Approved 3-31-92
Date

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS.

The meeting was called to order by Representative Delbert L. Gross at
Chairperson

3:30 ~~a.m.~~/p.m. on March 24, 1992 in room 527-S of the Capitol.

All members were present except:

Committee staff present: Bill Wolff, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
June Evans, Secretary

Conferees appearing before the committee: Sally Thompson, State Treasurer
Jim Maag, Executive Director, Kansas Bankers Association
Mike Billinger, Chairman, Kansas County Treasurers' Association Legislative Committee
Nancy Hempen, Douglas County Treasurer
Kevin Jones, Ottawa County Treasurer
Norman D. Wilks, Director of Labor Relations, Kansas Association of School Boards
Donald R. Seifert, Assistant Director, Administrative Services, City of Olathe
Ron Cousino, Johnson County Finance Director

The Chairperson called the meeting to order at 3:30 P.M., stating the function of this Committee is to provide good public policy and it is the Committee's responsibility to protect the public taxpayer.

The Chairperson further stated the five minute rule would apply for the hearing on SB 480 with the exception of Richard Ryan, Director, Legislative Research; Sally Thompson, State Treasurer; and Jim Maag, Kansas Bankers Association; which need adequate time to present their testimony. The remaining conferees will be allowed 5 minutes for their presentation. Testimony will be continued on Wednesday, March 25, then questions may be asked after all testimony has been presented.

Richard Ryan, Director, Legislative Research, gave a briefing on SB 480, stating that SB 480, as amended, establishes a state-managed investment pool in which local units of government may participate under certain conditions, allows cities and counties to make specified investments directly under certain conditions, makes several substantive amendments to the statute governing the general investments authority of local units, changes significantly the state moneys law pertaining to demand accounts and investment of idle funds, designates the State Treasurer as the cash management officer for the state, expands the state Pooled Money Investment Board (PMIB), and makes a number of safeguard, technical, and conforming amendments. (See Attachment 1).

Sally Thompson, State Treasurer, was the next conferee, stating the investment of public funds, was discussed at great depth in the Senate, across the state of Kansas in six regional meetings hosted by the Kansas Bankers Association and research work during a summer interim committee. This bill does not give anybody what they would really like to have in the area of cash management tools. There was a number of proposals brought to the table and this reflects a compromise made on the state and local level and the financial community.

On a statewide basis, there are $3 billion in public funds available for investment on a daily basis during the "idle" time between collection of the dollars and disbursement of them. This bill has the potential to increase earnings on these funds a minimum of one percent (1%) and will have a significant impact on local entities -- cities, counties, school districts, fire, sewer, and water districts. That one percent in increased earnings amounts to $30 million on a statewide basis.

This is accomplished by extending the maturities of the investments, providing that the interest yield match the maturity, broadening the investment authority for the state and certain local units and providing the option of a state municipal investment pool fund. (See Attachment 2).

Jim Maag, Executive Director, Kansas Bankers Association, testified the KBA supports SB 480 as amended. SB 480, with the adoption of the technical amendments which represents positive reform of the public funds investment laws for both the state and local units of government. For the Kansas taxpayer, it insures that the tax revenues raised will be handled with the highest degree of safety possible and that the tax revenues will be invested throughout the state to have the greatest possible impact on economic development. (See Attachment 3).

Ron Cousino, Finance Director, Johnson County, testified in support of SB 480 stating it means increased revenues without raising taxes. SB 480 allows investments in maturities over the current six month limitation, allows standards set for banks to bid a minimum rate for the maturities needed, and allows for the ability to participate in a statewide investment pool. (See Attachment 4).

Mike Billinger, Chairman, Kansas County Treasurers' Association Legislative Committee, testified supporting SB 480, stating SB 480 had been discussed with a number of County Treasurers from various parts of the state. County Treasurers feel very committed to the principal that inactive funds should be invested in local financial institutions whenever possible. KCTA feels several positive developments would result from SB 480:

1. Counties would adopt investment policies that would give specific authority to investment officials. These policies would define the limits of investment officials and set standardized audits for performance evaluations.

2. Investment policies would define safety of capital. It means funds are deposited that are not collateralized.

3. Public funds would first be offered to local financial institutions before one dollar would leave the county. Financial institutions would be able to maximize their profits because of better cash management by counties. (See Attachment 5).

Nancy Hempen, Douglas County Treasurer and Vice President of the Kansas County Treasurers Association, supports SB 480, stating safety and security of public funds are the most important factors for any investing officer.

Only three of the 9 banks located in Douglas County are currently willing to accept county funds.

Although Douglas county is medium size, the average monthly cash and idle funds balance is $19 million. (See Attachment 6).

Kevin Jones, Ottawa County Treasurer, testified in support of SB 480. (See Attachment 7).

Norman D. Wilks, Director of Labor Relations, Kansas Association of School Boards, supports SB 480 stating the creation of the municipal investment pool fund allows local boards another safe investment option if local financial institutions fail to pay the investment rate of interest. The use of municipal investment pool fund allows several municipalities and the state to take advantage of averaging investment maturities and greater investment yields by purchasing larger blocks of federal securities.

The change of interest rate from the 91 T-bill rate to the investment rate allows school districts the opportunity to receive rates of return comparable to the rate received on safe federal securities with the same maturity.

SB 480 increases the yield on repurchase agreements.

The creation of the pool fund allows school districts to invest in the same kind of assets that are now used to secure district funds. The direct investment by the pool in assets used to secure bank deposits certainly provides a similar degree of safety as investing in the local bank. (See Attachment 8).

Donald R. Seifert, Assistant Director, Administrative Services, City of Olathe, testified in support of SB 480, stating the City of Olathe governing body supports legislation that would broaden the authority of cities to safely invest idle funds. It is agreed that both the state and local units of government could increase investment income without significantly increasing risk if the investment statutes were somewhat less restrictive. SB 480 would help local officials practice better stewardship of public funds. (See Attachment 9).

There was committee discussion regarding the proposed amendment from the Secretary of Administration. (See Attachment 10)

The meeting adjourned at 5:20 P.M.

Date: 3/24/92

GUEST REGISTER

HOUSE COMMITTEE ~~COMMERCIAL~~ & FINANCIAL INSTITUTIONS

NAME	ORGANIZATION	ADDRESS
Linda McGill	CBA	Topeka
Norm Wilks	KASB	Topeka
Gerry Ray	Johnson County	Olathe
Ron Cousino	" "	"
Gary Watson	Trego County	WaKeeney
Mike Billinger	Ellis Co.	Ks. Co. Treas Assn.
Nancy Hempen	Douglas Co.	Ks Co. Treas Assn.
Kevin Jones	Ottawa Co.	Ks. Co. Treas. Assoc.
Jeff Delp	~~[illegible]~~ INTERN	~~[illegible]~~ MANHATTAN
JoAnn Hamilton	OSAGE COUNTY TREAS	LYNDON KS
Carolyn Arganbright	Marshall County Treas.	Marysville
Don Seifert	Olathe	City of Olathe
Anne Smith	Ks. Assoc. of Counties	Topeka

CURRENT STATE MONEYS LAW AND MAJOR PROPOSED AMENDMENTS
(1992 SENATE BILL NO. 480)

	Current Law	Senate Bill No. 480*
Demand Account(s) (No interest paid.)	Called "Active Account." One or more banks designated by the PMIB.** Bank(s) must have capital and surplus of at least $2 million, cannot have an inactive account, but may have a TD/OA. Bank(s) cannot charge fees for services provided to the state but is awarded a compensating balance to cover such services. (An obsolete provision states that, generally, the total amount in the active account(s) cannot exceed $40 million at any time.)	Called "Operating Account." One or more banks designated by the PMIB.** May have an investment account. May be awarded a compensating balance or may charge fees for servicing state accounts, as determined by the PMIB. (Sections 11(i), 12, 13, and 14.)
Repurchase Agreements (Repos)	PMIB may invest in repos of less than 30 days duration with a Kansas bank or with primary government securities dealers who report to the Federal Reserve Bank of New York for direct or insured obligations of the U.S. government or any agency thereof, but only when it is impossible to deposit available moneys in TD/OAs.	PMIB may invest in repos of less than 30 days' duration with a Kansas bank or primary government securities dealers for specified obligations when moneys are available for deposits or investments for a period of time insufficient to permit deposits in investment accounts or to provide for the liquidity needs of the state (Section 15(b)), and when banks have not accepted all money offered to them for investment accounts (Section 15(a)(2)(B)).

passed

* As ~~amended~~ by the Senate Committee on Financial Institutions and Insurance.

** Pooled Money Investment Board.

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	Current Law	Senate Bill No. 480*
Time Deposit/Open Accounts (TD/OAs)	Banks having capital of $8.5 million or more may accept TD/OAs, to be apportioned by the PMIB in proportion to each bank's capital. TD/OAs must remain on deposit at least 7 days (present practice is to make such deposits for 14 to 28 days) and they earn interest at a rate equal to the average yield before taxes on 91-day treasury bills as determined at the most recent public auction of such bills prior to each deposit. TD/OA deposits are made (1) when moneys in the active account exceed 50 percent of the total award for such account, (2) if moneys are available for deposit for not over 60 days, and (3) if the PMIB is unable to deposit all moneys available for inactive accounts. Deposits under (1) and (2) must be in banks having capital of at least $8.5 million, while deposits under (3) may be in any Kansas bank as determined by the PMIB.	No provision for TD/OAs. All references thereto repealed.
Inactive Accounts or Investment Accounts	Inactive accounts (certificates of deposit) are apportioned among all banks that want such an account (except the bank(s) with an active account is not eligible) based on their capital. The deposits are made for 3 months. The interest rate is the average market yield before taxes on 91-day treasury bills during the 3 months preceding the month prior to each quarterly interest period.	Investment accounts are substituted for inactive accounts (Section 11(j)). After the PMIB determines the liquidity needs of the state (*i.e.*, the operating or demand account and the amount to invest in short-term repurchase agreements) and the varying maturities of investment accounts to be offered, the Board shall offer to all banks, on a competitive bid basis at least equal to the market rate, investment accounts with maturities not exceeding 4 years. However, as part of that offering, $350 million or 50 percent of the total amount available for investment, whichever is greater, must be offered to banks for maturities of up to 4 years at

	Current Law	Senate Bill No. 480*
		the investment rate, based on the ratio of each bank's combined capital, surplus, and undivided profits to the total thereof of all banks. A bank having an operating account is eligible to receive an investment account. (Section 15(a)(1).) (As defined in Section 11(k) and (l), "market rate" is the average of rates on U.S. government securities and debt obligations of three specified U.S. agencies having equivalent maturities, and "investment rate" is the equivalent yield on U.S. government securities having maturities comparable to the term of the offered deposit. Under Section 16, the State Treasurer must calculate the investment rate and publish it weekly in the *Kansas Register*, and shall calculate the market rate on the day before the offering of any deposits to banks on a competitive basis.)
Kansas Venture Capital, Inc.	When moneys are available for TD/OAs or repos, in lieu of making such deposits or investments PMIB may invest up to $10 million in the preferred stock of Kansas Venture Capital, Inc., under conditions prescribed by K.S.A. 74-8203.	Essentially the same concept as current law. (Section 15(c))
Other Investments	None	Money not taken by banks for investment accounts may be invested in (1) direct obligations of, or obligations that are insured as to principal and interest by, the U.S. government or any agency thereof, and obligations and securities of U.S. sponsored enterprises which under federal law may be accepted as security for public funds but not more than 10 percent of the moneys available for investment under this subsection may be invested in mort-

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	Current Law	Senate Bill No. 480*
		gage-backed securities, and (2) repos for securities described in (1). No investment under (1) shall exceed 4 years except for mortgage-backed securities. (Section 15(a)(2))
PMIB Loans	Loans to state agencies from the pool of money managed by the PMIB are not mentioned in the state moneys law. Such loans have been made from time to time as directed by legislation.	When moneys are available for deposits or investments, the PMIB may invest in loans pursuant to legislative mandates, limited to the lesser of 10 percent or $80 million of the moneys available for investment. (Section 15(d))
Collateralization	All deposits in financial institutions must be secured by a pledge of securities at market value, less the amount insured by the FDIC.	Same as current law, as amended (Section 19). Under Section 11(p)(8), first lien mortgages on certain residential real estate may be pledged if specified conditions are met (also see Section 26).
Payment of Interest	Interest on inactive accounts (3-month CDs), TD/OAs (14 or 28 days), and repos (1 day, weekends, holidays) is due on maturity.	Interest on investment accounts in banks is due on maturity but not less than annually, except interest on such accounts awarded between 8/1/92 and 6/30/93 is due no later than 6/30/93. (Section 15(e).) Interest on repos and other investments is due (implicitly) according to the terms of the investment.
Prudent Person Rule of Investment	Not mentioned in the current law.	Required under the bill. (Section 15(f).)
Rules and Regulations	The PMIB may adopt rules and regulations not in conflict with the law.	The PMIB shall adopt rules and regulations establishing investment policies and procedures and must review them annually. (Section 8.) (Note: The bill does not amend or repeal K.S.A. 75-4224 relating to permissive adoption of rules and regs.)

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Special Note

S.B. 480, as amended, includes the provisions of 1992 S.B. 482 relating to expansion of the PMIB (see Section 25) and the part of 1992 S.B. 481 which designates the State Treasurer as the cash management officer for the state (see Section 27).

Kansas Legislative Research Department
March 3, 1992

92-1164/RWR

CURRENT LAW ON GENERAL INVESTMENT AUTHORITY OF LOCAL UNITS OF GOVERNMENT AND PROPOSED AMENDMENTS IN S.B. 480

	Current	Senate Bill No. 480*
1. Time Deposit/Open Accounts (TD/OAs) and Certificates of Deposit (CDs) in Kansas Banks	In banks with an office in the investing unit or in banks with an office in the county or counties in which all or part of the unit is located if there is no bank with an office in the investing unit. However, if an eligible bank cannot or will not pay interest at a rate at least equal to the average yield on 91-day U.S. treasury bills as determined at the most recent auction of such bills prior to the inception of the deposit contract, then deposits may be made in banks with an office in the county or in counties adjacent to the county or counties in which all or part of the investing unit is located. Interest on TD/OAs or CDs shall be at rates agreed upon by the investing unit and the bank(s).	Reference to the 91-day treasury bill rate as the benchmark is eliminated. Instead, the benchmark would be the "investment rate" as defined in Section 11(l). Maturities may not exceed two years. (Section 3(b)(2).) ("Investment rate" is the equivalent yield on U.S. government securities having maturities comparable to the term of the offered deposit. Under Section 16, the State Treasurer must calculate the investment rate and publish it weekly in the *Kansas Register*.)
	Banks must pledge qualified securities equal to 100 percent of the deposit in excess of FDIC coverage and the securities pledged must be at market value. Alternatives to such pledging are a personal bond equal to twice the amount on deposit or a corporate surety bond equal to the amount on deposit.	No change, except under specified conditions first lien mortgages on certain residential real estate may be pledged. (Section 26(d)(13))
2. Time Certificates of Deposit in Kansas Savings and Loan Associations and Federally chartered Savings Banks	In such institutions with an office in the investing unit. If there is no office in the unit or if the institution will not pay the current 91-day treasury bill rate, the same exceptions apply as in the case of banks in Item 1, above. The interest rate may be negotiated. Pledging of securities and the alternatives thereto are the same as for banks.	Reference to the 91-day treasury bill rate is eliminated. Instead, the benchmark would be the "investment rate" as defined in Section 11(l). Maturities may not exceed two years. (Section 3(b) (3))

* As ~~amended~~ Passed by Senate Committee on Financial Institutions and Insurance.

	Current	Senate Bill No. 480*
3. U.S. Treasury Bills or Notes	May invest in such federal obligations, with maturities not exceeding six months, only if eligible banks, savings and loan associations, and savings banks will not accept deposits at a rate at least equal to the average yield on 91-day treasury bills as determined at the most recent auction of such bills prior to the offering of the deposit.	The reference to the 91-day treasury bill rate is eliminated. Instead, the benchmark would be the "investment rate" as defined in Section 11(l). Also, maturities are extended to not over two years. (Section 3(b)(5) and (c))
4. Repurchase Agreements	May enter into repos at any time, for direct or insured obligations of the federal government or any agency thereof, with a Kansas bank, savings and loan association, or federally chartered savings bank with an office in the investing unit, except: (a) if there is no office in the unit or if an eligible institution in the unit will not enter into a repo at an interest rate equal to or higher than a rate equal to two percentage points below the yield on 91-day treasury bills as determined at the most recent auction of such bills, then the investing unit may enter into a repo with one of the types of institutions listed above having an office in the county or counties in which all or part of the unit is located; or (b) if no such institution will enter into a repo at a rate within the 2 percentage point differential referred to in (a), then a repo may be made with any such Kansas institutions.	The first part of current law is not changed, but with respect to (a) and (b) under current law "investment rate" as defined in Section 11(l) is substituted for the 91-day treasury bill benchmark and the 2 percentage point differential is eliminated. (Section 3(b)(4)) Language is added to safeguard investment in repurchase agreements. (Section 3(e))
5. Temporary Notes or No-Fund Warrants	May invest in such notes or warrants issued by the investing local unit.	No change.
6. Trust Department of Banks	No provision.	May invest with trust departments of banks with an office in the investing unit or with a

	Current	Senate Bill No. 480*
		trust company of banks which have contracted to provide trust services under K.S.A. 9-2107 for banks with an office in the investing unit. Investments would have to be collateralized and are limited to those permitted for the proposed investment pool fund (see Item 7, below). This optional investment may be used only if the investing unit's local financial institutions will not accept deposits at interest rates equal to or greater than the "investment rate" defined in Section 11(l). (Section 3(b) (8) and (c))
7. Investment Pool	No provision.	An investment pool fund is established in the state treasury. Money deposited in the fund by local units may be invested by the Pooled Money Investment Board (PMIB) in (1) direct obligations of, or obligations that are insured as to principal and interest by, the United States or any agency thereof, and obligations and securities of U.S. sponsored enterprises which under federal law may be accepted as security for public funds (but not over 10 percent of the money available for investment under this authority may be invested in mortgage-backed securities); (2) time deposits in Kansas banks, savings and loan associations, and savings banks; and (3) repurchase agreements, for specified securities, of less than 30 days' duration with Kansas banks and savings and loan associations or with pri-

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	Current	Senate Bill No. 480*
		mary government securities dealers. (Section 1(a) and (b)) Investments under (1) and (2) cannot exceed four years except for mortgage backed securities. (Section 1(f))
		Local units making deposits in the fund will receive their prorata share of interest earnings. (Section 1(c))
		The State Treasurer may assess reasonable charges not to exceed 1 percent of interest earnings, for reimbursement of expenses in administration of the fund, and a reserve fund is created to cover potential losses. (Section 1(d))
		Local units are authorized to invest in the pool fund, but only if their local financial institutions will not accept deposits at interest rates equal to or greater than the "investment rate" defined in Section 11(l). (Section 3(b)(6) and (c)) Also, any deposit in the pool must be for the same term as was offered to and refused by a local financial institution. (Section 1(h))
8. Direct Investments by Cities and Counties Under Certain Conditions	No provision.	Cities and counties which have written investment policies approved by their governing bodies and the PMIB may make the same investments directly as the PMIB may make for the pool fund, but only if their local financial institutions will not accept deposits at interest rates equal to or greater than the "invest-

Current	Senate Bill No. 480*
	ment rate" defined in Section 11(l). (Section 2 and Section 3(b)(7) and (c))
	There is a penalty provision (Section 2(e)) relating to violation by a city or county of subsection (c) or (d) of K.S.A. 12-1675, as amended, (the current local unit investment authority statute) or of the rules and regulations of the PMIB.
	Section 2 also contains several provisions designed to safeguard investments in repurchase agreements and authorized securities.

Kansas Legislative Research Department
March 3, 1992

92-1153/RWR

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STATE OF KANSAS

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INVESTMENT OF PUBLIC FUNDS--SB 480
Testimony by State Treasurer Sally Thompson on Senate Bill 480 presented to the House Commercial and Financial Instituions Committee on Tuesday, March 24, 1992

Mr. Chairman, Representative Gross, and members of the Commercial and Financial Institutions. I'd like to thank you for this opportunity to discuss with you today Senate Bill 480, the Investment of Public Funds, as passed by the Senate a couple of weeks ago. This bill is the result of more than five days of Committee and Subcommittee hearings and discussion, more than 16 hours of interim Legislative Budget Committee hearings where the issues of the investment of public funds was looked at in a great deal of depth. It also includes hundreds of hours of research and discussion with state and local officials, financial directors, school board members as well as talking with more than 500 bank CEOs and officers from across the state of Kansas in the six regional meetings hosted by the Kansas Bankers Association in Garden City, Colby, Salina, Pittsburg, Wichita, and Topeka. It also includes the research work of Richard Ryan, head of Legislative Research who provided a comprehensive review of idle funds investments and analysis of current and proposed practices in Kansas as well as compiling the investment practices of states

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contiguous to Kansas--Nebraska, Colorado, Oklahoma and Missouri--and Iowa and Arkansas.

This bill does not give anybody what they would really like to have in the area of cash management tools. There was a number of proposals brought to the table. This reflects the compromises made on the state and local levels and the financial community. Most of the participants involved with this project agree that this bill is something we can live with and yet helps bring Kansas' investment of public funds into the 20th century--at least it updates investment policies that have inflexibly restricted investment of public funds without significant changes for the past 25 years in a financial industry and environment as well as the public sector that have seen incredible technological, regulatory and service need changes in both arenas. The change in looking at public officials as financial stewards with a fiduciary responsibility to maximize taxpayers' dollars is of course one of the prime motivators for this legislation.

Broadening highly safe investment options for public funds provides an opportunity for producing revenue without taxation. I would like to note two concepts that the proposed statute changes have been based on.

Governments that do not directly consider income-enhancing opportunities can be charged with failing to meet public obligations. This is an excerpt from the book "Investing Public Funds" by Girard Miller, published by the Government Financial Officers Association in 1986.

The second concept is succinctly outlined by Ned Regan, New York State Comptroller which is the sole trustee for the state's retirement plans: "My job is to earn the highest return on investments with minimum risk at the lowest cost. It is the governor's/legislators' job to decide how to spend the income"....which economic programs are created to address a "specific need with a specific dollar amount with specific tracking."

I'd like to talk today about the benefits created by the expanded investment powers contained in Senate Bill 480 at both the state level and at the local level. This bill rightfully addresses public funds as public funds rather than artificially defining investment policies differently for one level of public funds from that of another level of public funds. All of these funds are the taxpayers' dollars, no matter at what level they are collected. It is the taxpayer who should be benefiting from the investment of their monies--hopefully through additional property tax relief on the local city, county and school district level and on the state level a respite from raising revenues through additional sales or income tax increases.

On a statewide basis, there are $3 billion in public funds available for investment on a daily basis during the "idle" time between collection of the dollars and disbursements of them. This bill has the potential to increase earnings on these funds a minimum of one (1) percent and will have a significant impact on local entities--cities, counties, school districts, fire, sewer and water districts. That one percent in increased earnings amounts to $30 million on a statewide basis.

This is accomplished by extending the maturities of the investments, providing that the interest yield match the maturity, broadening the investment authority for the state and certain local units, and providing the option of a state municipal investment pool fund.

I want to underscore that the bill's first consideration is safety of public funds. That safety is strictly provided for not only in the bill's limitations of investments to collateralized certificates of deposit, repurchase agreements, and government securities--which carry the direct or indirect guarantee of the U.S. Government--but also in the safeguards built into the investment transactions.

I am very pleased that SB 480 provides for a municipal investment pool fund to address the needs of local units and takes advantage of the investment expertise and experience of the state's Pooled Money Investment Board. It also provides expanded investment authority for cities and counties with PMIB-approved investment policies.

One of my first concerns as State Treasurer was to maximize the earnings on public funds--to make those tax dollars work as hard for Kansans as taxpayers worked in earning them. In these days of economic hard times and rising taxes these changes will help communities across the state as they struggle to meet the demands placed on critical services and such needs as infrastructure maintenance.

Early analysis of investment authority/limitations as well as cash flow needs and the levels of balances of these public funds although the dollars were constantly coming in and going out showed very quickly that doing a better job of managing and investing public funds would provide much needed
additional revenues. And while the statute which governs state moneys has not been changed for nearly 25 years, the banking/financial industry (and thus opportunity) has changed dramatically especially in the last five years.

In addition, a number of city and county officials expressed their concern that local financial institutions were not accepting public funds especially during the peak receipt times--mid December and mid June. Their options for investing these funds during the 45 to 60 days before they would be paid out were limited.

And thirdly, even from the banking/financial industry's point of view, the statutes on the books were not without difficulties for them. And although one of the often repeated rationale for directing the investment of state public funds in Kansas banks was to provide economic development in the state, an analysis of such measurements as loan demand (loan to deposit ratio), significant increase of the banks' investments in government securities, and banking regulations quickly showed that those Kansas dollars were not being reinvested in the Kansas economy through loans.

It all added up to making some changes in the investment of public funds. And the result of extensive reviews of public funds by the Legislative Budget Committee and by the Senate Financial Institutions and Insurance Committee was Senate Bill 480 as amended. I think this bill takes into account most of the concerns expressed along the way not only by me but also by local units of government as well as the Kansas Bankers Association.

Above all, this legislation underscores the need for sound and efficient cash management. It is an excellent education vehicle to increase understanding about the time value of money in the public sector. It says we can be smart about public funds, that we can make them "work" harder and provide the opportunity for additional revenue which can help slow the rise in taxes.

I ask for your support of SB 480 as passed by the Senate as well as the several technical amendments that will be presented in balloon form by the Revisor's office that have been reviewed in the last couple of days.

I will be happy to answer any questions you may have regarding this bill.

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1992 SB 480

Public Funds

Kansas banks and financial institutions have first right of refusal

State Funds

(Idle Funds)

- Lengthened maturities up to 4 years

Distribution:

- Capital formula (banks) 50% or $350.0 million Investment rate
- Competitive bids (banks) Market rate
- Repo's (banks, primary dealers)
- U.S. Treasuries
- U.S. Agencies
- 10% MBS limit

- Mtg collateral option
- Operating Account
- Cash Management Function
- PMIB expansion
- Repo custodian power for Treasurer

Local Funds

(Idle Funds)

All municipalities

(Sec. 3 of SB 480)

- up to 2 year CD Investment rate
- up to 2 year maturities on Govt Treasuries
- Repo's KS financial institutions
- Municipal Pool
- Trust depts or companies

- Mtg collateral option

Municipal Pool

(Sec. 1 of SB 480)

- Maturities up to 4 years
- CD's financial institutions
- U.S. Treasuries
- U.S. Agencies
- 10% MBS limit
- Repo's financial institutions primary dealers

Cities/Counties only

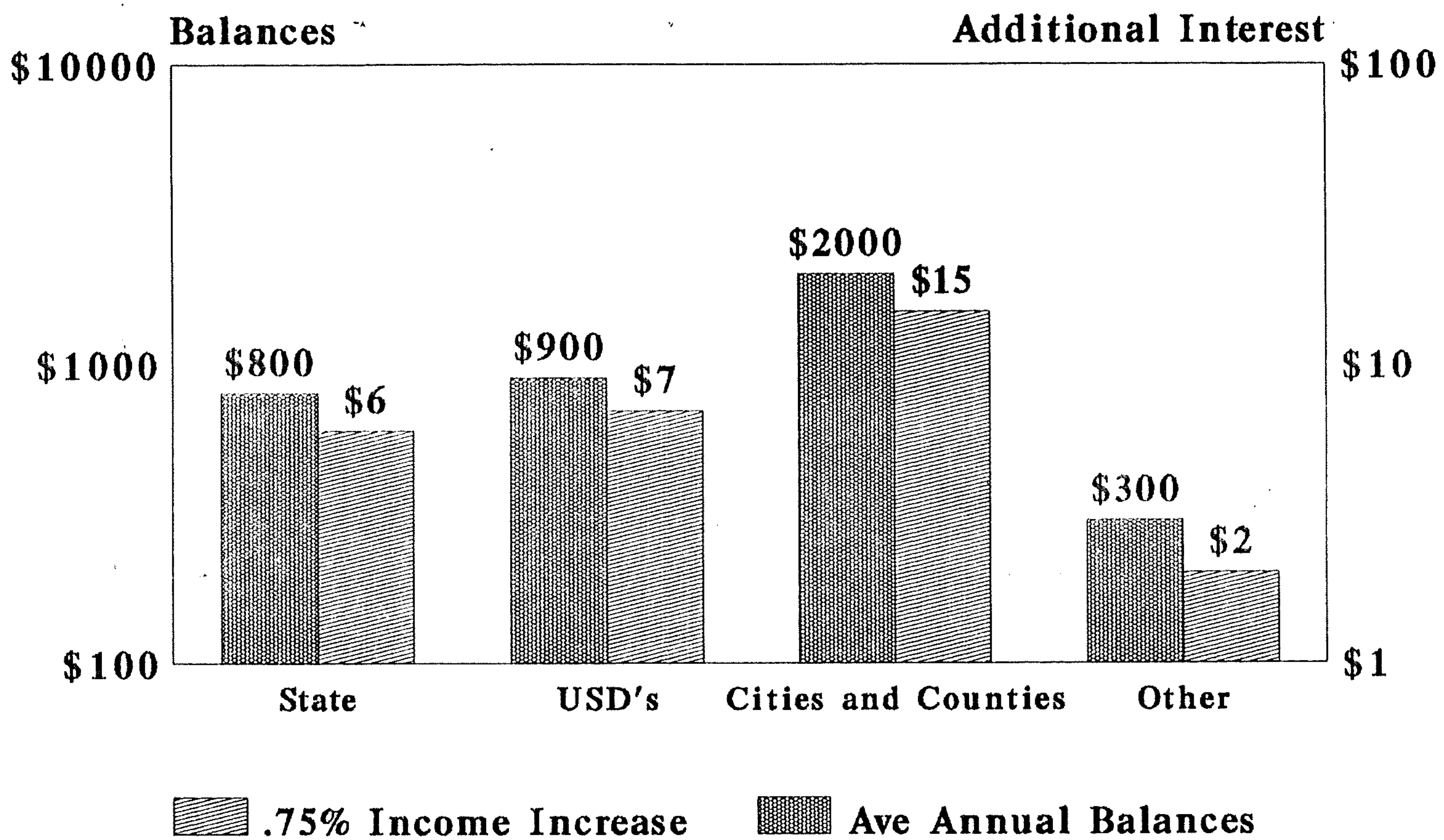
(Sec. 2 of SB 480)

With approved investment policies:

- Maturities up to 4 years
- CD's financial institutions
- U.S. Treasuries and Agencies
- 10% MBS limit
- Repo's financial institutions primary dealers

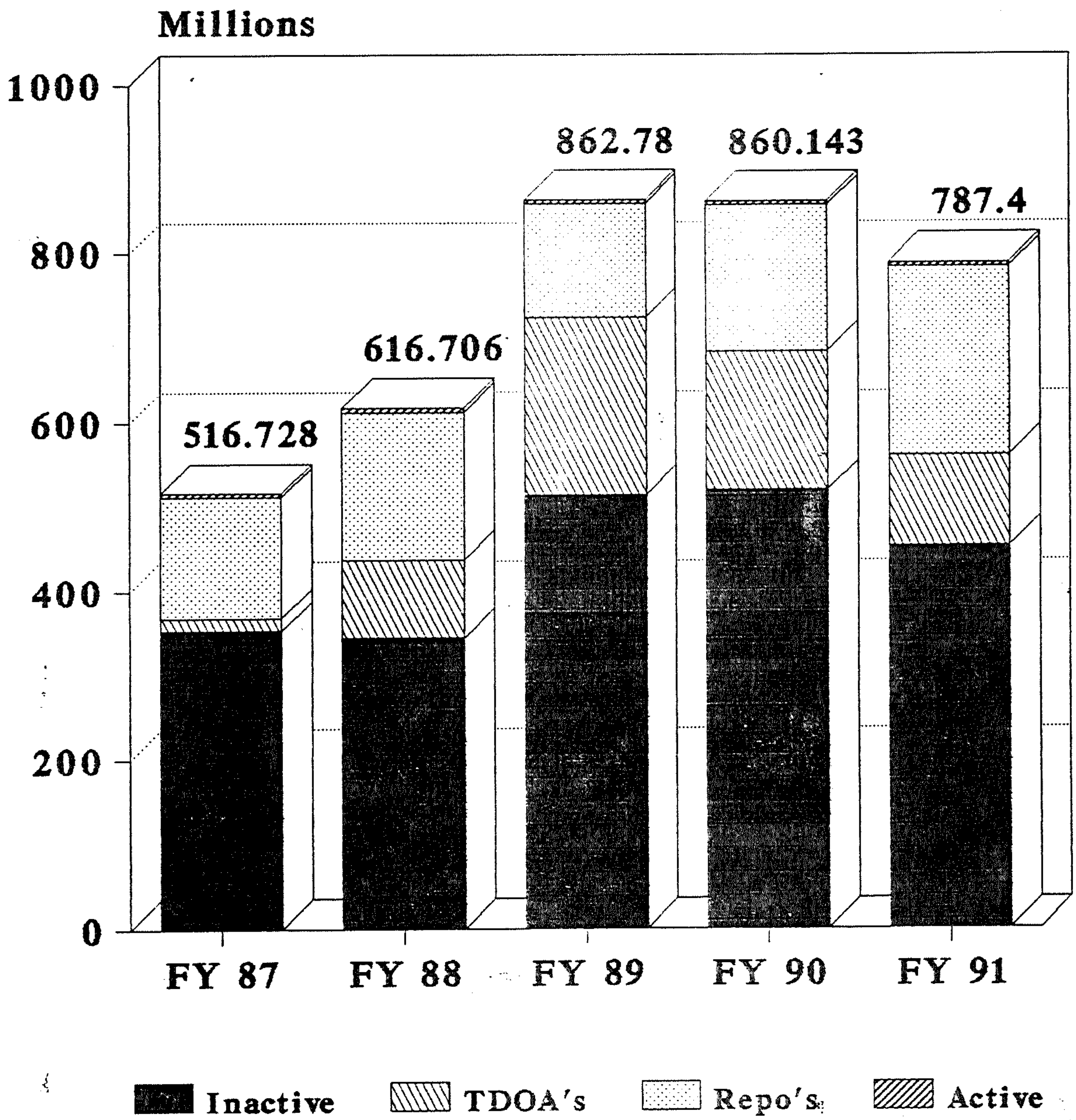
- Penalty for violation of Sec. 3

ADDITIONAL ANNUAL EARNINGS STATEWIDE (in Millions)



Minimum annual increase in revenue from
a .75% increase = $30 million
overall to state and municipalities

State Idle Funds
(Average Daily Balances)



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Current Investment Powers

(RE: State Public Funds)

	Investment Type	Current Weighted Average Rate of Return
Idle Funds	**Kansas Bank Deposits** (2 wks to 3 mo maturities) **Repurchase Agreements** (primary dealers out of state)	**5.18%**
Special Funds	**U.S. GOVERNMENT SECURITIES:** **Treasuries** **Obligations** **Agencies** **Mortgage Backs** **REPURCHASE AGREEMENTS** **KANSAS BANK CD'S**	**7.09%**

Investment Types

Safe / Low risk

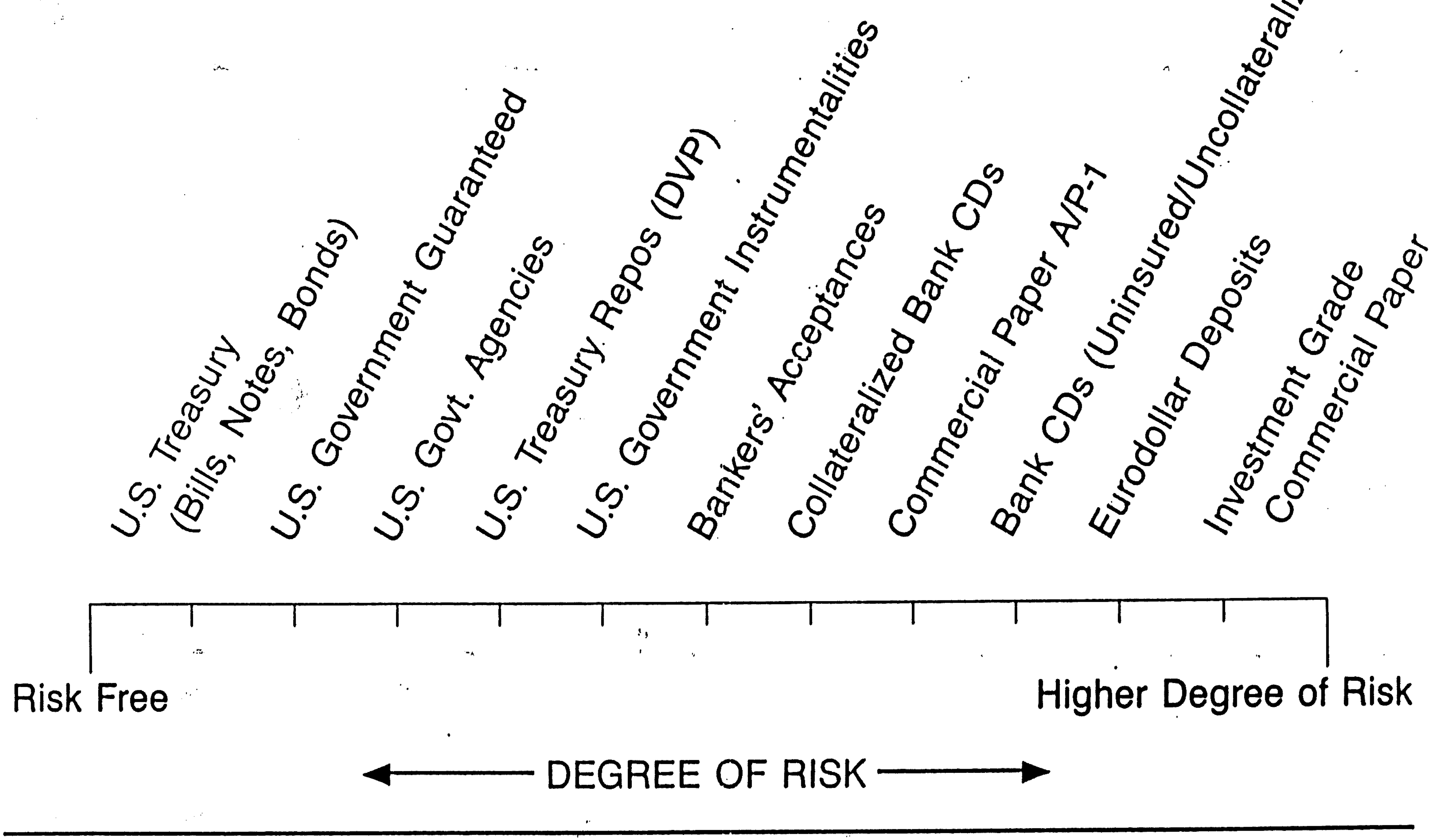
Certificates of Deposit (CD's)
Repurchase Agreements (Repo's)
U.S. Government Securities (Treasury Bills, Notes, Bonds)
U.S. Government Agencies
Mortgage-Backed Pass through Certificates

Important Line-Up Note: Only those investment types *above* this line are included in the discussion of public fund investments by the State Treasurer.

Higher Risk

Commercial Paper
Corporate Bonds
International Bonds
Out-of-State Municipal Bonds
Preferred Stock
Domestic Equities
Bankers Acceptance
Real Estate
Venture Capital Companies
Direct Placements
International Equities

FIGURE 6
DEFAULT RISK SCALE



Senate Bill 480

as passed by the Senate

Safeguards for investments

- Direct ownership of government securities
  by investing governmental entity
- Securities delivered before payment released
- Third party custodian delivery of securities
- Confirmation and safekeeping receipts
- Security transactions only with registered and
  regulated dealer-brokers
- Annual independent audit prepared on GAAP basis

- Management of investments
  in accordance with approved rules, regulations
  and/or investment policies
  by on-staff, experienced investment professionals
  based on cash flow projections
  (contracts with money managers not allowed)

- Before having expanded authority,
  Cities and Counties must have investment policies
  approved by their governing bodies
  and by the PMIB at least on an annual basis or
  when any changes are made

- Comprehensive monthly reporting by PMIB
  to participants in the municipal investment pool fund
  Internal/External Audit Reports
  Performance Measurement
  Market Value of Securities and collateral held

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Investment of public funds

shall be made in accordance
with written policies.

Such investment policies shall address:

- safety of principal
- liquidity
- yield
- diversification
- maturity and quality
- capability of investment management

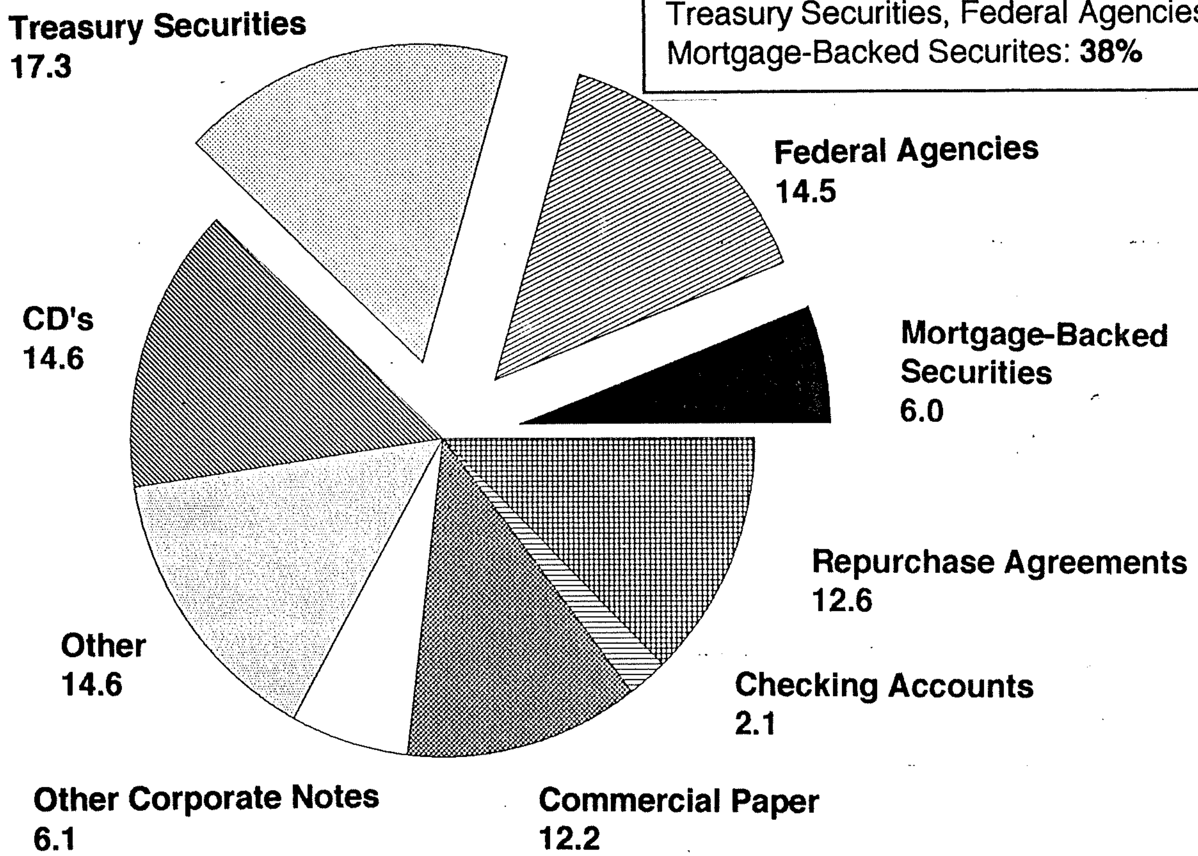
Primary emphasis is on safety and liquidity

Investments shall be made with judgment and care
under circumstances then prevailing,
which pesons of prudence, discretion and intelligence exercise in
the management of their own affairs,
not for speculation,
but for investment,
considering the probable safety of their capital as well as the
probable income to be earned.

Distribution of State Funds

Survey of 30 States

Note: Sum of
Treasury Securities, Federal Agencies, and
Mortgage-Backed Securites: **38%**

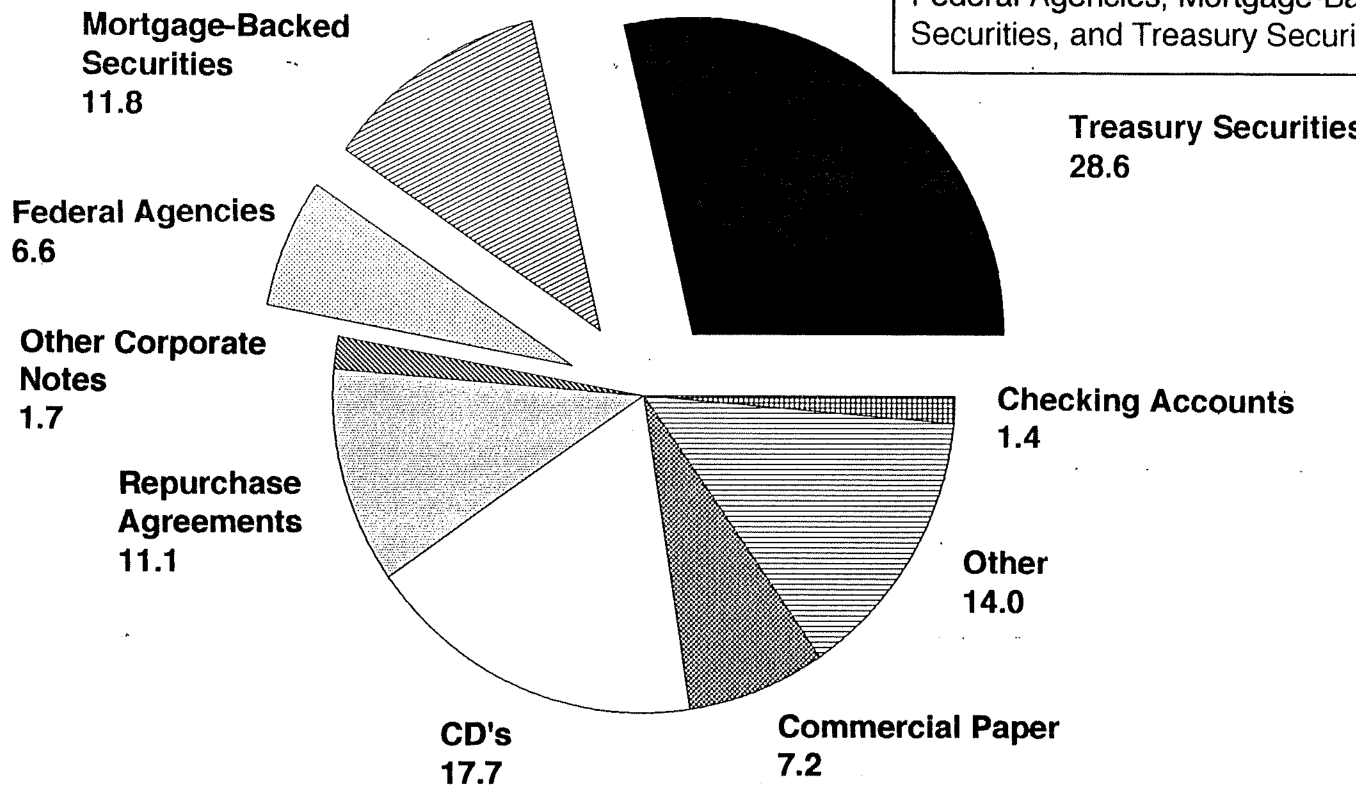


Woodstock Institute

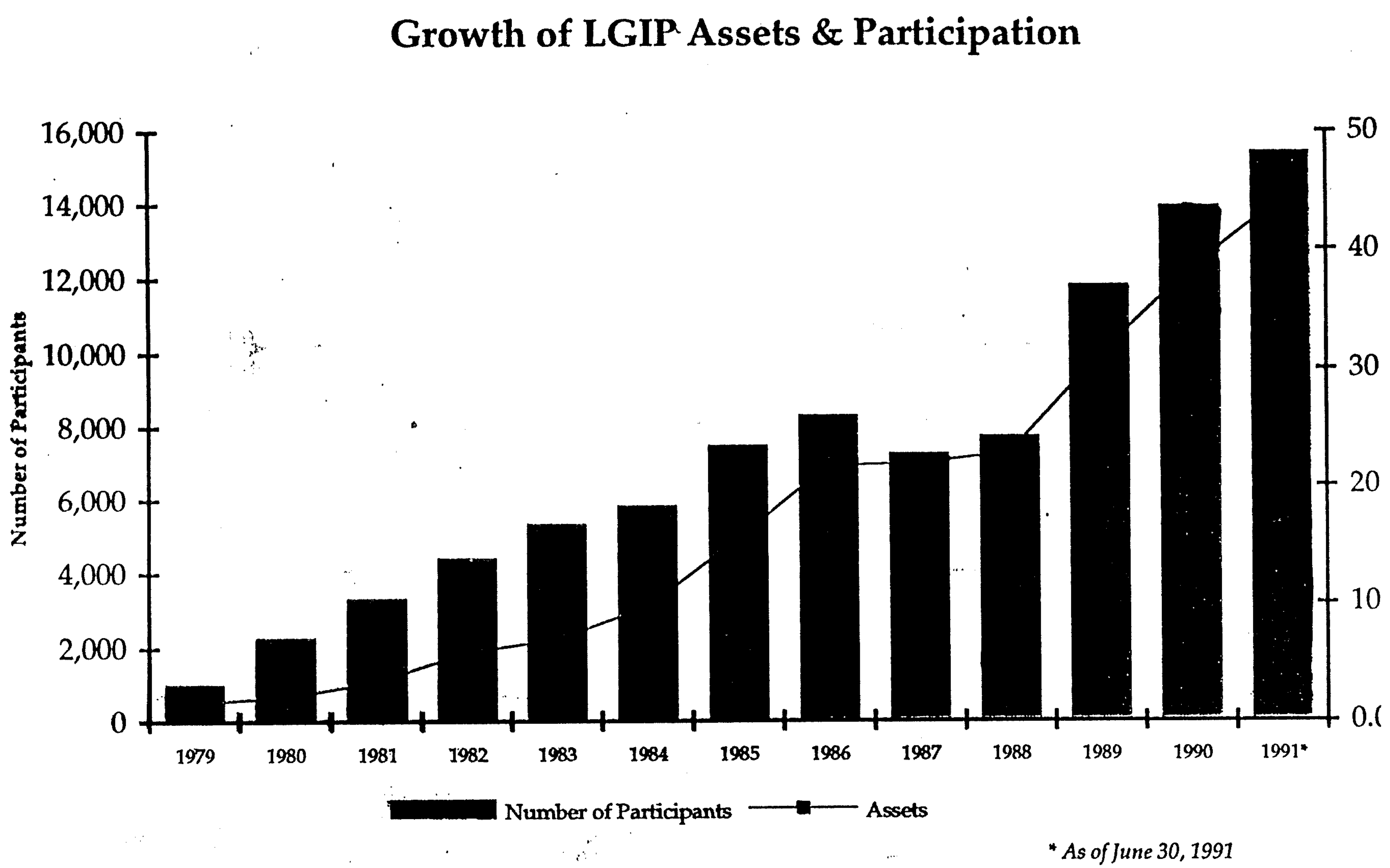
Distribution of Municipal Funds

Survey of 64 Cities (Over 100,000 pop.)

Note: Sum of
Federal Agencies, Mortgage-Backed
Securities, and Treasury Securities: **47%**



Woodstock Institute


Growth of LGIP Assets & Participation
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Number of Participants
50
40
30
20
10
0.0
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991*
Number of Participants
Assets
* As of June 30, 1991

Benefits Of Pooled In vestments

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- Professional management
- Portfolio diversification
- Daily liquidity
- Improved convenience
- Economies of scale
- Low or no administrative costs
- Increased competition

JFK CONSULTING GROUP

TREASURY MANAGEMENT

John F. Kiley, President

2218 Vista Avenue
Olympia, WA 98501
206/754-4937

January 31, 1992

Ms. Sally Thompson
State Treasurer
State of Kansas
900 Jackson, Suite 201
Topeka, Kansas 66612-1235

Subject: Kansas Municipal Investment Pool

Dear Ms. Thompson:

You have asked me to comment on your proposal to create a Municipal Investment Pool, as recommended by the Legislative Budget Committee in Senate Bill No. 480. You are particularly interested in my evaluation of your proposal in light of the recent losses suffered by many Iowa municipalities who participated in the Iowa Trust, an investment pool managed by a private firm in California called Institutional Treasury Management (ITM).

Let me first briefly describe my treasury management background with respect to the formulation and implementation of what are commonly called Local Government Investment Pools around the country. From 1972 to 1982 I was the Assistant Treasurer in Washington State, after which I headed up the Treasury Management Consulting program for the then Big 8 Firm of Deloitte Haskins & Sells (now the Big 6 firm of Deloitte & Touche). A major part of my national consulting practice during this period focused on state-level cash and investment management practices. Last year, for example, I was retained by the Alaska Municipal League to assist them in organizing and operating an investment pool for Alaska municipalities.

In the State of Washington we successfully implemented a Local Government Investment Pool almost ten years ago. Today that Pool has grown to include 275 local government participants, with assets of approximately $1.5 billion. Local finance and investment officials treat the Pool essentially as a high yielding checking account; additionally, the existence of the Pool has made the local financial institutions more competitive when they are actively seeking deposits. In today's market, however, they can not offer competitive rates of return; thus, the state pool has become the only viable investment option for many local governments.

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As you well know this is an increasingly popular concept, currently operating in approximately 30 states under various auspices. While most programs are state-sponsored, a few have been implemented by local government "umbrella" organizations seeking to gain benefits for all their members. A few state operated Pools have hired private firms such as Fidelity Investments to actively manage the investment pools on a day-to-day basis. However, in the vast majority of states State Treasurers manage Pooled Funds for local municipalities.

In previous testimony to the Legislative Budget Committee and other interested parties, you outlined why the Local Government Investment Pool concept has become so popular in recent years. As you indicated, the benefits to smaller local governments are both substantive and measurable:

- **Professional management**
- **Portfolio diversification**
- **Daily liquidity**
- **Improved convenience**
- **Economies of scale**
- **Low or even no administrative costs**
- **Increased competition**
- **Exemption from risk categorization by the Governmental Accounting Standards Board**
- **Operational enhancements**
  - **-state transfer payments**
  - **-arbitrage tracking and calculation**
  - **-additional portfolios**

These benefits are currently being realized by over 14,000 participating governments nationwide (as of June 30, 1991), while investment portfolios have increased to approximately $45 billion. I would, therefore, strongly support your conclusion that it is time (perhaps overdue) that Kansas municipalities enjoy the increased return, safety and liquidity currently available to thousands of other local governments around the country.

I must note in passing, however, after reviewing the provisions in Senate Bill No. 480, that many of these same local governments in other states will still be in a stronger position to increase returns (with little increase in risk) than will their Kansas counterparts, even assuming passage of this legislation. For one thing, I do not believe any of the municipal participants in other state-sponsored pools are required to offer their funds to local financial institutions first, before they are permitted to either use the pool or buy money market securities directly. Secondly, while the referenced "market rate" is indeed a more equitable benchmark than the previously mandated 91 day Treasury Bill rate, it is still arbitrarily derived, rather than competitively determined. Finally, many municipal investment policies around the country, and certainly those of the vast majority of state governments, include other money market instruments such as bankers'acceptances and commercial paper. These securities, while not federally insured, usually are limited to only the highest rated and most credit-worthy corporations and banks. When purchasing these securities risk is normally controlled by limiting investment of these "non-collateralized" instruments to a certain maximum percentage of the total portfolio.

But let me return to the central purpose of this memorandum: that is, to review how a municipal investment pool run by the Kansas Treasurer and the Pooled Money Investment Board (PMIB) potentially compares with the operations and processes found recently in Iowa. It is my intent first to identify certain issues which provided the opportunity for the Trust to fail and for losses to occur. Then, we will examine how your office and the PMIB intends to manage the Kansas Municipal Investment Pool, which presumably will mirror how most other states operate, and which will contrast sharply with the Iowa experience.

ISSUE: Local governments in Iowa respond to a promised risk-free way to invest

There are many local treasurers and finance officials, whether in Kansas, Iowa, or around the country, that do an excellent job managing and investing the funds of their jurisdictions. They normally have to do this job in addition to many other major responsibilities and with few if any technical resources available to them. Investment training opportunities for public officials are limited at best and usually expensive. Consequently, when interest income is down sharply from projections, and budgets grow tighter, they come under tremendous pressure to achieve higher returns. Many feel compelled to stretch their risk limits, some to the breaking point. Under these conditions some treasurers in Iowa responded by pooling their investment balances with a private money manager that promised returns 2% higher than other investors in the market, through "sophisticated trading of treasury notes."

KANSAS: The fundamental proposition that if an investment seems too good, it probably is, is absolutely valid in the government money markets. There **always** is the direct relationship between risk and reward. To gain the reward you must invest in riskier investments and/or for longer maturities. There is no entirely risk-free investment policy, period. Governmental entities and many corporations for that matter, have suffered losses in the past while investing in **100% guaranteed** U.S.Treasury securities. These losses represent conditions where adequate liquidity has not been maintained; if it were, those instruments that had lost value could be held to maturity and would return full value. The Kansas Municipal Pool, as managed by your office and the PMIB, recognizes that there is no such thing as eliminating risk entirely. However, risk can be limited and controlled by adopting a number of very important procedures:

First is the fact that your office and the PMIB will be managing the Pool directly, rather than contracting with a private money management firm. This will ensure that the execution of all transactions will be done by investment professionals, in accordance with your approved investment policies and procedures. The first emphasis will always be on safety and liquidity.

Second, if approved as currently written, Senate Bill No. 480 will limit the kinds of investments that can be made. Authorized instruments for the Pool will include government securities, bank CD's, and repurchase agreements. Procedures normally used when the investor is betting on the direction interest rates will go (i.e., the Iowa experience), such as extending maturities, using options trading, or writing calls, will be automatically precluded.

Third, your comprehensive reporting mechanisms will describe all transactions that have taken place and the current status of the portfolio marked-to-market. Confirmations of trades will be checked by third parties. Safekeeping receipts will be verified for all transactions. Monthly reports which indicate current market valuations for all securities will be reconciled. All transactions will occur on a "Delivery Versus Payment" (DVP) basis, insuring that funds are never transferred without first receiving delivery of the correct securities. Annual, independent audits will be performed. Performance measurement will be performed by the custodian or other third party.

ISSUE: A license doesn't mean that sellers of government securities are "experts"

Because the government securities market is generally unregulated, it is a simple matter to go into the government securities business. As a result store front offices have sprung up around the country, preying upon the unsophisticated investor. It is sometimes difficult, particularly for local officials, to distinguish between the well capitalized, well managed firms, and the others, without the resources and time to fully investigate these private "experts."

KANSAS: The PMIB will purchase investments only from primary dealers and the strongest financial institutions. Professional management, third party delivery of securities, the use of DVP, and constant internal auditing will serve to protect local government participants in the Kansas Pool.

ISSUE: Promised gains of 2% or more are just that, promises

ITM promised to Iowa Trust and other investors that with their sophisticated trading of treasury notes they could achieve yields 2% or more higher than the market. Fact: in a normal yield curve the only possible way to attempt to achieve these type of returns is to extend maturities beyond ten years and up to thirty years, or to use exotic strategies or instruments that significantly increase risk.

KANSAS: The Kansas Municipal Investment Pool will not try and speculate on the course of interest rates by excessively trading securities or extending maturities beyond the five year maximum. In fact, the performance goal will be to achieve returns **commensurate** with market rates, and as further constrained by state law. Because of the five year maximum and because of the need to keep most of the portfolio in short maturities for liquidity purposes, risk will remain limited and controlled.

ISSUE: Cost of portfolio management

The Iowa vendor, ITM, apparently charged no commissions but retained 30% of any trading profits. The normal industry-wide practice is to charge fees commensurate with the amount of funds under management.

KANSAS: To my knowledge most state-run pools charge fees in the range as proposed in S.B. 480 (1% of interest income). The percentage of trading profits to be retained by ITM in Iowa was absurd under any circumstance, but particularly if measured against the potential fees to be charged by the State Treasurer in administering the Kansas Pool.

ISSUE: Confirmation of trades, performance measurement, and portfolio reporting by ITM

It appears that ITM sent phony confirmations of trades, provided false account statements, and generally was unresponsive to its investors.

KANSAS: Monthly/quarterly reports will be routinely sent to all participants in the Pool. Performance will be measured independently. An operational audit will be performed annually by an independent CPA firm. Reports from the Pool's third party custodian will be shared with participants on a monthly or quarterly basis.

ISSUE: Iowa trades not executed on DVP basis

The custodian for Iowa Trust apparently released $65 million before receiving delivery of an equal amount of securities.

KANSAS: Your current policy is that trades will be executed by your custodian, strictly in accord with DVP. Neither monies or securities of Kansas municipalities will ever be left unprotected.

ISSUE: Delivery of securities to third party custodian

Apparently, there was no third party delivery of securities under the Iowa Trust agreement with ITM. To assure perfected ownership, securities purchased by ITM for the Iowa Trust should have been delivered to a third party custodian controlled by Iowa Trust.

KANSAS: All securities will be perfected in the name of the State and delivered to a third party custodian.

ISSUE: Investments not insured

The lack of controls in Iowa, previously described, resulted in a complete lack of protection for those municipalities participating in the Iowa Trust, or acting individually with ITM.

KANSAS: We have previously described some of the important control techniques your office and PMIB will use to ensure the protection of all investment funds in the Pool. Additionally, the public deposit collateralization program in Kansas will serve to protect operating balances and certificates of deposit against the possible failure of financial institutions.

In summary, it is clear to me that the Kansas Municipal Investment Pool, when established, will provide a vital investment option to hardpressed local governments. As internally managed by your office and the PMIB, risk will be minimized through professional management, portfolio diversification and liquidity, and the use of only a limited number of money market instruments. Kansas is taking an entirely different approach to pooling municipal investments than that taken by the Iowa Trust. Any attempt to say that the two efforts are similar is unwarranted.

I hope this material is helpful in your efforts to bring Kansas in step with the majority of other states on this important issue.

Sincerely,

John F Kiley

John F. Kiley

Estimated Increased Interest Earnings
based on
1st and 2nd Class Cities and County Totals for 1991
(those responding to survey)

City/County	Estimated Interest Income Increase by City/County	County-wide Total
Humboldt	$12,868	
Iola	$104,157	
Allen County	$54,342	**$171,367**
Garnett	$64,276	
Anderson County	$16,365	**$80,640**
Atchison	$17,362	
Atchison County	$43,741	**$61,103**
Barber County	$33,433	**$33,433**
Great Bend	$116,140	
Hoisington	$11,996	
Barton County	$94,823	**$222,959**
Fort Scott	$24,271	
Bourbon County	$7,748	**$32,018**
Horton	$10,777	
Brown County	$26,052	**$36,829**
Augusta	$26,835	
El Dorado	$57,110	
Butler County	$110,732	**$194,677**
Chase County	$13,410	**$13,410**
Chautauqua County	$15,022	**$15,022**
Baxter Springs	$14,058	
Columbus	$7,283	
Galena	$4,002	
Scammon	$1,479	
Cherokee County	$49,641	**$76,463**
Cheyenne County	$14,060	**$14,060**
Clark County – did not respond to survey		
Clay Center	$33,728	
Clay County	$24,201	**$57,928**
Concordia	$15,568	
Cloud County	$35,336	**$50,904**

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Estimated Increased Interest Earnings
based on
1st and 2nd Class Cities and County Totals for 1991
(those responding to survey)

City/County	Estimated Interest Income Increase by City/County	County-wide Total
Coffey County	$94,421	$94,421
Comanche County – did not respond to survey		
Arkansas City	$27,430	
Winfield	$119,207	
Cowley County	$71,857	$218,494
Frontenac	$2,813	
Girard	$44,459	
Pittsburg	$123,080	
Crawford County – did not respond to survey		$170,351
Decatur County	$14,764	$14,764
Herington	$11,538	
Dickinson County	$34,391	$45,928
Doniphan County	$20,107	$20,107
Lawrence	$245,051	
Douglas County	$183,217	$428,268
Kinsley	$5,919	
Edwards County	$7,658	$13,577
Elk County	$5,417	$5,417
Ellis	$16,592	
Hays	$50,308	
Ellis County	$72,886	$139,787
Ellsworth County	$23,990	$23,990
Garden City	$90,630	
Finney County	$147,464	$238,094
Dodge City	$50,802	
Ford County	$96,831	$147,634
Ottawa	$74,744	
Franklin County	$43,198	$117,942
Junction City	$36,330	
Geary County	$43,565	$79,895

225

Estimated Increased Interest Earnings
based on
1st and 2nd Class Cities and County Totals for 1991
(those responding to survey)

City/County	Estimated Interest Income Increase by City/County	County-wide Total
Gove County	$13,868	**$13,868**
Ulysses	$16,263	
Grant County – did not respond to survey		**$16,263**
Graham County	$22,884	**$22,884**
Gray County	$20,956	**$20,956**
Greeley County	$15,931	**$15,931**
Eureka	$3,839	
Greenwood County	$24,494	**$28,333**
Hamilton County	$21,111	**$21,111**
Anthony	$25,205	
Harper	$5,452	
Harper County	$26,787	**$57,444**
Halstead	$5,835	
Hesston	$19,729	
Newton	$33,648	
Harvey County	$65,903	**$125,115**
Haskell County	$42,250	**$42,250**
Hodgeman County	$18,769	**$18,769**
Holton	$10,052	
Jackson County	$37,629	**$47,681**
Jefferson County	$29,423	**$29,423**
Jewell County	$16,496	**$16,496**
Fairway	$6,633	
Leawood	$56,752	
Lenexa	$176,248	
Mission	$59,860	
Olathe	$331,684	
Overland Park	$256,950	
Prairie Village	$37,957	
Roeland Park	$28,431	
Shawnee	$60,341	
Johnson County	$1,200,300	**$2,215,156**

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Estimated Increased Interest Earnings
based on
1st and 2nd Class Cities and County Totals for 1991
(those responding to survey)

City/County	Estimated Interest Income Increase by City/County	County-wide Total
Kearny County – did not respond to survey		
Kingman	$27,068	
Kingman County	$37,033	**$64,101**
Kiowa County	$24,583	**$24,583**
Chetopa	$6,508	
Parsons	$60,805	
Labette County	$55,231	**$116,036**
Lane County	$10,799	**$10,799**
Lansing	$2,128	
Leavenworth	$61,211	
Leavenworth County – did not respond to survey		**$63,339**
Lincoln Center	$14,805	
Lincoln County	$18,675	**$33,479**
Linn County	$41,176	**$41,176**
Logan County	$11,958	**$11,958**
Emporia	$48,632	
Lyon County	$74,902	**$123,534**
Florence	$1,105	
Hillsboro	$17,485	
Marion	$15,563	
Marion County	$37,936	**$72,088**
Marysville	$18,659	
Marshall County	$33,963	**$52,622**
Lindsborg	$29,506	
McPherson	$26,144	
McPherson County	$132,822	**$188,473**
Meade County	$24,159	**$24,159**
Osawatomie	$6,252	
Paola	$15,548	
Miami County	$49,281	**$71,082**
Beloit	$33,749	
Mitchell County	$25,901	**$59,650**

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Estimated Increased Interest Earnings
based on
1st and 2nd Class Cities and County Totals for 1991
(those responding to survey)

City/County	Estimated Interest Income Increase by City/County	County-wide Total
Cherryvale	$7,623	
Coffeyville	$132,253	
Independence	$28,987	
Montgomery County – did not respond to survey		**$168,863**
Council Grove	$7,248	
Morris County	$27,074	**$34,322**
Elkhart	$9,559	
Morton County	$39,750	**$49,309**
Seneca	$23,854	
Nemaha County	$11,833	**$35,687**
Chanute	$124,556	
Neosho County	$41,588	**$166,144**
Ness County	$17,498	**$17,498**
Norton	$14,204	
Norton County	$16,421	**$30,626**
Osage City	$30,445	
Osage County	$35,984	**$66,429**
Osborne	$35,586	
Osborne County	$19,920	**$55,506**
Minneapolis	$9,607	
Ottawa County – did not respond to survey		**$9,607**
Pawnee County	$21,072	**$21,072**
Phillips County	$31,742	**$31,742**
Wamego	$22,208	
Pottawatomie County	$64,099	**$86,308**
Pratt	$78,075	
Pratt County	$38,571	**$116,646**
Rawlins County	$22,802	**$22,802**
Hutchinson	$105,542	
Nickerson	$4,730	
Reno County	$123,154	**$233,426**

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Estimated Increased Interest Earnings
based on
1st and 2nd Class Cities and County Totals for 1991
(those responding to survey)

City/County	Estimated Interest Income Increase by City/County	County-wide Total
Belleville	$11,350	
Republic County	$28,843	**$40,193**
Manhattan	$218,233	
Riley County	$26,032	**$244,265**
Lyons	$9,923	
Rice County	$41,464	**$51,387**
Rooks County	$31,677	**$31,677**
Rush County	$22,300	**$22,300**
Russell	$64,930	
Russell County	$47,018	**$111,948**
Salina	$167,843	
Saline County	$87,325	**$255,169**
Scott City	$12,368	
Scott County	$24,910	**$37,278**
Derby	$23,811	
Haysville	$26,906	
Wichita	$1,369,386	
Sedgwick County	$28,060	**$1,448,163**
Liberal	$41,875	
Seward County	$65,148	**$107,023**
Topeka	$370,099	
Shawnee County	$353,597	**$723,696**
Sheridan County	$15,330	**$15,330**
Goodland	$51,304	
Sherman County	$21,840	**$73,144**
Smith County	$16,664	**$16,664**
Stafford County	$29,494	**$29,494**
Stanton County – did not respond to survey		
Hugoton	$26,502	
Stevens County	$42,868	**$69,370**

Estimated Increased Interest Earnings
based on
1st and 2nd Class Cities and County Totals for 1991
(those responding to survey)

City/County	Estimated Interest Income Increase by City/County	Estimated Interest Income Increase County-wide Total
Caldwell	$2,319	
Wellington	$120,230	
Sumner County	$41,695	**$164,244**
Colby	$26,712	
Thomas County	$23,871	**$50,583**
Trego County	$19,326	**$19,326**
Wabaunsee County	$14,786	**$14,786**
Wallace County	$12,424	**$12,424**
Washington County – did not respond to survey		
Wichita County	$16,457	**$16,457**
Fredonia	$5,449	
Wilson County	$28,023	**$33,472**
Yates Center	$11,103	
Woodson County	$16,636	**$27,739**
Bonner Springs	$11,401	
Kansas City	$1,087,424	
Wyandotte County	$1,500,000	**$2,598,825**
State Total		**$13,829,185**

2-30

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 24, 1992

TO: House Committee on Commercial and Financial Institutions
RE: **SB 480** - Investment of Public Funds

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the committee in support of **SB 480** as amended. The bill you now have under consideration has been developed over several months with input from a broad range of individuals and groups. We at the KBA want to personally thank the State Treasurer and her staff, the members of the Legislative Budget Committee, representatives of the various local governmental units, and those individuals in the Revisors' office and Legislative Research who have spent dozens and dozens of hours working on this complicated piece of legislation.

We believe **SB 480**, with the adoption of the technical amendments which you have before you, represents positive reform of the public funds investment laws for both the state and local units of government. For local units, it increases the yield on their deposits in local banks and S&Ls and gives them several additional options for investment when the money cannot be placed locally. For the state, it broadens the investment opportunities for the State Treasurer and the Pooled Money Investment Board and streamlines the cash management process for state government. For the Kansas taxpayer, it insures that the tax revenues raised will be handled with the highest degree of safety possible and that the tax revenues will be invested throughout the state to have the greatest possible impact on economic development.

As legislators, your first and highest concern must be the safety of the tax dollars being invested. Your predecessors always demanded that public funds laws be structured to first protect the deposits and only secondarily to look at the rate of return. That has enabled our state and local governmental units to avoid the types of disasters which are now plaguing other states such as Iowa. While there is a certain degree of interest rate risk inherent in the newly granted investment authority in **SB 480**, the procedures for investments have been carefully structured for maximum safety and the securities which can be purchased are backed by the United States government.

All units of government will maintain their unique depositor status with Kansas financial institutions which enables them to have every dollar depoisted to be covered by either federal deposit insurance or the pledged assets of the financial instituion. No other depositor, by law, can attain this status and, in addition, the bill requires that those same financial institutions must pay at least the Treasury bill or note rate for any government deposits. The requirement that financial institutions must pay the equivalent T-bill or T-note rate for equivalent maturities (6-month rate for 6-month CDs, 1-year rate for 1-year CDs, etc.) will also give those institutions greater opportunity for good asset/liability management.

Office of Executive Vice President • 1500 Merchants National Building
Eighth and Jackson • Topeka, Kansas 66612 • (913) 232-3444
FAX (913) 232-3484

CF&I
3-24-92
atch 3

The addition of the provisions of **SB 482** to this bill is also a positive reform. **SB 482** as introduced expands the Pooled Money Investment Board to five members and requires that at least two members of the Board must have extensive financial experience and expertise. Since the PMIB will be taking on greatly expanded responsibilities for the investment of state monies and for the review and approval of investment policies of local governmental units, this expansion of the Board is a very important factor in maintaining a high degree of safety in the pubic funds investment process.

As stated earlier, Kansas has maintained very sound and safe public funds investment laws for a long period of time and this has resulted in a scandal-free policy which has, at the same time, allowed governmental units the opportunity to receive reasonable and fair rates for their investments. We believe **SB 480**, as amended, is progressive reform of those laws and will maintain the long-standing Kansas tradition of safety and soundness.

We again express our appreciation for this opportunity to discuss **SB 480** and will be most happy to answer any questions you might have and supply any additional information you may need to formulate your final position on this major piece of legislation.

James S. Maag
Senior Vice President

SENATE BILL 480 HEARINGS

House Committee: Financial Institutions and Insurance
March 24, 1992

Dear Mr. Chairperson and Members of the Committee:

You have heard various advocates identifying the FACTS as to the positive impact that Senate Bill 480 will provide the State of Kansas and its political jurisdictions. Johnson County supports this bill wholeheartedly. It will mean increased revenues without raising taxes. It will mean not having to increase future property taxes. If this bill, as prepared, does all of this for the State and local governments and ultimately for the taxpayers of the State of Kansas, why are we here debating obvious benefits to the majority of the taxpayers?

This question seems simple enough. But this question leads only to other questions that are still on the table for every person in government and working for the majority of the taxpayers. For your edification, let me just present a few of those questions that we need to answer. They may seem rhetorical, but more and more people are asking them with a stronger voice and a stronger conviction. Taxpayers who are joining together for responsible government are demanding that their assets be protected and be managed for maximum benefit. Here are just of few of their questions calling out for answers.

- ☐ **Why are local governments not getting aggressive bids for the taxpayers' public funds?**

- ☐ **Why are local governments not receiving anything close to market rates on taxpayers' public funds?**

- ☐ **If financial institutions are using taxpayer's funds to invest for themselves in the same type of investment securities rather than loans for economic development, why not let the local governments get that return to keep taxes down?** If local governments keep taxes down, is this not economic development of the highest degree? Those involved in economic development understand what low and high taxes are and know when to stay away from high taxes.

- ☐ In several discussions with banks, they say that they want to have the money longer so that they can make loans without fear of churning the money back to the local jurisdiction in a **SIX MONTH** turnaround. Senate Bill 480 helps local jurisdictions by extending the maturing dates to a maximum of four (4) years. **Banks which truly loan public funds are asking why not give the local jurisdictions the right to invest up to four years in maturity?** They find this provision to their advantage.

- ☐ Why are those "representing" the financial institutions worried that Kansas public funds will go outside the state? They're going there now by way of the financial institutions. The facts are that public funds are not being loaned, but reinvested in the same type of securities in which local governments could invest. However, rather than give the local governments the market rates, the financial institutions are offering rates of 0.75% to 1.50% below the market rates. **The question remains, should there be such control on the access to the government security markets and why should the taxpayers suffer because of this lack of open access to the market place?**

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Atch 4

- **Why are those "representing" the financial institutions worried that if Senate Bill 480 is passed as is, local governments will not show the necessary responsibility and comply with the safeguards that are written into this bill?** Are they saying that the elected officials are not intelligent or concerned with the public trust? Great care was taken to insure only those who have sound management systems and oversight could participate in the program outlined in Senate Bill 480.

- **Why are those "representing" the financial institutions worried about safety when local governments who wish to practice the provisions stated in Senate Bill 480, must pass another measure of review to insure that the public trust is managed prudently?** Do those "representing" these financial institutions have no faith in the process or in the people at the State level who will manage that review?

- Senate Bill 480 really only allows three addition features for local governments to manage their public funds:
  1. Allows them to invest in maturities over the current six (6) month limitation;
  2. Allows them to set standards for banks to bid a minimum rate for the maturities needed; and
  3. Allow for the ability to participate in a Statewide investment pool.

  Why does anyone think that these additional features add risk to those managing the public funds except for market risk? There are no new types of investments such as stocks, corporate bonds, real estate property, etc. **Why are those raising fears so concerned with these very minimum risk features?**

- **Why are those "representing" the financial institutions, fearful that they will be cut off from getting those public funds? This Senate Bill gives them the FIRST RIGHT OF REFUSAL. If they provide the local governments with reasonable bids, they will have all the public funds they want. Is this too much to ask of the taxpayers' money?**

- What all of this is leading to is one last question: **WHAT GIVES THE BANKING INDUSTRY THE RIGHT TO DECIDE HOW THE STATE AND LOCAL GOVERNMENTS INVEST TAXPAYERS' MONEY?**

These are questions that we must answer today and tomorrow if this bill is not passed. Taxpayers are beginning to examine how we do business. They want to insure that their tax dollars are being used for their good. On their behalf, we as their representatives, ask that we begin to manage the public funds to the benefit of the majority, not the minority.

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KANSAS COUNTY TREASURERS' ASSOCIATION

KAC MEMBER

OFFICERS

GARY WATSON
TREGO COUNTY
President

NANCY HEMPEN
DOUGLAS COUNTY
Vice-President

LOREN L. HIBBS
SUMNER COUNTY
Secretary

JOANN HAMILTON
OSAGE COUNTY
Treasurer

March 24, 1992

TO: Representative Delbert Gross, Chairman
Commerical and Financial Institutions Committee

From: Mike Billinger, Chairman
Kansas County Treasurers' Association Legislative Committee

RE: Favorable Support of Senate Bill 480

Mr. Chairman and members of the Committee, I am Mike Billinger, Ellis County Treasurer, and I am here today on behalf of the Kansas County Treasurers' Association (KCTA) to speak in support of Senate Bill 480.

As chairman of the KCTA Legislative Committee, I have had the opportunity to discuss Senate Bill 480 with a number of County Treasurers from various parts of the State. I can assure this Committee that County Treasurers feel very committed to the principal that inactive funds should be invested in local financial institutions whenever possible. Unfortunately, in some areas of the State this is not always a profitable or realistic alternative.

The greatest dollar amounts are collected by County Treasurers on or a few days before December 20th and June 20th. The problem results from the short time we hold the monies at the county level. By law, millions of dollars are paid out to taxing districts by Treasurers approximately 25 days after the peak collection periods. Many financial institutions are not interested in these funds because of the short maturities. Also compounding the problem, is that the funds are counted toward the bank's depository insurance (FDIC) on December 31st and June 30th when premiums are calculated and paid, making short term public funds not very profitable for financial institutions.

Additional testimony will describe some actual experiences relating to placement of short term funds.

The KCTA feels several positive developments would result from Senate Bill 480:

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1. Counties would adopt investment policies that would give specific authority to investment officials. These policies would define the limits of investment officials and set standardized audits for performance evaluations. In most counties we do not have this now.

2. Investment policies would define safety of capital. As Treasurers, we know full well the importance of safety of capital and the perceived or real public relations problems that come from potential investment losses, but we still have counties that us Peak Depository Agreements. For those of you who are not familiar with "Peak Deposit Agreements", it simply means you deposit funds that are not collateralized. There would be no need for Peak Deposit Agreements if Senate Bill 480 was adopted.

3. Public funds would first be offered to local financial institutions before one dollar would leave the county. All financial institutions would be given the opportunity to accept the funds at the "market rate" or have the right of refusal. KCTA supports this concept and will, through our educational certification program, offer many facets of cash management and investment program training. This would establish better cooperation between local investment officials and financial institutions. With increased training and cooperation, counties would increase interest income. At the same time, financial institutions would be able to maximize their profits because of better cash management by counties.

I will conclude my presentation by asking for your favorable support of Senate Bill 480. On behalf of the Kansas County Treasurers' Association, I would like to express our appreciation for your valuable time and consideration.

Douglas County Treasurer
DOUGLAS COUNTY COURTHOUSE
Eleventh & Massachusetts
Lawrence, Kansas 66044

TO: Representative Gross, Chairman
House Commercial and Financial Institutions Committee,
and Committee Members

FROM: Nancy Hempen, Douglas County Treasurer and Vice-President
of the Kansas County Treasurers Association

RE: Senate Bill 480

I am appearing here today in support of Senate Bill 480 on behalf of the Kansas County Treasurers Association.

Safety and security of public funds are the most important factors for any investing officer. As a local elected official and the designated investing officer of my county, by resolution, I have a responsibility to our taxpayers --- to safely manage their tax dollars. My goal is to keep those monies invested locally, but I cannot now do that and be assured those investments are secured.

Of the nine (9) banks located in Douglas County, only three (3) are currently willing to accept county funds. Although a medium size county, my average monthly cash and idle funds balance is $19 million. One bank maintains our daily operating checking and savings accounts, providing us with a maximum pledging of $9 million. This means my balances cannot exceed that amount or I will not be 100% pledged, as required by law. Two smaller banks have accepted for investment a combined total of $3,790,000.00 and will not take more.

Nancy L. Hempen, County Treasurer
Courthouse
Eleventh & Massachusetts/Lawrence, Kansas 66044/(913) 841-7700

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With peak periods in June (balances of $26.5 million) and December (balances of $39.1 million), it has become increasingly difficult to place money in local banks. Our peak season tax collections (in June and December) comes at a time when the banks FDIC insurance rates are calculated. Knowing we have large distributions in January and July, the banks are not interested in paying increased FDIC rates without the potential of using the investments. The "county" is not the only entity that is trying to place public money locally. Our peak investment periods coincide with our school district, the University of Kansas fee collections in January and August, and the cities. We are all trying to place our money in the same banks, at the same times.

Of the $39 million available for deposit in December, 1991, only 9% was accepted by three local banks. I was forced to take $29 million out of our local bank and purchase T-Bills (Treasury Bills) and repurchase agreements because local bank pledging was not available.

In another county, when a $500,000 CD (Certificate of Deposit) came up for renewal, the local bank was only willing to offer 3% for the reinvestment of the CD. The same bank was paying 3.4% on the money market account, but still less than the 91-day T-Bill rate. Their reasoning was that by the time the bank pays the administrative cost and secures pledging, they could not pay more than the 3% rate. The Treasurer was forced into purchasing a T-Bill to obtain a better rate of return.

When forced to purchase T-Bills, moneys do not stay locally and the matured investments must still run through our operating account prior to disbursement. In some cases, this results again in a pledging problem.

The theory of guaranteeing local banks local public funds, only works if the banks will accept the money. Why penalize local units of government by restricting the chance to offset mill levies with a better return on interest income?

As an example, interest earned by Douglas County in 1990 ($1,170,082.00) was equivalent to 3.42 mills and in 1991 ($995,000.00) was equivalent to 2.74 mills. With the passage of Senate Bill 480, additional interest income of 1% (percent) on cash and idle funds balances for 1991 could have increased by approximately $184,000. It is important to this county to use interest income to reduce levies.

In visiting with my local banks, I feel assured that our communication and rapport has been, and will continue in a very positive manner. I do not believe my banks want to penalize our efforts when monies cannot be placed with their institution. I sincerely believe, that any bank opposed to this legislation is probably in a better position to work with their local units of government. Those banks supporting the concept of this bill are not financially able to assist us. If they cannot be of assistance to us, then our options should include those in SB 480.

Sally Thompson, State Treasurer, has worked extremely hard with local officials to put together this proposed legislature, which we believe will give local units additional alternatives. Your support and passage of SB 480 will still insure safe and secured investments of local units of government. It will also give us the opportunity to enhance revenues at a time when property tax relief is of utmost concern.

Attached please find the resolution (92-3) of the governing body of Douglas County also requesting your support and passage of Senate Bill 480.

The Kansas County Treasurers Association believes Senate Bill 480 is responsive to safe and secure investments of public funds and would provide an alternative method for investments when local financial institutions cannot accept the funds. We ask your support in passing Senate Bill 480.

Douglas County

January 27, 1992

Representative Betty Jo Charlton
State Capitol, Room 272-W
Topeka, KS 66612

SUBJECT: Senate Bill No. 480

Dear Betty Jo:

Enclosed please find a copy of Resolution No. 92-3 which was adopted by the Board of County Commissioners of Douglas County, Kansas on January 27, 1992. This resolution expresses strong support for the enactment of Senate Bill No. 480 which provides, among other things, for the creation of new municipal investment pool fund as an alternative means of investment.

Like other local units of government, Douglas County has found its investment options extremely limited in recent years. The Board of County Commissioners believes this legislation would provide an important incentive for additional competition in securing a reasonable return on the County's investments. In this era of tight local and state government budgets, investment earnings are an increasingly important part of the County's revenue picture.

Please don't hesitate to contact the Board members, the County Treasurer, Nancy Hempen, or me if you have any questions about this matter. Thank you very much for your consideration of this legislation.

Sincerely,

Chris McKenzie

Christopher McKenzie
County Administrator

CM:rw
encl
 a/s

cc: Nancy Hempen, County Treasurer - w/encl

Courthouse
Eleventh & Massachusetts / Lawrence, Kansas 66044 / (913) 841-7700

RESOLUTION NO. 92-3

A RESOLUTION EXPRESSING SUPPORT FOR CHANGES TO THE GENERAL INVESTMENT AUTHORITY OF LOCAL UNITS OF GOVERNMENTS

WHEREAS, K.S.A. 12-1675 establishes the authority for local units of government to invest public funds which are not immediately required for the purposes for which the funds were collected; and

WHEREAS, to enhance revenues, it is the fiduciary duty of each local government entity to earn a fair rate of interest on its available funds consistent with a high degree of liquidity and safety; and

WHEREAS, this country's financial markets have undergone significant structural changes and innovations since the original enactment of K.S.A. 12-1675; and

WHEREAS, the County of Douglas County, Kansas supports efforts to broaden the investment authority of both the State of Kansas and its local government units; and

WHEREAS, the County estimates that broader investment authority could yield additional revenue annually for its various funds.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF DOUGLAS COUNTY, KANSAS:

Section 1. That Douglas County, Kansas supports the passage of 1992 Senate Bill No. 480, as recommended by the 1991 interim Legislative Budget Committee.

Section 2. That Douglas County, Kansas urges its state legislative delegation to support Senate Bill No. 480.

Section 3. This Resolution shall take effect immediately and be sent by the County Administrator to the members of the Douglas County Legislative Delegation.

ADOPTED this 27th day of January, 1992.

BOARD OF COUNTY COMMISSIONERS
OF DOUGLAS COUNTY, KANSAS

Mark A. Buhler

Mark A. Buhler, Chairman

Louie McElhaney

Louie McElhaney, Member

Mike Amyx

Mike Amyx, Member

ATTEST:

Patty Jaimes

Patty Jaimes, County Clerk

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To: Members of House Commercial and Financial Institutions

Re: Senate Bill 480

From: Kevin Jones Ottawa County Treasurer

Mr. Chairman, Committee members, my name is Kevin Jones and I currently hold the office of Treasurer in Ottawa County, Kansas. I appreciate the opportunity of appearing before you today in support of Senate Bill 480.

At this point I would like to share with you some historical information in regard to my involvement with the Idle Fund Investments of Ottawa County. Upon taking office as Treasurer in October of 1989 I became the designated investment officer of Ottawa County's Idle funds.

On review of the investment portfolio I found that all funds invested were in certificate of deposits earning one-half percent below the 91 day T-Bill rate. Nearly fifty percent of Ottawa County's idle funds (approximately 1.25 million) were deposited in money market accounts drawing three to four percent below the 91 day T-bill rate. Your conclusion at this point is probably the same as mine was, Ottawa County did not have a satisfactory or acceptable investment policy.

Since December of 1989 I am pleased to say that Ottawa County has received a minimum of the 91 day T-Bill rate on invested idle funds. This has been accomplished by negotiating and working closely with our five local banks. Certificate of Deposits continued to be Ottawa County's primary investment vehicle until January of 1991.

In January of 1991 our local banks informed me that unless Ottawa County was willing to enter into repurchase agreements, no longer would we be able to receive the full 91 day T-Bill rate. Within a period of approximately 45 days I had the task of converting approximately 3.2 million dollars invested in certificate of deposits into repurchase agreements with maturities timed to coincide with Ottawa County's projected cash requirements. In addition they recommended that all available county funds be rolled into Repurchase Agreements at each of their financial quarters end, even if the investment period could only be for one day. This policy is beneficial to the banks as it helps reduce the bank's depository coverage insurance cost.

To date Ottawa County has complied with these requests; however no additional return above the 91 day t-bill rate has been received even though a cost savings to the banks has been realized by our current investment practices. Conversations with our bankers indicate that the investment potential and return on Ottawa County's short term idle fund investment dollars make this a nearly break even or "public service" activity on their part.

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In the times we are facing I do not believe there is such a thing as too many alternatives for our idle funds investment. Our county has been through a fairly recent bank closure and buy out. Of our five banks three are owned by two brothers; the other two are owned by a group of investors. Two of the five are actually branch banks. With this in mind I see a great asset in having an option other than a local institution.

With interest rates at the lowest levels in 15 - 20 years and what appears to be a period of slow economic recovery I greatly apprecaite the work put into Senate Bill 480 by the State Treasurer and staff. Being the individual currently responsible for Ottawa County's investment policy I look favorably toward what appears to be a safe yet potentially higher yielding form of investment for public funds. I am convinced that safety exists for our public funds within this investment bill. There is no difference between the quality and types of securities that the State Treasurer has proposed that this pool invest in and what is now currently available. A side benefit to the State can be realized through the use of this pooled investment system as where there is demand within the State Borders for investment dollars, the pool will have the authority to invest. Currently a county's excess idle funds usually leave the state when no local demand is present as the County Treasurer purchases T-Bills.

The in house management and oversight by the pooled money investment board also demonstrates the State Treasurer's desire to establish and maintain direct responsibility for invested funds, a far different approach than what was used in the failed Iowa Pool. Key to my and Ottawa County's suport for this bill is the quality of investments proposed and direct control by the pooled money investment board.

Ottawa County's Board of Commissioners and I do emphatically agree that the money should be offered locally first, and only funds that cannot be placed in our local banking institutions at a competitive rate be allowed to be invested in this pool. It is only those funds the Investing Officer cannot place locally that should be invested through this proposed pool.

The previous testimony presented by others (and specifically Nancy Hempen) has illustrated the immediate need for additional investment alternatives for local governments' idle funds. No one can predict exactly when interest rates will rise and demand for short term money will again exceed supply at the county level. With this in mind I ardently encourage your consideration and support for Senate Bill 480. Thank you.

KANSAS ASSOCIATION OF SCHOOL BOARDS

5401 S. W. 7th Avenue Topeka, Kansas 66606
913-273-3600

TESTIMONY ON SENATE BILL NO. 480
BEFORE THE HOUSE COMMITTEE ON COMMERCIAL
AND FINANCIAL INSTITUTIONS

BY
NORMAN D. WILKS, DIRECTOR OF LABOR RELATIONS
KANSAS ASSOCIATION OF SCHOOL BOARDS

March 24, 1992

Mr. Chairman and members of the committee, on behalf of 294 of the 304 unified school boards of education which are members of the Kansas Association of School Boards, we wish to express our support for the passage of S.B. 480.

We support the bill for the following reasons:

1. The creation of the municipal investment pool fund allows local boards another safe investment option if local financial institutions fail to pay the investment rate of interest.

2. The use of the municipal investment pool fund allows several municipalities and the state to take advantage of averaging investment maturities and greater investment yields by purchasing larger blocks of federal securities.

3. The change of interest rate from the 91 day T-bill rate to the investment rate allows school districts the opportunity to receive rates of return comparable to the rate received on safe federal securities with the same maturity.

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Atch 8

4. The bill increases the yield on repurchase agreements. If the local bank does not pay the FDIC premium on repurchase accounts, the interest rate paid to the school district should be equal to or greater than the rate paid on deposits rather than less.

If at least one local financial institution pays the investment rate of interest and provides the required security, the school district money will be invested locally.

The creation of the pool fund allows school districts to invest in the same kind of assets that are now used to secure district funds. The direct investment by the pool in assets used to secure bank deposits certainly provides a similar degree of safety as investing in the local bank.

For the above reasons and based on the information provided by State Treasurer Sally Thompson, we urge your support and passage of S.B. 480.

City of Olathe

TO: Members of the House Committee on Commercial and Financial Institutions

FROM: Donald R. Seifert, Assistant Director, Administrative Services DRS

SUBJECT: Senate Bill NO. 480; Investment of Public Funds

DATE: March 24, 1992

On behalf on the city of Olathe, thank you for the opportunity to appear today in support of Senate Bill No. 480. We are pleased to be here in support of a bill that offers meaningful budget and taxpayer relief to the state and units of local government.

The Olathe governing body supports legislation that would broaden the authority of cities to safely invest idle funds. As you know, this bill is the result of an interim committee study. We agree with the Committee's conclusion that both the state and local units of government could increase investment income without significantly increasing risk if the investment statutes were somewhat less restrictive. Under the procedure contained in this bill, we estimate the city of Olathe could earn an additional $150,000 annually on its cash balances. This translates into welcome relief for our property taxpayers and utility ratepayers.

In reality, we do not expect this bill to significantly change the city's relationship with its local financial institutions. Local institutions would still have the first opportunity to receive our deposits at the investment rate defined in the bill. However, by eliminating the 91 day treasury bill rate as the benchmark for evaluating bids from local institutions, this bill would offer us the opportunity to receive a fair interest rate on available funds consistent with a high degree of liquidity and safety. We are also attracted to the municipal investment pool and direct placement features of the bill because they open up additional options for us.

SB 480 will help local officials practice better stewardship of public funds. We urge the Committee to favorably recommend passage of this bill.

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RESOLUTION NO. 92-1014

A RESOLUTION EXPRESSING SUPPORT FOR CHANGES TO THE GENERAL INVESTMENT AUTHORITY OF LOCAL UNITS OF GOVERNMENTS.

WHEREAS, K.S.A. 12-1675 establishes the authority for local units of government to invest public funds which are not immediately required for the purposes for which the funds were collected; and

WHEREAS, to enhance revenues, it is the fiduciary duty of each local government entity to earn a fair rate of interest on its available funds consistent with a high degree of liquidity and safety; and,

WHEREAS, this country's financial markets have undergone significant structural changes and innovations since the original enactment of K.S.A. 12-1675; and,

WHEREAS, the city of Olathe, in its 1992 legislative program supports efforts to broaden the investment authority of both the state of Kansas and its local government units; and

WHEREAS, the city of Olathe estimates that broader investment authority could yield an additional $150,000 annually for the benefit of its taxpayers and ratepayers.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF OLATHE, KANSAS:

SECTION ONE: That the city supports the passage of 1992 Senate Bill No. 480, as recommended by the 1991 interim Legislative Budget Committee.

SECTION TWO: That the city urges its state legislative delegation to support Senate Bill 480.

SECTION THREE: This Resolution shall take effect immediately.

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ADOPTED by the Governing Body this 21st day of January, 1992.

SIGNED by the Mayor this 21st day of January, 1992.

CITY OF OLATHE, KANSAS

MAYOR

(Seal)

ATTEST

City Clerk

APPROVED AS TO FORM:

Municipal Counsel

STATE OF KANSAS

DEPARTMENT OF ADMINISTRATION
State Capitol
Room 263-E
Topeka 66612-1572
(913) 296-3011

Office of the Secretary

Joan Finney, *Governor*

MEMORANDUM

TO: House Commercial and Financial Institutions Committee

FROM: Susan Seltsam, Secretary, Department of Administration

DATE: March 24, 1992

RE: Proposed Amendments to Senate Bill 480

On behalf of the Department of Administration, we would like to suggest revisions to Section 27, which deals with provisions for cash management. The term "cash management" is broad and subject to varying interpretations. For this reason, we propose some narrowing language. The director of the budget and the director of accounts and reports each have numerous current statutory duties that affect cash management. The recommended revisions to Section 27 clarify the state treasurer's responsibilities and remove some language that appears to impose on those responsibilities.

On behalf of Governor Finney I suggest the following proposed amendments to S.B. 480 for the purpose of clarifying and strengthening S.B. 480:

1. Investments in Kansas Venture Capital, Inc. It is recommended that Section 15(c) of S.B. 480 be modified to limit state treasury investment in Kansas Venture Capital Inc. to $5 million and that a corresponding amendment be made to K.S.A. 1991 Supp. 74-8203. Needless to say, investment in venture capital is a high risk form of investment that the state participates in. Given the current situation with KPERS, I do not know that more need be said. The Governor recommends that the cap be set at $5 million.

Atch #10

2. <u>Pooled Money Investment Board Members</u>. The Governor accepts the proposed expansion of the Pooled Money Investment Board from three to five members but does not support amending this section to allow appointed members to serve terms of office. Once a member of this Board is appointed to a term he or she cannot be removed except for, generally, bad conduct while on the Board. Unwise business decisions may not constitute willful misconduct or willful neglect. The ability to insure that funds are administered by competent fiduciary managers may be severely restricted if appointments are made to terms of office.

Only recently Governor Finney appointed Michael Johnston, Secretary of Transportation, to a position on the Board because of the issuance of highway bonds and the investment of their proceeds. With members appointed to set terms, a timely appointment such as that of Mr. Johnston would not be possible absent a coincidental vacancy on the Board.

By appointing members of the Board to serve at the pleasure of the Governor, the ability to remove or replace a member, if necessary, will remain intact.

3. <u>Government Sponsored Enterprises</u>. Throughout S.B. 480 it is provided that investments may be made in obligations and securities of "government sponsored enterprises which under federal law may be accepted as security for public funds." Although these types of securities have little credit quality risk, they carry significant interest and market rate risks.

With changing economic times it would be wise to define that term. We propose that Section 8 be amended to provide that the statute shall enumerate which of those obligations and securities defined as government sponsored enterprises may be invested in by the Board and municipalities and that it be limited to those which have an explicit guarantee.

4. <u>Sales of Securities Before Maturity</u>. S.B. 480 would allow the sale of investment securities prior to maturity. Inasmuch as this could lead to speculation and investment losses, we propose that the Board be required to provide in its written investment policies under what circumstances investment securities may be sold prior to maturity.

Thank you for your consideration of the proposed amendments to S.B. 480. The suggested revisions discussed above have been provided to the committee staff.

4845L
Attachments