study and replaced another manager with an "index fund" that has very low fees. The index fund is essentially a matching of the return of the S&P 500, but with a couple of the restrictions that we have. By constitutional provisions we cannot invest in banks or bank stock. The board has a policy related to investments in companies that have business operations in South Africa. The board has made new decisions regarding the allocation of over a billion dollars of the equity investments and we think the results are going to be pleasing.

The board also made an allocation to real estate through a different vehicle than they have used in the past -- a vehicle titled a CORE Group Trust -- a combining with three other large public employee retirement systems --

the State of Nevada, the City and County of San Francisco and Los Angeles County. Each system contributed $100 million to enable the trust to invest in large buildings or properties in major business centers. The first two investments have been an office building on Madison Avenue in New York and one in downtown San Francisco.

The changes have been to diversify-to avoid all the eggs in one basket.

By looking at the returns for the 12 month period that ended with the third quarter of 1989, the total fund was up some 20% on a total return basis. We think that the accounting rate of return for calendar year '89, is going to be double digits and although we don't have all the final work done to calculate this number, we believe that the changes made by the board are starting to payoff.

Another thing that the system has, and undoubtedly from time to time you hear about, is an allocation to direct investments, or in other words things that are not traded over exchanges like the typical stocks or bonds. Sometimes these investments are referred to as venture capital, but it's more in the nature of mezzanine financing. These are invested directly in various businesses and are primarily targeted in the State of Kansas. There's some $250 million of the $3.8 billion total that is allocated to two of these direct placements funds. The board, has spent a great deal of time to find creative ways to take advantage of investment opportunities in local communities in the State of Kansas where possible.

If there's some business in your community that KPERS money is invested in, you can be reasonably sure there are some people who think it is darned foolishness that any money was put there in the first place. That about equals out with if you didn't do it there would be several people who would suggest that after all, this is tax money and ought to stay in the state. So you have two different pushes.

There is no doubt that bad news makes better reading, and the direct placement program is a high risk exposure, there's no question of it. It's probably a lot flashier reading when the fund losses are $5 million or $6 million in Physio Technology or some investment such as that as opposed to the fact it made $17 million on a $600,000 investment in Sheplers.

Trying to keep their eye on the ball all the time of what they're doing, that segment is measured as a portfolio in itself. Over the years, the return has been somewhere around 10%, but it's another area they're looking at because it does have a lot of risk and a lot of high visibility. Although individual investments may make headlines, it is important to remember that the direct placement segment is measured as a total portfolio. It is important to monitor the progress of the portfolio. Because of the potential risk and the high visibility, the board examines this program rather closely.

The present board recognizes that the fund is maturing. We have more cash needs as we have more retirants and so there's some shifting from a high growth stock position into more income generating stocks. This situation is the same as you see for individuals as they plan their own future. In the years where they have few obligations they take more risks. You go more to growth stocks, things such as that. As they start to have more obligations, they start to make shifts to more longer-term income generating investments. This is a situation the board is continually re-examining. It certainly is an area where that much money attracts a lot of attention.

I think, Mr. Chairman, that probably at this point, other than to just say there is an awfully lot of information here in the report and trying to single out any one item may not be helpful, but we have some tables that show not just a snapshot now but present some idea of the perspective of what's going on.

In measuring our system against many others, ours is certainly one of the most soundly funded. You can debate benefit levels -- certainly you will, as they come up, but there is no free lunch. We certainly can assist you with anything with regard to determining costs so that you have that fully in front of you for your consideration.

To all of you, if you have individual questions or inquiries from constituents I can help you with, that's our job and we will be happy to help in any way. Thank you for the opportunity to be here today.

(This transcript was edited by Marshall Crowther)

Kansas-Nebraska League of Savings Institutions

James R. Turner, President

Suite 512
700 Kansas Avenue
Topeka, Kansas 66603
(913) 232-8215

January 17, 1990

TO: HOUSE COMMITTEE ON PENSIONS, INVESTMENTS AND BENEFITS

FROM: JIM TURNER, KNLSI

RE: REQUEST FOR INTRODUCTION

The League respectfully requests that the House Committee on Pensions, Investments, and Benefits introduce the attached proposal dealing with the authority of savings and loan institutions in Kansas to bid on State fee agency accounts. Currently only commercial banks may bid on such accounts.

The proposed bill is very similar to a measure before the committee last session with one major exception: deposits of Kansas savings and loans are now insured through the Federal Deposit Insurance Corporation (FDIC).

James R. Turner, President
Kansas Nebraska League of Savings Institutions

JRT:bw

Encl.

ATTACHMENT 3
1-17-90
HOUSE COMM. ON PENSIONS,
INVESTMENTS & BENEFITS

BILL NO. ________

By ________________________________

AN ACT relating to state moneys; allowing savings banks and savings and loan associations to bid on certain active accounts; amending K.S.A. 1988 Supp. 75-4201, 75-4214 and 75-4218 and repealing the existing sections.

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

Section 1. K.S.A. 1988 Supp. 75-4201 is hereby amended to read as follows: 75-4201. 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 money 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 moneys 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 or 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 and obligations and securities of United States sponsored corporations which under federal law may be accepted as security for public funds.

(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, and amendments thereto, within the State of Kansas or bonds issued by a public building commission as authorized by K.S.A. 12-1761, and amendments thereto, if approved by the state bank commissioner, except (a) bonds issued under the provisions of K.S.A. 12-1740 et seq., and amendments thereto, 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 with the State of Kansas the issuance which is authorized by 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 or 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.

(q) "Savings Bank" means a federally chartered savings bank insured by the Federal Deposit Insurance Corporation and doing business within the State of Kansas.

(r) "Savings and loan association" means a state or federally chartered savings and loan association doing business within the State of Kansas and insured by the Federal Deposit Insurance Corporation.

Sec. 2. K.S.A. 1988 Supp. 75-4214 is hereby amended to read as follows: 75-4214(a) The board shall designate one or more banks, savings banks or savings and loan associations in each county in which a state agency making collection of any fee, tuition, or charge is located to have a fee agency account for the deposit of accounts of such agency having an average daily balance of $10,000 or more.

(b) Any state agency making collection of fees, tuition or charges ~~may~~, with the approval of the board, may select a bank, savings bank or savings and loan association in the county in which the agency is located to have a fee agency account for the deposit of accounts of such agency having an average daily balance of less than $10,000.

(c) At the end of each month any bank, savings bank or savings and loan association having a fee agency account shall forward to the board and the director of accounts and reports a detailed statement of such account on forms approved by the director of accounts and reports.

Sec. 3. K.S.A. 1988 Supp. 75-4218 is hereby amended to read as follows: 75-4218. (a) All state bank accounts shall be secured by pledge of securities as provided in this section.

(b) The bank, savings bank or savings and loan association receiving or having a state bank accounts shall deposit securities owned by it, in one of the following ways:

(1) Deposit with the treasurer.

(2) Deposit with a bank having adequate modern facilities for the safekeeping of securities and doing business in the State of Kansas, and which facilities shall have had the prior approval of the board. Any such bank receiving securities for safekeeping shall be liable to the state for any loss suffered by the State in the event such bank relinquishes the custody of any such securities contrary to the provisions of this act or rules and regulations adopted thereunder. No such deposit of securities shall be made an any facility owned or controlled directly or indirectly by the bank depositing the same.

(3) Deposit with the Federal Reserve Bank of Kansas City, Missouri.

<u>(4) Deposit with the Federal Home Loan Bank of Topeka, Kansas</u>.

(5) Any combination of (1), (2), (3) and (4).

(c) Any such deposit of securities, except with the treasurer, shall have a joint custody receipt taken therefor with one copy going to the treasurer and one copy going to the bank, <u>savings bank, or savings and loan association</u>, which deposits such securities. In lieu of the initial deposit of securities provided for in this subsection (c), the treasurer or the treasurer's duly authorized deputy may, for a period of not to exceed 10 calendar days, accept the telephone assurance of a bank qualified as provided in (2) or (3) of subsection (b), that the depository bank has requested the issuance of a joint custody receipt with the State of Kansas, specifying the securities pledged, for the purpose of compliance with this section and that such joint custody receipt will be forthcoming.

(d) Securities deposited to comply with this section may be withdrawn on application of the bank, <u>savings bank or savings and loan association</u> depositing the same <u>securities</u>, if such application is approved by the treasurer or the treasurer's duly authorized deputy and the director of accounts and reports or the director's duly authorized assistant for the reason that such deposit of securities is no longer needed to comply with this section or are required for collection by virtue of their maturity or for exchange shall be replaced within 15 calendar days, but until replaced the state shall retain a first lien on the withdrawn security or the proceeds therefrom.

(e) Active accounts, time deposit, open accounts, inactive accounts, fee agency accounts and custodial accounts shall be secured by pledge of securities the market value of which is equal to 100% of the amount of the account, less so much of any such account as is protected by the Federal Deposit Insurance Corporation.

Any agency responsible for a fee agency account shall transfer immediately all moneys not so secured to the State Treasurer for deposit in the State Treasury.

Sec. 4. K.S.A. 1988 Supp. 75-4201, 75-4214 and 75-4218 are hereby repealed.

Sec. 5. This act shall take effect and be in full force from and after its publication in the statute book.