

Approved February 5, 1992
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

The meeting was called to order by Senator Richard L. Bond at
Chairperson

9:10 a.m./~~p.m.~~ on Tuesday, February 4, 19⁹² in room 123-S of the Capitol.

All members were present ~~except~~:

Committee staff present:

Fred Carman, Revisor
Richard Ryan, Research Department
June Kossover, Committee Secretary

Conferees appearing before the committee:

Joan Bowman, Councilwoman, City of Lenexa, KS
Sally Thompson, State Treasurer

The meeting was called to order by Chairman Bond at 9:10 a.m.

The Chairman opened the hearing on SB 480, an act relating to the investment of public funds; providing for the investment thereof; creating the municipal investment pool. Chairman Bond explained to the committee that the balloon prepared by the Revisor's Office represents technical revisions and the balloon proposed by the Treasurer's Office changes the language to correspond to the intent of the Interim Committee when the bill was written.

Joan Bowman, Councilwoman from the city of Lenexa, Kansas, appeared before the committee in favor of SB 480. The committee had no questions for this conferee. (Attachment #1.)

Sally Thompson, State Treasurer, appeared before the committee to testify in favor of SB 480. (Attachment #2.) Ms. Thompson will return on Wednesday, February 5, 1992 to respond to committee members' questions.

On a motion from Senator Strick, seconded by Senator McClure, the minutes of the meetings of January 28 and January 29 were approved as submitted.

The committee adjourned at 10:02 a.m.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

TUESDAY, FEBRUARY 4, 1992

JOAN BOWMAN, COUNCILWOMAN

LENEXA, KANSAS

Chairman Bond and Members of the Committee:

I am Joan Bowman, Councilmember for the City of Lenexa, a community of approximately 35,000 residents located in Johnson County.

On behalf of Mayor Rich Becker and the Lenexa City Council, I am here to strongly support Senate Bill 480, a bill which will in effect provide property tax relief by increasing revenues without raising taxes. The Lenexa Governing Body approved the support of this proposal as part of our 1992 Legislative Program, and we have attached a separate resolution of support that was adopted unanimously on January 16, 1992.

This conservative broadening of investment authority poses little risk to the safety of public monies, yet will provide a minimum of \$100,000 in additional interest earnings to Lenexa depending on interest rates and the time of year for investment. Lenexa, like many cities in Kansas, has a trained investment manager on staff to obtain the greatest earnings allowed by law. The state investment pool, as proposed in this bill, would provide another investing source for cities and counties. Additionally, this bill insures that financial institutions are paying an equitable interest rate on public funds while still allowing local financial institutions to have the first opportunity in bidding for their respective cities' public monies.

Finally, cities are being forced to place a greater emphasis on maximizing revenue. Existing state statutes are depriving cities of a direct investment tool. By not maximizing a return on the investment of idle funds, cities will have to rely to a greater extent on property taxes and other limited sources of revenue. Please support Senate Bill 480 as it is written and allow local governments to maximize investment earnings in a fiscally responsible manner. Mr. Chairman, thank you for the opportunity to appear before your committee today.

FI&I 2/4/92
Attachment # 1

RESOLUTION NO. 92-09

A RESOLUTION IN SUPPORT OF LEGISLATION REGARDING INVESTMENT OF IDLE FUNDS BY CITIES IN KANSAS.

WHEREAS, the City's Legislative Council Committee has endorsed proposed legislation amending current State Law (K.S.A. 12-1675) to permit more choice and flexibility by cities and counties regarding investment of their idle funds; and

WHEREAS, local finance officers have met and discussed this proposed legislation with the Kansas State Treasurer who decided to request of each Governing Body their support for this legislation.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF LENEXA, JOHNSON COUNTY, KANSAS:

SECTION ONE: That the Governing Body of the City of Lenexa, Kansas, hereby announces its support for the introduction and adoption of legislation which will permit greater choice for investment of idle funds by cities in Kansas to the overall fiscal benefit of the citizens of Lenexa.

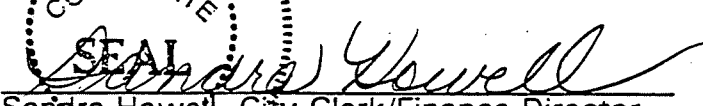
SECTION TWO: That this Resolution shall become effective upon adoption by the Governing Body of the City of Lenexa, Kansas.

PASSED by the Governing Body of the City of Lenexa this 16 day of January, 1992.


ADOPTED by the Mayor this 16 day of January, 1992.


Rich Becker, Mayor




Sandra Howell, City Clerk/Finance Director

APPROVED AS TO FORM:


Michael P. Howe, City Attorney



STATE OF KANSAS

Sally Thompson
TREASURER

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Testimony by State Treasurer Sally Thompson
on Senate Bill 480
presented to the
Senate Financial Institution and Insurance Committee
on Tuesday, February 4, 1992

Mr. Chairman, Senator Bond, and members of the Financial Institutions and Insurance Committee. I'd like to thank you for this opportunity to discuss with you today Senate Bill 480, the Investment of Public Funds, as proposed by the interim Legislative Budget Committee. This bill is the result of a minimum of 16 hours of 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, and 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 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 were many proposals "brought to the table." This reflects the compromises

FI+I 2/4/92
Attachment 2

on the state and local levels and the financial community. Most of the participants involved with this project this summer and fall can agree that the results in 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 start today with 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 start today with a brief overview of 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.

Secondly, I would like to address the safety of public funds, the liquidity, the benefit of the proposed statute changes and look at interest rate risk, the purpose and use of public funds, and to look at the impact on the banks and financial institutions in the state. Finally, I would like to look specifically at the municipal investment pool--its benefits and advantages--and the direct investment powers of the municipalities.

The first and foremost consideration of SB 480 includes that all funds will be offered first to the Kansas banks. At the state level the only changes that we are asking for is to lengthen maturities beyond the three month period and to obtain market rate which has been defined in the bill as the government security rate--the average between treasuries and agencies at the specified maturity. When the public funds are not accepted by the Kansas banks, then, and only then, would the option be available at the state level to invest in government securities. At the local level, again, all funds will be offered to financial institutions giving them first right of refusal. This means that all funds will stay in the local community and will be offered first to their local financial institutions. There will be no competitive bidding with any other financial institutions outside of their local area. The only restriction on the local level is the same as at the state level--that the funds must obtain at least market rate--defined as the government securities rate. And when the public funds are not accepted by financial institutions, then and only then would the local people have the option to invest in state municipal investment pool or trust departments of banks. The only additional option at the local level provides cities and counties the option

to purchase longer than six-month government securities. They, however, are not able to exercise that option until PMIB has approved their investment policies that the elected governing entity has first reviewed and approved. Those local investment policies would have to include, among other things, the cash flow projections and on-staff investment expertise.

The bottom line is that these conservatively broadened investment powers would provide an additional \$30.0 million to \$40.0 million annual revenue to state and local budgets with no tax increase.

I would like to review with you the current investment power at the state level. Looking at the chart we can see that the Idle Funds Investments are limited to two types of investments--Kansas banks deposits and repurchase agreements. While the special funds that the state treasurer and PMIB manage include in addition to the CD's and repurchase agreements, also the U.S. Government Securities--treasuries and obligations, agencies and mortgage backs.

Looking at those idle funds, we have charted a history from 1987 through Dec. 1991. The inactive account is made up of 3-month CD's that earn at the 91-day T-bill rate the average of the three prior months. The time deposit open account (TDOA) are deposit accounts of short term 2-4 weeks. The repo's are the repurchase agreements that we buy through a primary dealer in New York and the active account, the operating account as identified in this bill, is the account from which we transfer daily to cover warrants as they are cleared.

What I would like to have you note particularly is the level of funds in the inactive account. The balances have not fallen below \$350 million for the last 6 years. In effect, we are earning 3 month interest income on 6 year money. The current 91-day T-bill rate is 3.8% Even more importantly, has been the growth of overnight money in the repurchase agreement market. As you can see those balances have averaged in the fiscal year 1992 as much as \$400 million. SB 480 gives the State Treasurer and PMIB the cash

management tools needed to effectively manage your money, based on cash flow projections. That means we would be able to determine the maturities needed and invest those moneys for maximum earnings of interest income--within a strict parameter of safety.

The first and perhaps most obvious concern of any investor in securities is the investment risk. As a group, money market instruments generally are considered extremely safe securities with minimum chance of default. Treasury securities represent direct issues of the U.S. government are considered risk free. Only a total political collapse would cause a default and at that point currency would be worthless. Accordingly, all other instruments are evaluated against the credit risk standard associated with U.S. Treasury issues. Closely resembling the safety offered by U.S. Treasury securities, the debt obligations of the U.S. government agencies are exceptionally sound. The agency obligations that carry the full faith and credit guarantees probably are as safe as direct treasury issues. The remainder, although less well protected by outright government obligations probably represent the next most secure sector of the money market. Government sponsorships provide some assurance that public intervention would forestall an outright default. For example, bank and primary dealer repurchase agreements collateralized by U.S. government securities occupy the next space on the risk scale. As we can see, collateralized CDs are only as safe as the underlying security behind it and any uncollateralized CDs become a higher risk than commercial rated paper.

The current statute provides that all certificates of deposits and financial institutions are 100% collateralized and the proposed new statute does not change this. We would not put the state or the local entitites at any greater risk than they currently are in that we would require 100% collateral. You will find that on all certificates of deposit invested in Kansas banks.

You will find in your packet, a list of the collateral that we are currently holding at the state level for the investments of our CDs. Currently we have over 60% of that collateral in agency and mostly in mortgage backed securities. While we hold that collateral

the banks continue to receive all interests earned on those securities as well as any principal made on them. So, in effect, that collateral continues to be an earning investment on the banks' books.

Another element of safety is primary dealers. Many governments distinguish between primary government securities dealers and others. The Federal Reserve of New York which acts as the Federal Reserve's trading agent for monetary policy designates the primary dealers in government securities. You will find in your packet, again, the primary dealers that are currently designated by the Federal Reserve. Out of the thousands of security dealers out there, there are only 38 of them which are considered primary dealers. To get on the Federal Reserve's list you must have a capital requirement of a minimum of 120%.

Another safeguard that is used at the State Treasurer's office is called "delivery vs. payments" which means that all transactions occur on a delivery versus payment basis, insuring that the funds are never transferred without first receiving delivery of the correct security. In addition to safety, the advantages of the delivery versus payments transactions are reduced dealer cost, hence a higher rate paid to the customer. Also the customer has the greatest protection due to the outright delivery of the security. The legal position of an investor who has not taken delivery of a security is subject to some uncertainty. Therefore, the investor who wants the maximum security and safety of investment should take delivery of a specific collateral or investment before releasing the funds.

The investment of public funds should always be done in accordance with written policies. Those policies should contain such things as the statements of the safety of the principle, liquidity, yield, capability of the investment manager, as well as cash flow projections. The primary emphasis is always on safety and liquidity. The investments should be made with judgement and care under circumstances then prevailing, which persons 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 probability of the income to be earned.

Many of you may have heard of the losses in Iowa recently uncovered in a privately managed investment pool. The state (of Iowa) was not involved in this in any way--the state of Iowa statute would prevent the occurrence of any of these kinds of losses from occurring. Enclosed is a chart which compares the safety controls of Senate Bill 480 with what happened in Iowa. Kansas, as I mentioned, will take direct ownership of government securities. Payment will never be released until securities have been delivered. SB 480 does not allow for the investment of options, futures, puts and calls. The investment of the pool will be managed by PMIB in accordance with approved investment policies by a staff experienced in investments and it will be based on cash flow projections. Investment transactions will only be conducted with primary dealers that have been approved by the Federal Reserve. There will be a third party custodian that will take delivery of all of our security of which we will get confirmation and safekeeping receipts.

There are also detective types of controls in place in SB 480. Comprehensive reporting will be required by PMIB to local participants; there will be a description of all transactions and monthly status of market to market value of the pool; both internal and external audit reports; an audit of transactions, safekeeping receipts, confirmations; performance measurement audits. The pool will be market valued. Again, only delivery versus payment will be accepted, and there will be investment policy.

The bottom line on this is that the public entity in Iowa turned over all of these controls to a private money manager. None of these controls existed at the local level. No state managed local investment pool has ever incurred these types of losses in the 18 years of existence.

The chart on the distribution of state funds prepared from the survey of 30 states last summer, we see in these 30 states treasury

securities, federal agencies and mortgage backed securities comprise 38 percent of the states' investments. In addition, a survey of 64 cities shows that 47 percent of the investments were in federal agencies, mortgaged backed securities and treasury securities. What was proposed in SB 480 is not a new road that we are breaking. Over 48 states allow the state treasurer to invest in government securities. The only two states, one being South Dakota, which do not allow this investing, own their own bank. Therefore, the state invests their funds in the state bank and the state bank, in turn, invests in government securities.

There is no entirely risk free investment. However, any losses which have occurred in 100 percent guaranteed U.S. government securities have occurred only where adequate liquidity has not been maintained. Therefore, the investor was forced to sell before the government security had matured. If the investor had been able to hold the security to maturity, they would have received the full value in return.

Liquidity can be defined as the ability to turn an investment into cash on a very short notice. The chart referring to the degree of liquidity shows that the repurchase agreements (overnight investments) are the most liquid. The state investment pools are also referred to because they hold a great deal of overnight repurchase agreements and money market liquidity instruments. The treasury bills, other treasury government agencies are at the high end of the liquidity chart. The market for these is very large and these investment securities can be sold on any given day and immediately receive cash. The current investments that the state has, which are non-negotiable bank CD's, fall very low on the chart of liquidity, near the lowest liquid instruments. That's because the only way that we can receive our money back on a nonnegotiable bank CD is to take a penalty and loss interest on it. So, the types of investment that are proposed in SB 480 are extremely liquid investments and therefore will provide a high degree of liquidity to the investment pool as well as the investment fund.

As I mentioned in the overview of SB 480 that the proposed

changes could mean as much as \$30 to 40 million of additional revenue on an annual basis to the state and local budgets of Kansas.

I'd like to give you some backup documentation on how that would occur. You have in your packet, a chart on the average investment rate that we have calculated as compared to the inactive, which is our 3-month CDs, that we have earned over the last 5 years. We can see that the average between those two would have meant about 128 basis points--over one percent interest income. That's how I have calculated the projected additional earnings. You can see that at the state level as we talked we had balances of over \$800 million on a daily basis. If those were to earn just 1% more, we're talking about \$8 million of additional revenue on an annual basis.

In the school districts, we're looking at balances that average around \$900 million and therefore that could create \$9 million of additional revenue at the 1 percent level.

Based on a survey that was taken of cities and counties, we average about \$2 billion of daily balances of local public funds and that would mean over \$20 million of additional revenue. I have provided for you, from the results of the surveys that we have, the responding individual counties' and cities' projected 1% additional earnings based on the balances they provided. You can see the cities and counties in your senate districts and see what kind of impact that can have on your local entities' budgets. All of this money, of course, would be used at the local level to reduce the pressure of property tax and at the state level it would help give us additional revenue in the general fund without additional taxation.

There has been discussion about interest rate risk whenever you invest your balances for a longer period of time. Certainly we have already had interest rate risk this last year where we have seen the drop in the 91-day T-bill rate to close to 4%. In January 1991 the T-bill rate was 7.64%; and in January 1992, it dropped to 3.78%--a 3.86% drop. That nearly 4% drop on \$400 million CDs have

cost us a loss of more than \$15 million in interest income. So certainly, there is an interest rate risk in keeping your funds balance invested in highly liquid investments such as repo's and 3-month CDs.

As I mentioned earlier, one of the groups with whom we spent a great deal of time talking with, were the bankers throughout the state of Kansas. I would like to spend a few minutes now looking at the situation in the banking community.

In looking at the total consumer deposits in Kansas banks, we see over \$25 billion in deposits and the public funds total (including both state and local funds) represent just under \$3 billion--around 10% of the total deposits. The state idle funds only represent around \$400 million out of that \$25 billion.

I think we need to look at these figures to keep in perspective what the increase of 1% in achieving market rate on the public funds would mean in total to the banks: We are a very small part, around 10%, of their total bank deposits. All of the public deposits in the bank are collateralized by government securities.

Looking at the next chart that shows the ownership or the investment of Kansas banks in government securities and what percentage of those represent the collateral used for public funds. As we look at government securities investments, and these also include Fed funds, we see that the banks have investments of over \$11 billion in these government securities, whereas the public funds represent only \$3 billion. They have over four times as many government security investments than they have needed to cover the collateral on public funds. There have been several articles recently, one of which is included in your packet done by the Wichita Business Journal, that shows the profitability of banks as a result of their investment in government securities.

We see in the last year from Sept. 1990 to Sept. 1991, that there has been a 30% increase in the federal securities held by banks and a 17% increase in federal securities income. There are several bankers are quoted in the article that seem to think this is not just a reflection of our particular interest rate

environment, but that perhaps this is a trend in the banking industry where investments are going to become more attractive than making automobile loans and therefore we are going to see a fundamental shift in that banks will be carrying more investments in government securities and perhaps less in loan levels.

We certainly see in your next chart the growth in assets over the last 5 years in the Kansas banks, we see that there has been a 42% change increase in the investment of government securities while there has only been a 16% increase in loans with total overall assets increasing 18%.

Of the concerns I have heard raised in the last 6 months as we have been studying the investment of public funds, perhaps the one that has come up the most often is "what will be the impact on the small communities."

We can look at statewide averages and we see for every dollar of consumer deposit held by banks in Kansas less than 50 cents of that is currently going into loans and close to 30 cents of that is being invested in government securities. What about the local banks and what do they look like?

We take a survey, again, of the banks in the 3rd class cities--there are 274 banks in 3rd class cities and our sample included 215. What we discovered was that 215 represented banks that had \$25 million or less in total assets. The next chart shows you how those banks and 3rd class cities compared in terms of their investment level to the statewide averages. As I mentioned about 51% of deposits are in loans whereas in the 3rd class cities that average drops down to 46% and we see the increase from about 28% investment in government securities goes to almost 36%. You also have a printout of all of the 215 banks in those cities--printout is in order of the investments in treasury and government assets. The highest investments as you can see in your printout are as much as 75% invested in governments and 11% invested in loans. We have one as low as 7% invested in loans with about 69% of assets invested in government securities.

What I'm trying to say here is that the 3rd class cities and

the small banks in those cities pretty much mirror the average of the state and their investments look very similar to that. Also I think we need to keep in perspective that in those 3rd class cities, \$3 billion of consumer deposits and that the state funds represent only \$48 million. You have a chart there that shows you geographically how the state's money is spread throughout the state of Kansas. Up at the top, you can see how public funds are distributed in those banks that are less than \$25 million in total assets.

Again the 260 banks with less than \$25 million in T.A., 215 of them are in 3rd class cities, so it represents how the funds would be distributed. Under the current statute that restricts the amount of public funds a bank can have based on their capital, those small banks have only \$48 million of the state's moneys, or less than 1% of the total public funds invested in Kansas. They do have \$294 million of local public funds. We must remind ourselves that those local funds will be offered out to the financial institutions in their own areas first with the first right of refusal. It will only be when those financial institutions will not accept the local public funds will the local entities then be allowed to exercise their option to invest in the municipal investment pool. In addition, both small and large banks have indicated that lengthening the maturities on investment of local funds will assist in cash management in small banks. In other words, they will be guaranteed that deposit for, say a minimum of 1-2 years and they can match that off with an investment in a loan of 1-2 years and know what their profit is going to be on that investment.

We have calculated the impact of the additional revenue to 3rd class cities by obtaining the market rate (about 1% over the rate they are currently receiving). Additional revenue to them amounts to \$4.1 million.

One question that probably arises is what would be the financial impact on the banks in Kansas of that 1% increase in the market rate and does that leave them, adequate profit for them to continue to exist in a healthy banking environment. What I have

provided in your materials is an analysis of a 4 year new car loan which we know to be one of the lowest consumer rates on loans that banks invest in. I have compared that to a 2-year and a 4-year treasury note. (The reason for that choice is that we know that with car loans or most consumer loans, the banks are receiving the principal back with each payment and therefore the full amount is not outstanding for the four years--mathematical analysis use the rule of thumb that it is outstanding for about half the time.)

The range, as we can see, averages between 3.5% and 4.5% over the last five to six years. The six-year average is around 3.5%. There will be other consumer loans that will give a spread of about 5% and more, particularly when you look at credit cards as they have a much higher rate on them. What this analysis shows us is that the market rate which is equivalent to government securities we're proposing public funds will be allowed to earn would still give an average of 3-5% spread between that market rate and the average consumer loan rate.

I would like to draw your attention to a white paper that was prepared for us by Jack Kiley that is in your materials. Mr. Kiley had been the assistant treasurer of the state of Washington for nearly 10 years and then went to work for one of the Big Six firms and a major part of his private consulting practice for the last 10 years has been focused on state level cash and investment management practices. For example, he was retained by Alaska Municipal League to assist them in organizing an investment pool for the Alaska municipalities. He is also involved at the federal level in helping them implement in the states the Cash Management Act that was passed in 1990 and goes into effect in October of this year.

He provides a third party objective analysis/contrast between SB 480 and good cash management practices as well as giving you a perspective of what happened in Iowa and the loss of public and how this would not occur with the proposed statute we have before us today. I would urge you to read this over carefully.

I would like to then summarize the impact of the public funds

investments in Kansas. First of all, we need to remind ourselves that the financial institutions will have the first right of refusal; that the market rate defined as equivalent to government securities rate based on equivalent maturities will allow for at least a 3-5% interest margin. The bottom line then remains: The public entities will be able to increase their revenues between \$30 to \$40 million by achieving the market rate of government securities. Banks are currently using public funds to invest in out of state government securities due to the low loan demand and when the loan demand is strong in Kansas the market rate of public funds will provide adequate profit to banks. Because of the constant turnover of the availability of public funds, there will constantly be funds available to the financial institutions' market so that when that loan rate and demand return that the banks will then will want to bid on those funds and keep them to in turn invest them in loans in Kansas.

In summary, I would like to review some of the advantages of the municipal pool that will be offered to municipalities when their financial institutions in their own local areas choses not to accept public funds. First of all, the benefit of the municipal investment pool includes the professional management done by experienced investment staff. In addition, it provides for diversification, daily liquidity (local participants will be able to withdraw money on same day notice), convenience and economy of scale. For the most part the larger the investment, the better the rate you can get on it and that is particularly true in the repurchase market. Therefore, it costs us no more to invest a \$200 million repurchase agreement than an \$800 million repo and the chances are we will get a better rate on the \$800 million repo. The municipal pool has very low administrative costs and it has also been found that it increases competition in the local area. These pools have been in existence since 1972 and we see in the chart how they have grown to operating in 30 states. These benefits are being realized with over 14,000 participating government entities nationwide while investment portfolios have increased by over \$45

billion. To quote Jack Kiley again, "I would therefore strongly support your conclusion that it is time, plus overdue, that Kansas municipalities enjoy the increased return, safety and liquidity currently available to thousands of other local governments around the country."

In closing, I would encourage the passage of SB 480 as it means significant increased revenue without increasing taxes and yet still maintains the safety of our public funds that we have enjoyed over the last 25 years. It allows both the state and local levels the types of cash management tools needed to effectively and efficiently manage the public funds of this state and carry out the fiduciary responsibility to earn the highest return available within the safety parameters of the government securities market. It will benefit the banking community in terms of being able to lengthen maturities on the current investment of CDs and at the same time maintain an adequate profit for them when the loan demand is there for their investing. It would allow the state and local entities to benefit from the receipt of an additional 1% interest income minimum as outlined today.

1040st92

Broadening highly safe investment options for public funds provides an opportunity for producing revenue without taxation.

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

***"My job is to earn 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. ...programs that address a specific need, with a specific dollar amount with specific tracking."
(Ned Regan, New York State Comptroller which is the sole trustee for the state's retirement plans.)***

SENATE BILL 480

Investment of Public Funds - Expanded Powers

(As proposed by interim Legislative Budget Committee--includes balloon amendments)

STATE LEVEL

- All funds offered to Kansas banks on a first right of refusal basis
- Lengthen maturities beyond 3 months
- Obtain market rate (government security rate)

When public funds are not accepted by Kansas banks:

- Option to invest in government securities

LOCAL LEVEL

- All funds offered to financial institutions on first right of refusal basis
- Obtain market rate (government security rate)

When public funds are not accepted by Kansas financial institutions

- Option to invest in state municipal investment pool or trust departments of banks

With PMIB approved investment policies including cash flow projections and on staff investment expertise, cities and counties have

- Option to purchase longer than six month government securities

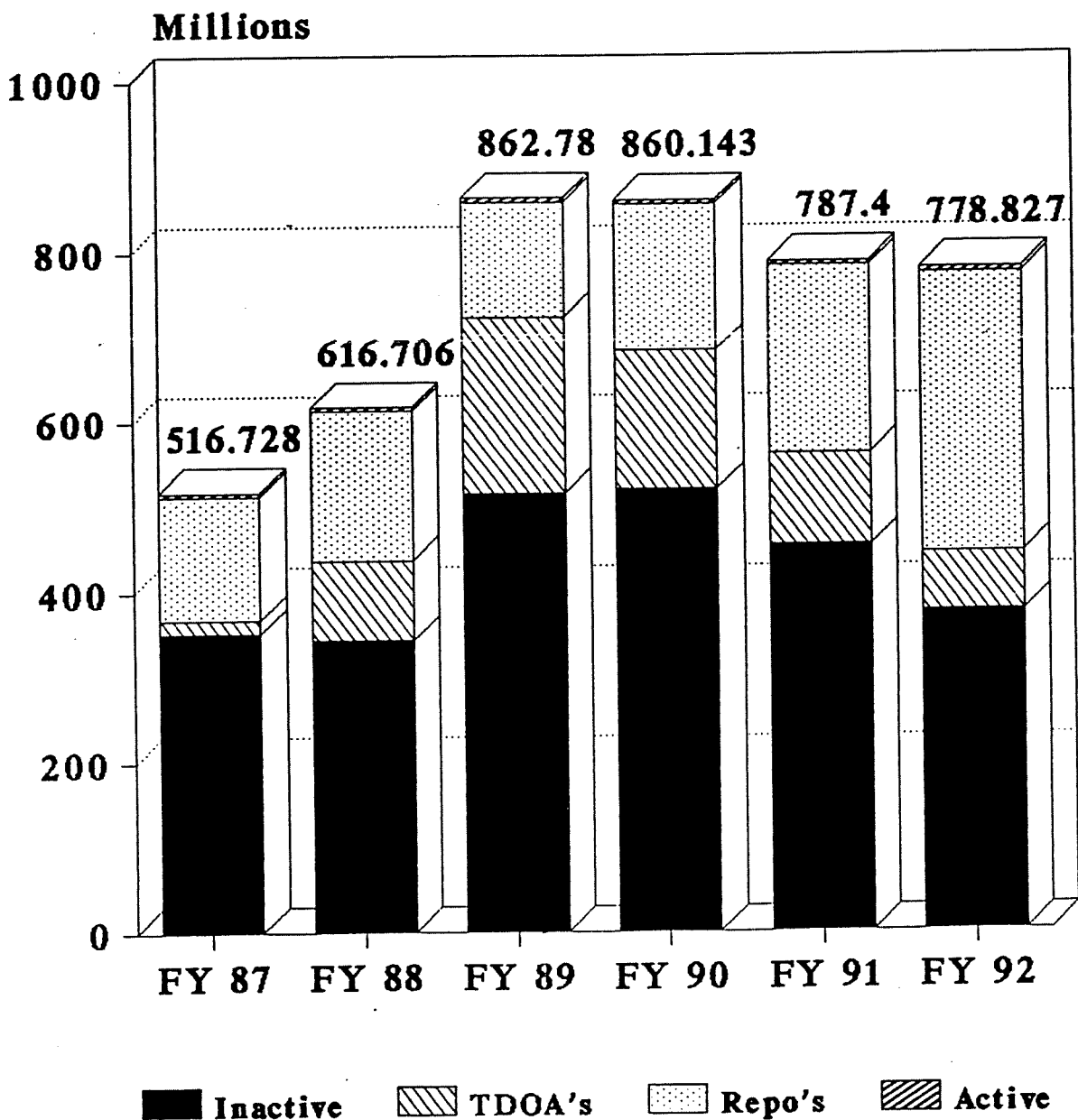
Bottom Line = Additional \$30.0 million to \$40.0 million annual revenue to state and local budgets with **NO TAX INCREASE.**

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%

State Idle Funds (Average Daily Balances)



**FIGURE 6
DEFAULT RISK SCALE**

U.S. Treasury
(Bills, Notes, Bonds)

U.S. Government Guaranteed

U.S. Govt. Agencies

U.S. Treasury Repos (DVP)

U.S. Government Instrumentalities

Bankers' Acceptances

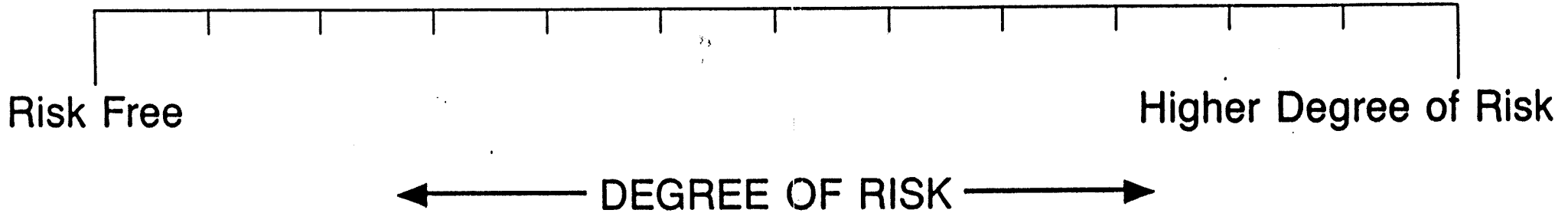
Collateralized Bank CDs

Commercial Paper A/P-1

Bank CDs (Uninsured/Uncollateralized)

Eurodollar Deposits

Investment Grade
Commercial Paper



LIST OF THE PRIMARY GOVERNMENT SECURITIES DEALERS REPORTING
TO THE MARKET REPORTS DIVISION OF THE FEDERAL RESERVE BANK OF NEW YORK

Bank of America NT & SA
Barclays de Zoete Wedd Securities Inc.
Bear, Stearns & Co., Inc.
BT Securities Corporation
Carroll McEntee & McGinley Incorporated
Chase Securities, Inc.
Chemical Securities Inc.
Citicorp Securities Markets, Inc.
CRT Government Securities, Ltd.
Daiwa Securities America Inc.
Dean Witter Reynolds Inc.
Deutsche Bank Government Securities, Inc.
Dillon, Read & Co. Inc.
Discount Corporation of New York
Donaldson, Lufkin & Jenrette Securities
Corporation
The First Boston Corporation
First Chicago Capital Markets, Inc.
Fuji Securities Inc.
Goldman, Sachs & Co.
Greenwich Capital Markets, Inc.
Harris Government Securities Inc.
Kidder, Peabody & Co., Incorporated
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Lehman Government Securities, Inc.
Merrill Lynch Government Securities Inc.
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The Nikko Securities Co. International, Inc.
Nomura Securities International, Inc.
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Prudential Securities Incorporated
Salomon Brothers Inc.
Sanwa-BGK Securities Co., L.P.
Smith Barney, Harris Upham & Co., Inc.
SBC Government Securities Inc.
UBS Securities Inc.
S.G. Warburg & Co., Inc.
Yamaichi International (America), Inc.

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NOTE: This list has been compiled and made available for statistical purposes only and has no significance with respect to other relationships between dealers and the Federal Reserve Bank of New York. Qualification for the reporting list is based on the achievement and maintenance of reasonable standards of activity.

Market Reports Division
Federal Reserve Bank of New York
January 3, 1992

Recd 1-6-92

2-20

SENATE BILL 480
Investment of Public Funds - Expanded Powers
Primary Issues

State of Kansas managed pool - VS - Iowa private managed pool

Safety Controls (Preventative)

Direct State of Kansas ownership of government securities

Securities delivered before payment released

No investments in options, futures, puts or calls

Investment pool managed by PMIB
in accordance with approved investment policies
by on-staff, experienced investment professionals
based on cash flow projections

Investment transaction with Federal Reserve-approved Primary Dealers only

Third party custodian delivery of securities

Confirmation and safekeeping receipts

Detective Controls

Comprehensive reporting by PMIB to local participants

Description of all transactions

Monthly status of market to market value of pool

Internal/External Audit Reports

audited -Transactions, Safekeeping receipts, Confirmations

Performance measurement

Market Value

Delivery vs. payment

Investment policies

Bottom Line = The public entity in Iowa turned over **ALL** these controls
to a private money manager.

NONE of these controls existed at the local or state level.

No state managed local investment pool has incurred these types of losses
in their 18 years of existence.

Indirectly Guaranteed

Federally Operated Agencies

Those which are not backed by the full faith and credit of the U.S. government but like the enterprises listed in the following section carry the implicit general support behind all instrumentalities of the United States , the default of which is nearly inconceivable:

Federal Farm Credit System (FFCB)
Federal Home Loan Banks (FHLB)
 Directly guaranteed by the 12 regional banks
U.S. Postal System
Tennessee Valley Authority
 LOC with FFB cancelled in October
Farmers Home Administration
Financing Corporation "FICO"
 100% of principal defeased with US
 Treasuries currently; AAA corporates
 may be substituted

Government-Sponsored Enterprises/Instrumentalities

Obligations of government sponsored enterprises/instrumentalities are not generally guaranteed by the U.S. Treasury. The underlying creditworthiness of the organizations in general is considered extremely sound. Many investors consider the securities a moral obligation of the U.S. government and believe Congress would intervene before these credits ever would default inasmuch as these corporations were created by acts of Congress.

Federal Home Loan Mortgage Corporation (FHLMC)
Federal National Mortgage Association (FNMA)
Student Loan Marketing Association (SLMA)

Mortgage-Backed and Passthrough Securities Issuers

FHLMC (Freddie Mac)

The Federal Home Loan Mortgage Corporation, a government-sponsored enterprise, was established to further developments in the secondary market in home mortgages. Its mortgage-backed certificates are guaranteed to timely payment of principal and ultimate payment of interest by FHLMC.

FNMA (Fannie Mae)

The Federal National Mortgage Association is a privately owned corporation whose objective is to assist the home market. Its mortgage-backed securities are guaranteed to timely payment of principal and interest by FNMA.

U.S. GOVERNMENT SECURITIES

Directly Guaranteed

All types of securities issued directly by the federal government which are backed by the full faith and credit of the U.S. government:

Treasury Bills
Treasury Notes
Treasury Bonds
Government National Mortgage Association (GNMA) (1)

Federally Operated Agencies

Those whose debt is backed by the full faith and credit of the United States government:

Small Business Administration
 a. SBIC-Notes
 b. Pooled Transactions
Maritime Administration
 No longer issued; does not trade
Agency for International Development
 "AID" issues, i.e. Phillipines, Indonesia
Government Loan Trust "GLT"
 Housing loans to Israel, loans are 100% but
 securities are not guaranteed
Government Trust Certificates "GTC"
 Military loans to allies, 90% is full faith
 Other 10% has been defeased with T-notes but
 securities are not guaranteed
Resolution Funding Corporation "Refcorp"

Those who act as guarantors:

Federal Housing Administration
Export-Import Bank of the United States
 Guarantees debt issued by PEFCO
General Services Administration
 Guarantees lease payments on gov't bldgs
Veterans Administration

(1) The Government National Mortgage Association is a wholly-owned government corporation within the Department of Housing and Urban Development whose mortgage-backed securities are guaranteed to timely payment of principal and interest by GNMA which is additionally secured by the full faith and credit of the U.S. government.

COLLATERAL BEHIND BANK DEPOSITS
As of September 9, 1991

<u>Direct Obligations</u>		
T Bills and Notes	235,964,000	30.10%
FNMA Notes and Debentures	98,515,000	12.57%
GNMA MBS	<u>66,132,960</u>	<u>8.44%</u>
	<u>400,611,960</u>	<u>51.11%</u>
 <u>Agencies</u>		
FNMA MBS	103,852,397	13.25%
FHLB	74,447,500	9.50%
FFCB	17,325,000	2.21%
SILMA	12,078,000	1.54%
FHLMC	79,460,437	10.14%
Others	<u>8,485,000</u>	<u>1.08%</u>
	<u>295,648,334</u>	<u>37.72%</u>
<u>Municipal Bonds</u>	<u>87,637,500</u>	<u>11.17%</u>
 TOTAL	 <u>\$783,897,794</u>	 <u>100.00%</u>

REPO COLLATERAL
As of September 9, 1991

Treasury Bills	422,545,000	98.77%
Treasury Notes	<u>5,275,000</u>	<u>1.23%</u>
 TOTAL	 <u>\$427,820,000</u>	 <u>100.00%</u>

Investment of public funds

shall be made in accordance
with written policies.

Such investment policies shall address:

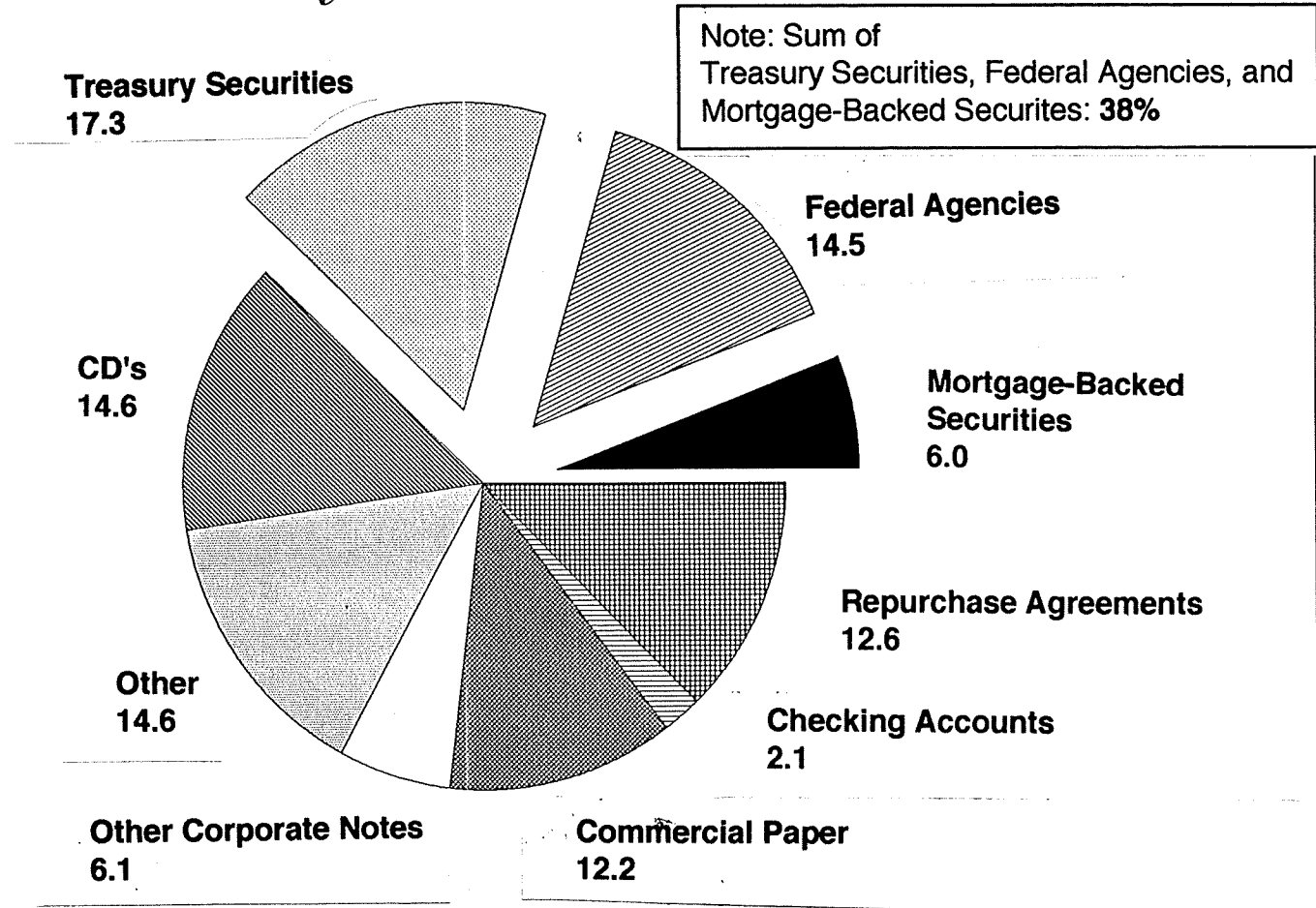
- safety of principal
- liquidity
- yield
- diversification
- maturity and quality
- capability of investment management

Primary emphasis on safety and liquidity

Investments shall be made with judgment and care
under circumstances then prevailing,
which persons 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

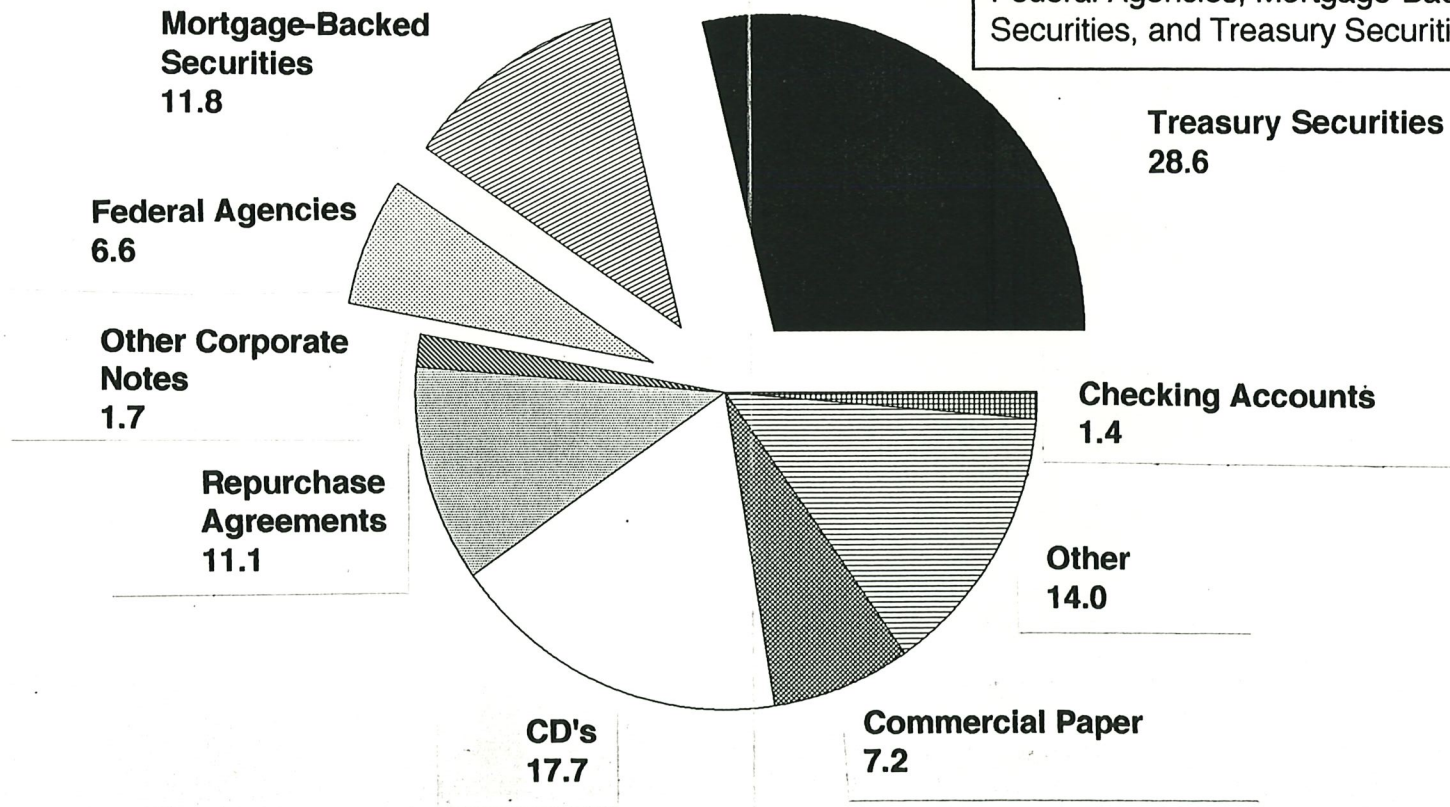


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Distribution of Municipal Funds

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

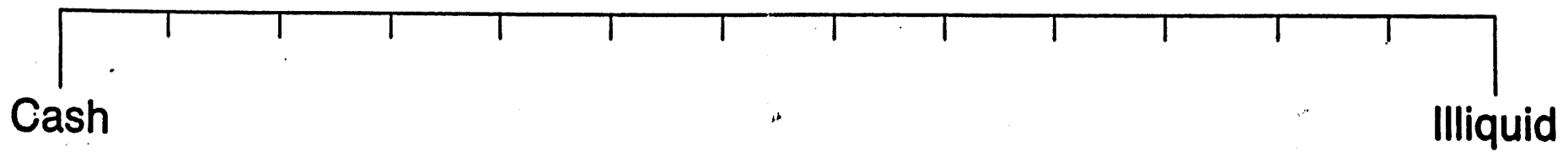
Note: Sum of
Federal Agencies, Mortgage-Backed
Securities, and Treasury Securities: 47%



2-27

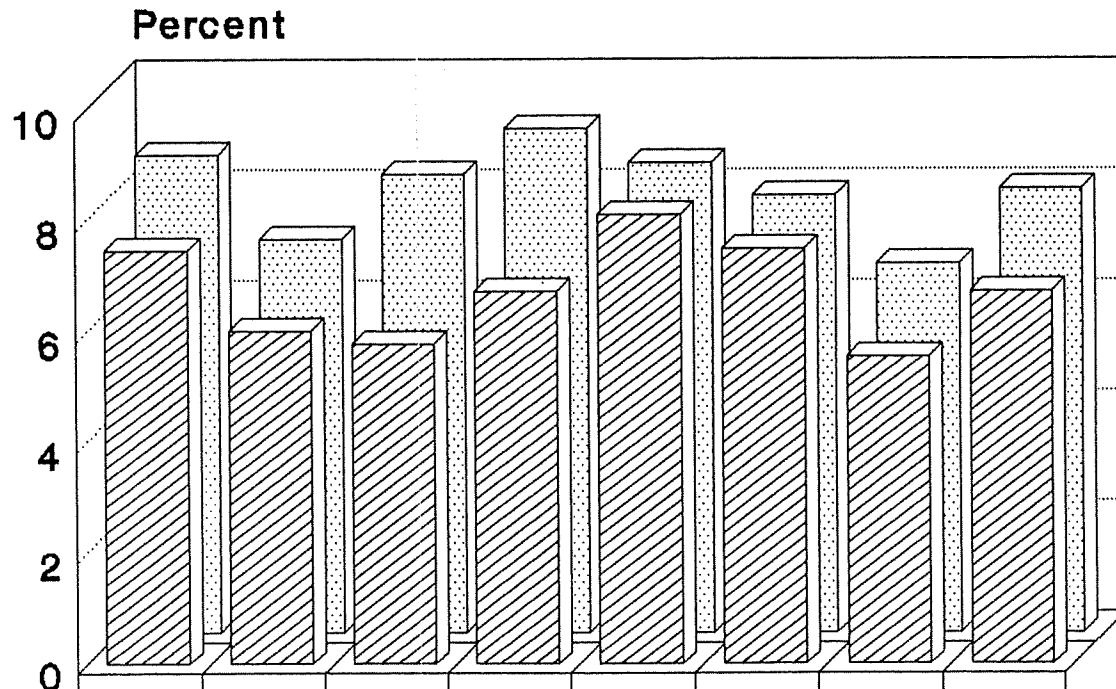
**FIGURE 7
LIQUIDITY SCALE**

Overnight
Repurchase Agreements
State Investment Pools
Treasury Bills
Other Treasuries
U.S. Government
Bankers' Acceptances
Negotiable CDs
Commercial Paper
Eurodollar Deposits
Nonnegotiable
Bank CDs
Long-term Government
Bonds
U.S. Agency Bonds



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AVERAGE INVESTMENT RATES

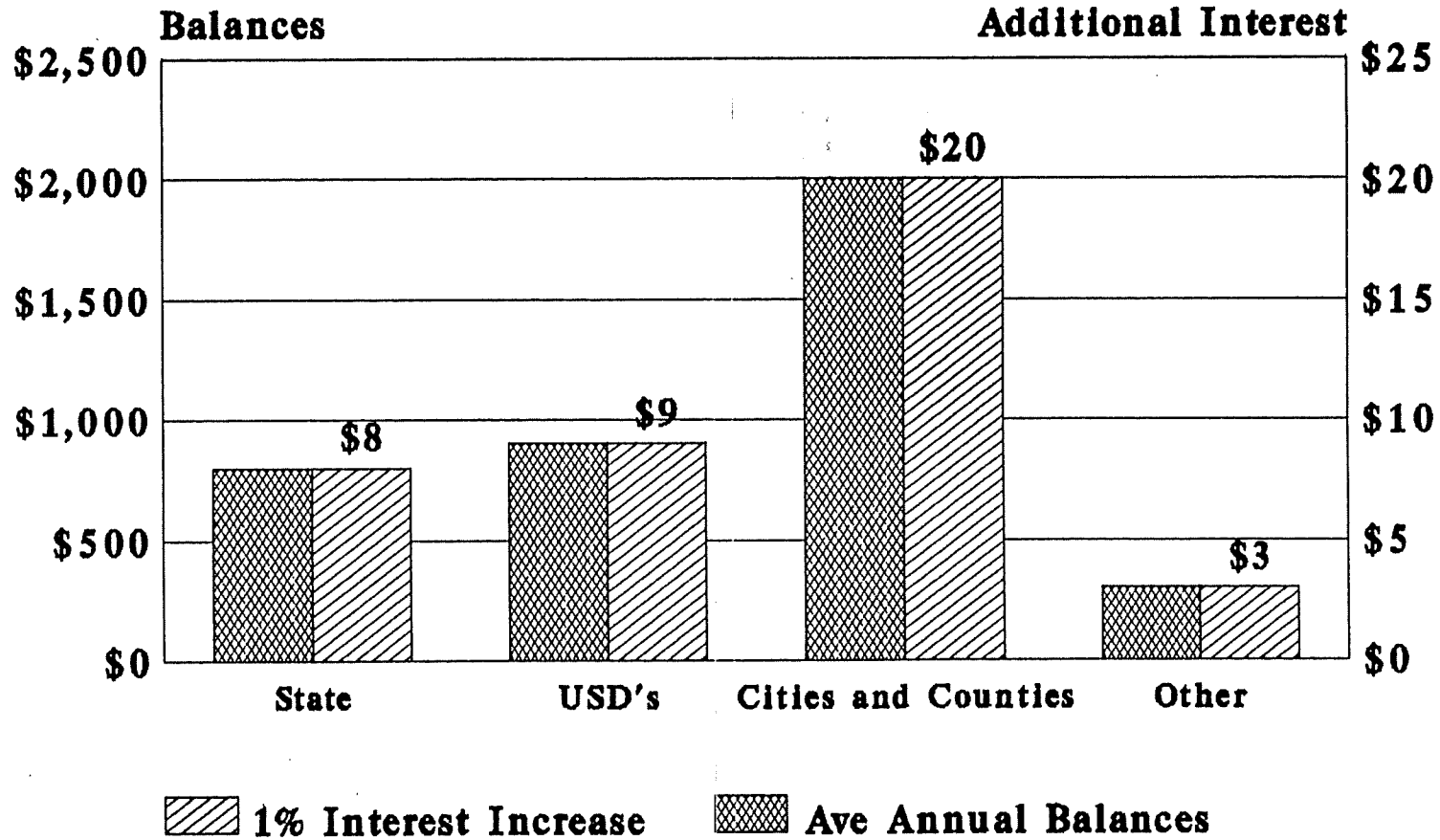


	1986	1987	1988	1989	1990	1991	1992	Ave
Ave Treas & Agency	8.65	7.12	8.3	9.12	8.51	7.92	6.68	8.04
Ave Inactive Rate	7.48	6.04	5.8	6.75	8.12	7.51	5.58	6.75

 Ave Inactive Rate
  Ave Treas & Agency

2-29
6-29

ADDITIONAL ANNUAL EARNINGS STATEWIDE (in Millions)



Minimum annual increase in revenue from
a 1% interest rate increase = \$40 million
overall to state and municipalities

2-30

City and County Totals for 1991
Month-End Cash & Investment Balances

City/County	Increased Interest Income
-----	-----
Atchison	\$0
Atchison County	\$40,874
Hiawatha	\$0
Brown County	\$24,294
Horton	\$10,777
Doniphan County	\$18,835
Holton	\$0
Jackson County	\$35,856
Jefferson County	\$0

Total Senate District 1	\$130,635
Douglas County	\$164,344
Lawrence	\$0

Total Senate District 2	\$164,344
Jefferson County	\$0
Leavenworth County	\$0
Leavenworth	\$61,211
Lansing	\$0

Total Senate District 3	\$61,211
Wyandotte County	\$150,000
Bonner Springs	\$0
Kansas City	\$1,087,424

Total Senate District 4-6	\$1,237,424
Mission	\$59,860
Roeland Park	\$0
Leawood	\$56,752
Prairie Village	\$37,957
Johnson County	\$1,200,030
Olathe	\$331,684
Shawnee	\$0
Overland Park	\$0
Merriam	\$0
Lenexa	\$176,248
Fairway	\$0
Lawrence	\$0
Douglas County	\$164,344
Franklin County	\$39,738
Ottawa	\$74,744
Miami County	\$45,690
Osawatomie	\$6,252
Paola	\$15,548
Osage County	\$34,695
Osage City	\$30,445

Total Senate District 7-11	\$2,273,988

**City and County Totals for 1991
Month-End Cash & Investment Balances**

City/County	Increased Interest Income
Iola	\$104,157
Humboldt	\$12,868
Allen County	\$50,921
Garnett	\$64,276
Anderson County	\$14,511
Fort Scott	\$24,271
Bourbon County	\$8,144
Linn County	\$37,625
Osawatomie	\$6,252
Miami County	\$45,690
Paola	\$15,548
Neosho County	\$38,701
Chanute	\$124,556

Total Senate District 12	\$547,520
Weir	\$0
Scammon	\$1,479
Galena	\$4,002
Cherokee County	\$47,654
Columbus	\$7,283
Baxter Springs	\$14,058
Pittsburg	\$123,080
Girard	\$44,459
Mulberry	\$0
Frontenac	\$2,813
Crawford County	\$0

Total Senate District 13	\$244,827
Mulberry	\$0
Girard	\$44,459
Frontenac	\$2,813
Pittsburg	\$123,080
Crawford County	\$0
Parsons	\$60,805
Chetopa County	\$0
Oswego	\$0
Labette	\$51,444
Caney	\$0
Montgomery County	\$0
Independence	\$28,987
Coffeyville	\$132,253
Cherryvale	\$7,623
Neosho County	\$38,701
Chanute	\$124,556

Total Senate District 14	\$614,721
Garnett	\$64,276
Anderson County	\$14,511

City and County Totals for 1991
Month-End Cash & Investment Balances

City/County -----	Increased Interest Income -----
Coffey County	\$83,256
Burlington	\$0
Chautauqua County	\$14,069
Elk County	\$5,364
Montgomery County	\$0
Caney	\$0
Coffeyville	\$132,253
Independence	\$28,987
Cherryvale	\$7,623
Wilson County	\$26,632
Neodesha	\$0
Fredonia	\$0
Yates Center	\$11,103
Woodson county	\$15,631

Total Senate District 15	\$403,704
Butler County	\$105,121
El Dorado	\$57,110
Augusta	\$26,835
Burlington	\$0
Coffey County	\$83,256
Eureka	\$3,839
Greenwood County	\$22,073

Total Senate District 16	\$298,234
Chase County	\$0
Lyon County	\$67,320
Emporia	\$48,632
Marion	\$15,563
Hillsboro	\$17,485
Marion County	\$37,936
Florence	\$1,105
Council Grove	\$7,248
Morris County	\$25,160
Osage City	\$30,445
Osage County	\$34,695

Total Senate District 17	\$285,588
Shawnee County	\$300,239
Topeka	\$370,099

Total Senate District 18-20	\$670,338
Junction City	\$36,330
Geary County	\$0
Morris County	\$25,160
Council Grove	\$7,248
Marshall County	\$31,012
Marysville	\$18,659

City and County Totals for 1991
Month-End Cash & Investment Balances

City/County -----	Increased Interest Income -----
Seneca	\$0
Nemaha County	\$0
Sabetha	\$0
Pottawatomie County	\$56,437
Wamego	\$22,208
Manhattan	\$218,233
Riley County	\$37,975
Wabaunsee County	\$13,142

Total Senate District 21	\$466,404
Junction City	\$36,330
Geary County	\$0
Manhattan	\$218,233
Riley County	\$37,975

Total Senate District 22	\$292,537
Concordia	\$15,568
Cloud County	\$32,268
Clay Center	\$33,728
Clay County	\$22,364
Abilene	\$0
Dickinson County	\$30,167
Herington	\$11,538
Ottawa County	\$0
Minneapolis	\$9,607
Washington County	\$0

Total Senate District 23	\$155,238
Ellsworth County	\$21,682
Lincoln County	\$17,411
Lincoln Center	\$14,805
Saline County	\$79,708
Salina	\$167,843

Total Senate District 24	\$301,448
Newton	\$33,648
Hesston	\$19,729
Harvey County	\$0
Florence	\$1,105
Hillsboro	\$17,485
Marion County	\$37,936
Marion	\$0
Halstead	\$5,835
Lindsborg	\$29,506
McPherson	\$26,144
McPherson County	\$123,653

Total Senate District 25	\$295,041

City and County Totals for 1991
Month-End Cash & Investment Balances

City/County	Increased Interest Income
Wichita	\$1,369,386
Sedgwick County	\$0
Derby	\$23,811
Haysville	\$26,906
Valley Center	\$0
Total Senate District 26-31	\$1,420,103
Cowley County	\$65,147
Arkansas City	\$27,430
Winfield	\$119,207
Wellington	\$120,230
Caldwell	\$2,319
Sumner County	\$36,100
Total Senate District 32	\$370,433
Barber County	\$31,077
Comanche County	\$0
Harper	\$5,452
Harper County	\$24,044
Anthony	\$25,205
Kingman County	\$33,177
Kingman	\$27,068
Kiowa County	\$22,727
Pratt	\$78,075
Pratt County	\$0
Reno County	\$103,960
Nickerson	\$4,730
Hutchinson	\$105,542
Stafford County	\$27,527
Caldwell	\$2,319
Wellington	\$120,230
Sumner County	\$36,100
Total Senate District 33	\$647,233
Nickerson	\$4,730
Reno County	\$103,960
Hutchinson	\$105,542
Total Senate District 34	\$214,232
Hoisington	\$11,996
Great Bend	\$116,140
Barton County	\$88,878
Rice County	\$37,975
Lyons	\$9,923
Sterling	\$0
Russell County	\$43,437
Russell	\$64,930

City and County Totals for 1991
Month-End Cash & Investment Balances

City/County	Increased Interest Income
Total Senate District 35	\$373,278
Jewell County	\$14,770
Mitchell County	\$23,985
Beloit	\$33,749
Norton County	\$14,949
Norton	\$14,204
Osborne	\$35,586
Osborne County	\$18,198
Phillips County	\$0
Phillipsburg	\$0
Rooks County	\$29,555
Republic County	\$26,948
Belleville	\$0
Smith County	\$14,848
Total Senate District 36	\$226,794
Edwards County	\$7,644
Kinsley	\$5,919
Hays	\$50,308
Ellis	\$16,592
Ellis County	\$64,750
Hodgeman County	\$17,502
Lane County	\$9,192
Ness County	\$15,781
Larned	\$0
Pawnee County	\$18,691
Rush County	\$21,287
Trego	\$0
Total Senate District 37	\$227,666
Clark County	\$0
Dodge City	\$50,802
Ford County	\$0
Gray County	\$18,445
Haskell County	\$39,182
Meade County	\$0
Liberal	\$0
Seward County	\$58,259
Total Senate District 38	\$166,689
Garden City	\$90,630
Finney County	\$139,893
Greeley County	\$14,711
Grant County	\$0
Ulysses	\$16,263
Hamilton County	\$19,193
Haskell County	\$39,182
Kearny County	\$0

City and County Totals for 1991
Month-End Cash & Investment Balances

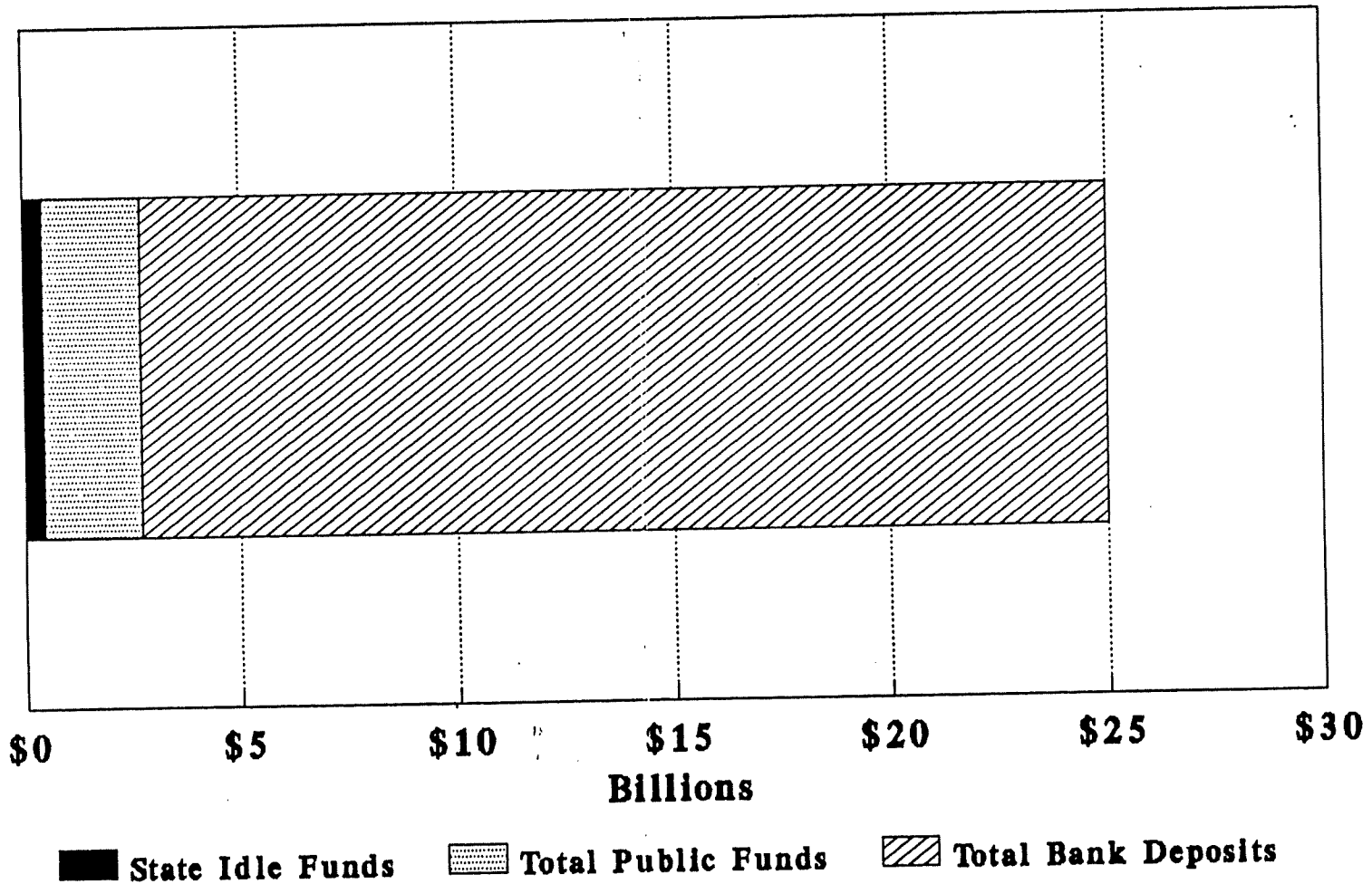
City/County -----	Increased Interest Income -----
Elkhart	\$9,559
Morton County	\$37,091
Stanton County	\$0
Stevens County	\$0
Hugoton	\$26,502

Total Senate District 39	\$393,023
Cheyenne County	\$12,786
Decatur County	\$13,950
Graham County	\$21,051
Gove County	\$12,034
Logan County	\$10,456
Rawlins County	\$20,902
Scott County	\$22,687
Scott City	\$12,368
Sheridan County	\$13,689
Sherman County	\$19,289
Goodland	\$0
Thomas County	\$20,554
Colby	\$26,712
Wallace County	\$11,428
Wichita County	\$0

Total Senate District 40	\$217,905
Total All Districts	\$12,700,557

0's indicate no report as of 2/3/92

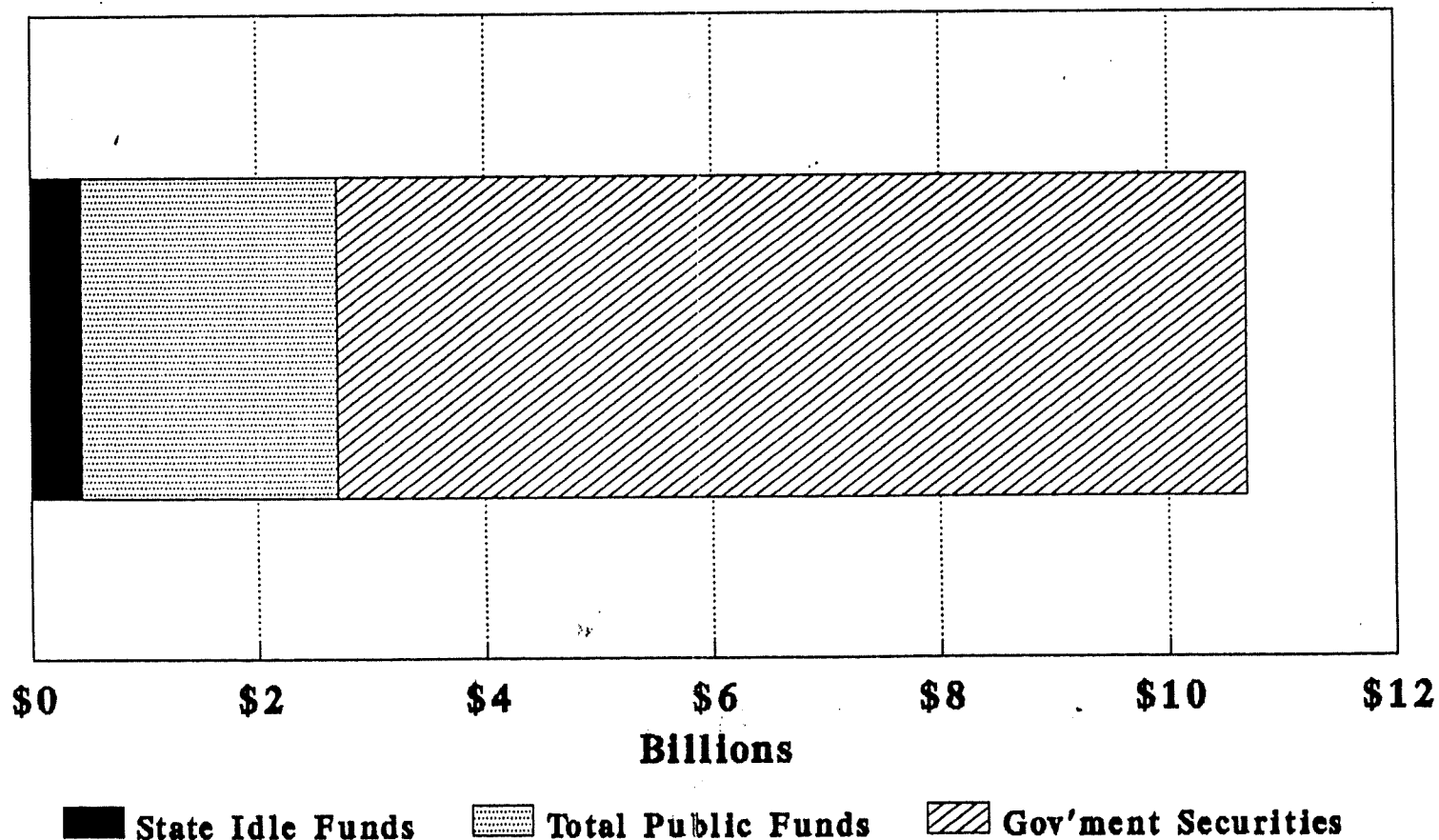
KANSAS BANK DEPOSITS



December 31, 1990

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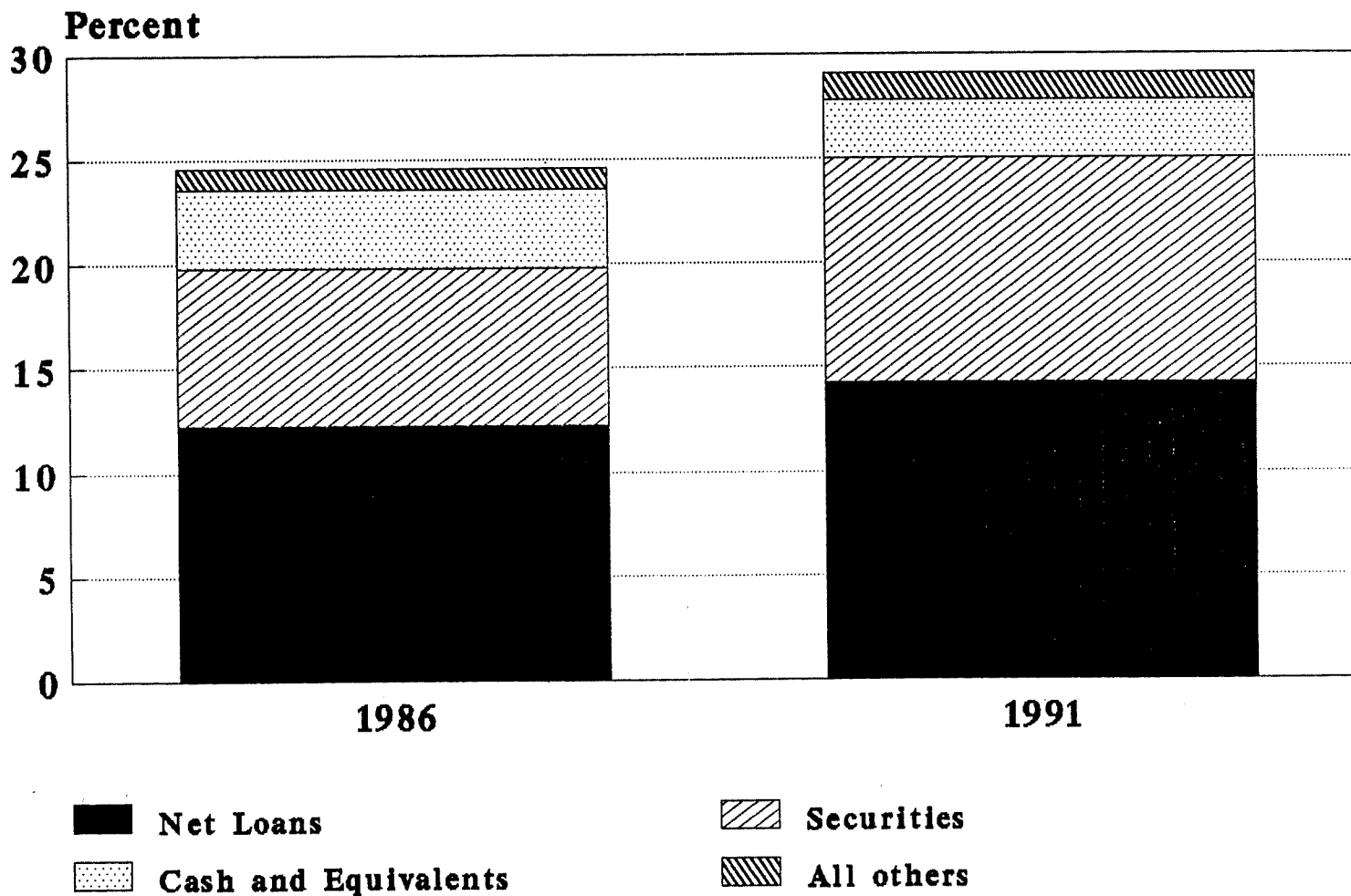
KANSAS BANK INVESTMENTS IN SECURITIES VERSUS PUBLIC FUNDS



December 31, 1990

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KANSAS BANK ASSET GROWTH



1991 reflects September data

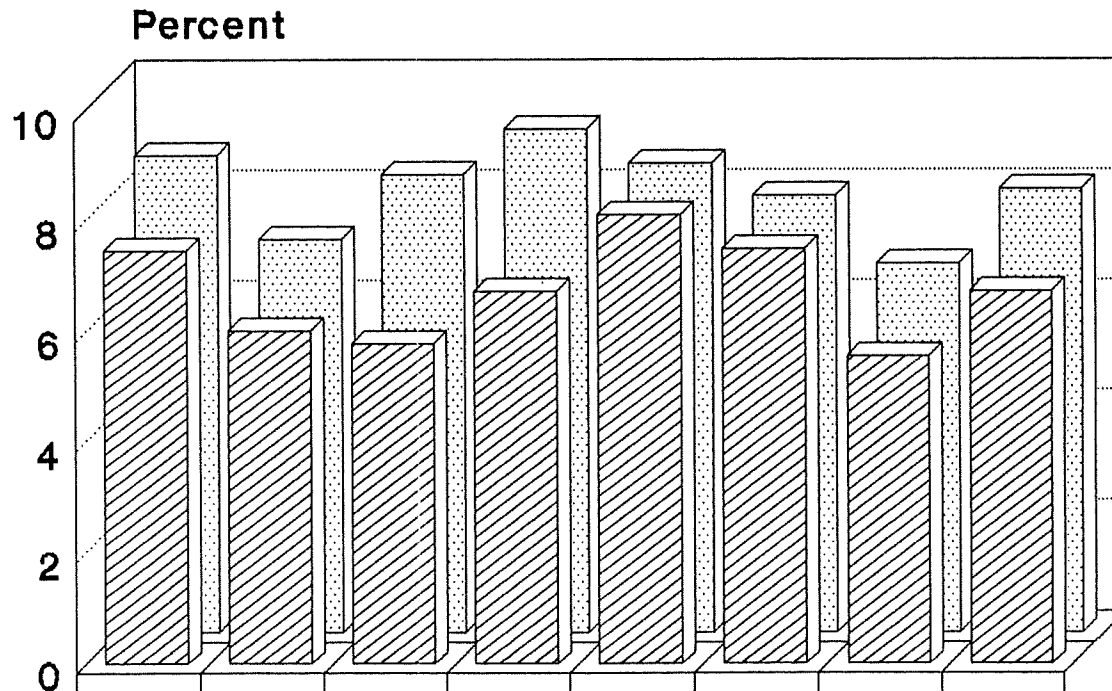
07-8

BANK ASSET GROWTH

From 1986 to 1991

	% Change	\$ Change
Securities	41.7	\$3,144,667,000
Loans	16.3	\$1,997,593,000
Total Assets	18.2	\$4,461,383,000

AVERAGE INVESTMENT RATES



	1986	1987	1988	1989	1990	1991	1992	Ave
Ave Treas & Agency	8.65	7.12	8.3	9.12	8.51	7.92	6.68	8.04
Ave Inactive Rate	7.48	6.04	5.8	6.75	8.12	7.51	5.58	6.75

 **Ave Inactive Rate**
  **Ave Treas & Agency**

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Business Journal

VOLUME 7, NUMBER 2

SINGLE COPY \$1.00

JANUARY 10, 1992

PROFILE: Belger Cartage Service



DAVID DINEEN

Where are Wichita's loan dollars going?

With weak loan demand, local banks turn to federal investments for income

By KEVIN BUMGARNER

Bank IV Wichita has watched its loan volume drop \$71.1 million in the past year. At the same time, the rate of interest all banks collect on loans has been in a free fall of its own.

Under such circumstances, one might think Bank IV Wichita — or any of the 11 Wichita banks, for that matter — has had a tough time generating profits of late. If so, think again.

Through September of 1991, net income of \$9.3 million at the city's largest bank was nearly double its 1990 level. The city's banks as a group posted a 16 percent increase in nine-month profits in 1991 compared with 1990, \$25.3 million to \$21.8 million. Fourth-quarter results will not be announced until later this month.

To earn money now, as in tough times past, Wichita banks have had to rethink the way they do business. The result has been a shift from loan-generated income to investment income. Fewer dollars have gone to fund automobiles, home mortgages and business inventories. More money has been spent on securities like Treasury notes, mortgage-backed bonds and other government debt.

"It isn't that there is any more importance on investments than there has been in the past," said Maurice Linens, president of Emprise Bank in Wichita, with third-quarter assets last year of \$273.7 million. "But if you don't have loans, that's where you turn."

Total loan volume at the city's 11 banks was down about \$4 million through September 1991 compared with year-ago numbers, to \$2.163 billion. But the amount of federal securities held by those same banks has increased 30 percent during that time, to \$761.3 million. Gross earnings from those securities have increased less spectacularly, from \$38.4 million to \$44.8 million, a jump of nearly 17 percent.

At Emprise, federal securities holdings were up 68 percent to \$89.3 million through the third quarter of 1991 compared with 1990. Gross income derived from those investments was up 37 percent to \$4.9 million during that time.

"When demand is down in loans we have to put the money somewhere," reasoned Jerry Blue, chairman of Southwest National and Twin Lakes State Bank. His banks, with assets of \$88.7 million and \$92.2 million, respectively, have seen increases in the amounts of federal securities holdings and income derived from those holdings.

In fact, all but one Wichita bank — American National, with \$22.7 million in 1991 third-quarter assets — have seen increases in both securities holdings and income from those holdings.

That is not to say, however, that Wichita banks have increased holdings for the same reasons. A few bankers,

Please turn to page 17

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Banks grudgingly increase investments during weak loan demand

Continued from page 1

like Kathleen Steward at Chisholm Trail State Bank and Steve Worrell at Union National Bank, even take exception with the notion that Wichita banks are tinkering with the fundamental way they earn profits.

The substantial increases in securities holdings and income at Union National, for instance, reflect rapid asset growth the bank has gone through in the past couple of years by acquiring parts of three failed savings and loans, said Worrell. He is chief financial officer of the bank with 1991 third-quarter assets of \$561.4 million.

"We had to invest that money somewhere. The best and surest place to invest

Smith, vice president of finance for First Bancorp of Kansas, the holding company for First National.

"It's not because we didn't see the loan demand. It was just more a matter of maintaining an adequate balance-sheet posture," he said.

First National increased its loan volume 13 percent to \$551.6 million in the past year while federal securities holdings increased 23 percent to \$145.3 million. Gross income on those holdings increased to \$8.4 million.

As interest rates continue to fall, banks have been buying federal securities for diminishing rates of return. The three-month Treasury Bill, for instance, closed Monday at 3.81 percent, almost half what the U.S. Treasury paid a year ago when the short-term securities closed at 6.51 percent. For that reason, and out of a sense of obligation to the communities they serve, most bankers said they would rather be using depositors' money to make loans — if those loans were out there to be made.

"Loan demand is terribly soft," said David Strohm, executive vice president and treasurer for Fourth Financial Corp., the Wichita-based holding company for Bank IV. "It's not that banks are turning away people in droves. Banks are, in fact, doing a lot to try and achieve greater loan demand." He pointed to the 6.9 percent consumer loan his bank recently instituted as an example.

"Our business is making loans," agreed Linnens at Emprise. "That's the responsibility that we think we have within the communities, not to suck the money out and buy bonds with it but (to) foster eco-

Investment Income: Wichita Banks

(Ranked by assets; 000s omitted)

Bank	Federal securities balance		Federal securities income ¹	
	9/90	9/91	9/90	9/91
Bank IV Wichita ²	\$164,218	\$197,263	\$13,134	\$13,298
First National Bank	118,574	145,339	7,993	8,427
Union National Bank	111,682	166,225	4,875	7,952
Kansas State Bank & Trust	87,740	95,732	5,112	5,541
Emprise Bank	53,131	89,253	3,604	4,931
Twin Lakes State Bank	15,082	22,646	1,034	1,573
Southwest National Bank	14,505	18,893	1,282	1,561
Chisholm Trail State Bank	5,658	9,547	394	518
City Bank and Trust	8,935	9,450	475	549
American National Bank	1,109	1,109	84	71
Garden Plain State Bank	6,338	5,881	389	403
Totals	\$586,972	\$761,338 (+30%)	\$38,376	\$44,824 (+17%)

1. Income figures are gross, year-to-date totals and do not include interest expense, provisions for loan losses, salaries and other expenses necessary to record net income for a given period.
2. As of Dec. 31, part of the Bank IV Kansas network.

Source: Call reports filed with FDIC and/or interviews with bank representatives.

"I don't think there is any question but what we're seeing a fundamental shift: Banks will not be carrying the loan levels that they have carried in the past," Strohm said.

it and not lose it is in the government," said Worrell, while at the same time conceding that "loan demand wasn't there."

At the few banks where loan demand has been up dramatically in the past year, namely First National Bank, securities holdings have risen to help the bank maintain liquidity in its asset portfolio, said Jay

Strohm, executive vice president and treasurer for Fourth Financial Corp., the Wichita-based holding company for Bank IV. "It's not that banks are turning away people in droves. Banks are, in fact, doing a lot to try and achieve greater loan demand." He pointed to the 6.9 percent consumer loan his bank recently instituted as an example.

Just when loan demand will increase to allow banks to redirect some of the monies now being poured into securities is not certain.

"We're ready this afternoon," quipped Blue, the chairman of Southwest National and Twin Lakes.

But none expects to make such changes anytime soon. Fourth Financial's Strohm speculated that it could be six months or more before consumers and businesses are

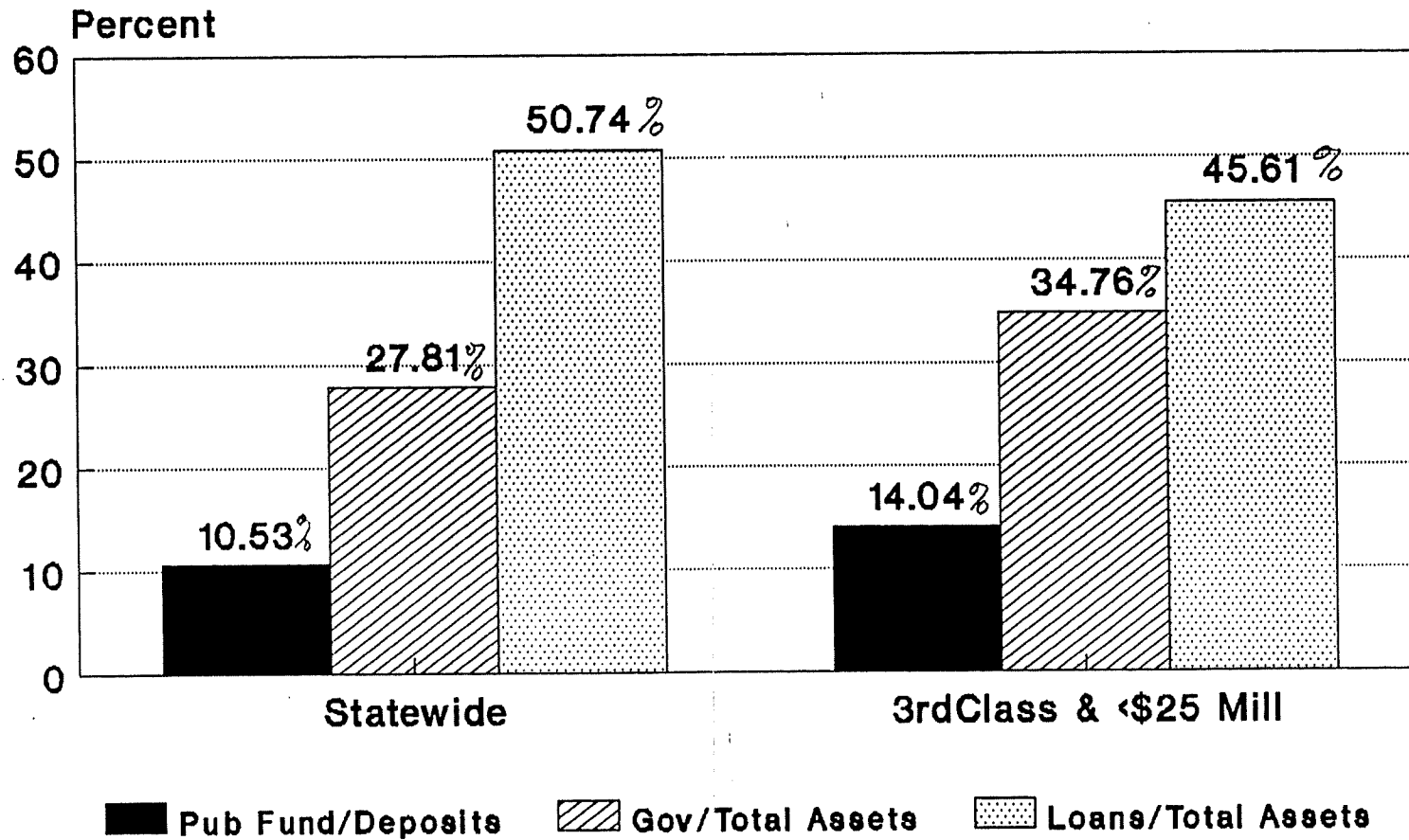
willing to take on new debt. Even then, Strohm said this decade will embody a fiscal conservatism in stark contrast to the 1980s.

"Investments are going to be more attractive than the fancy automobile or other items that have been associated with yuppie consumerism," Strohm concluded. "I don't think there is any question but what we're seeing a fundamental shift: Banks will not be carrying the loan levels that they have carried in the past."

If Strohm's forecast proves correct, that could affect the way banks earn a profit long after the current downturn is forgotten.

One source of banks' and S&Ls' loan activity: mortgage refinancings

ASSET DISTRIBUTION of Kansas Banks

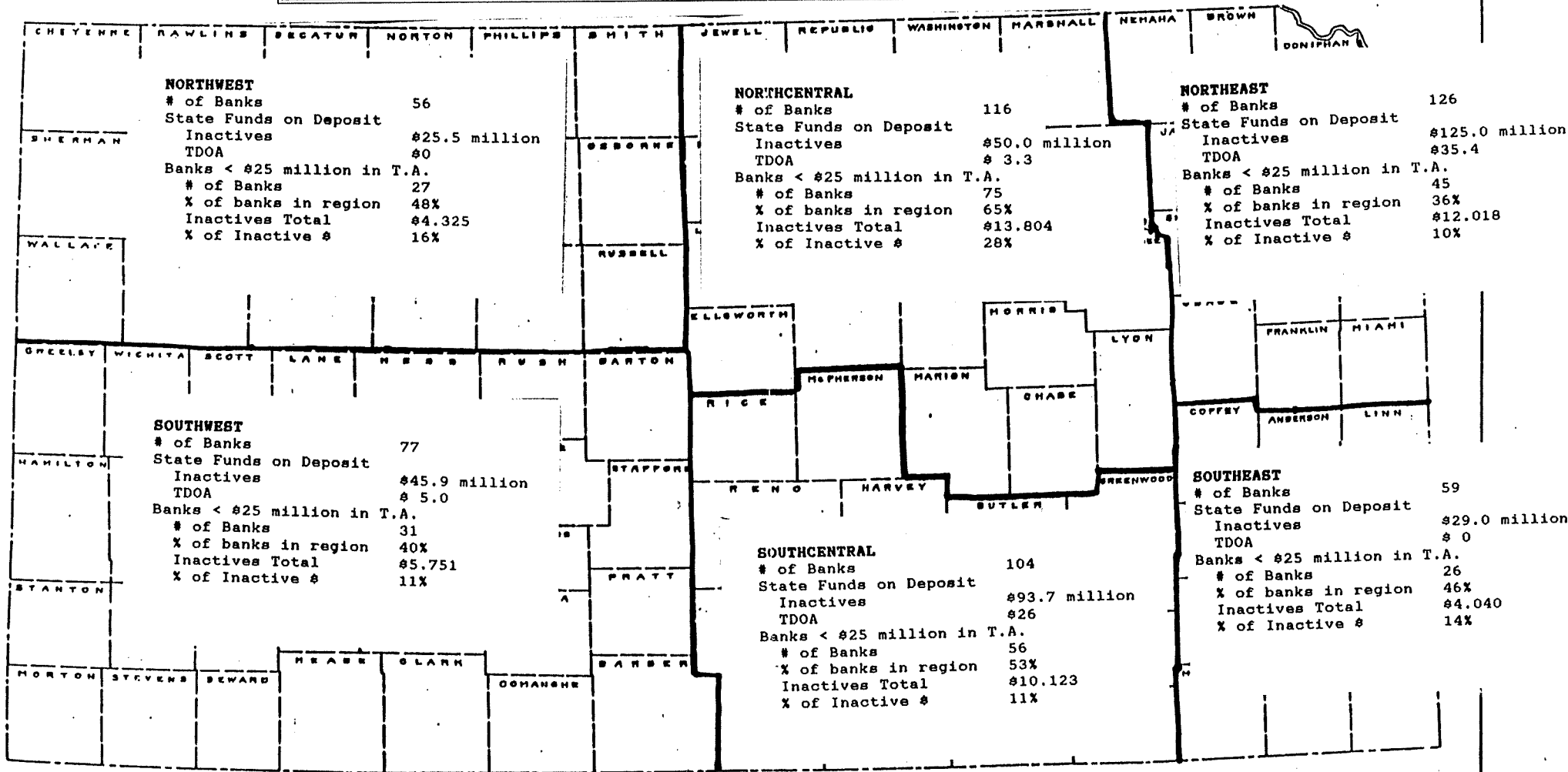


3rd Class Sample - 215 out of 274

Public Funds in Kansas Banks

	State	Local	Total	Percent
260 Banks < \$25.0 million	\$ 48 million	\$ 294 million	\$ 342 million	13 %
281 Banks > \$25.0 million	\$ 392 million	\$1.943 billion	\$2.335 billion	87 %
	\$ 440 million	\$2.237 billion	\$2.677 billion	100 %

KANSAS



97-8

Primary Issues - SENATE BILL 480 (continued)
Investment of Public Funds

Investment of Public Funds in Kansas

- Financial institutions first right of refusal
- Market rate equivalent to government securities allows for 3%-5% under average loan rate
- Banks investment in government securities has increased 42% in the last five years; loans have increased 16%
- Banks have a total of \$25.0 billion of consumer deposits of which only \$2.7 billion is public funds. \$11.0 billion is invested in out of state government securities (44%), and \$14.0 billion is invested in loans (56%).

Impact on small communities (3rd Class Cities) and the availability of funds in financial institutions

- Financial institutions first right of refusal
- Market rates will increase revenue of local budgets by \$4.1 million
- Currently banks in 3rd Class cities have:
 - \$ 3 billiontotal consumer deposit
 - \$ 48 millionstate public funds
 - \$294 millionlocal public funds
 - \$342 milliontotal public funds**
 - \$1.129 billion in out-of-state government securities (38%)
 - \$1.566 billion in loans (52%)
- Lengthening maturities on investment of local funds will assist in cash management in small banks

BOTTOM LINE= Public entities will increase revenue \$30.0 to \$40.0 million from government securities market rate.

Banks are using public funds to invest in out-of-state government securities due to low loan demand.

When the loan demand is strong in Kansas, the market rate of public funds will provide adequate profits to banks.

4 year Car Loan Rate vs 2 and 4 year Treasury Note Rates

<u>Year</u>	*48 month Bank new Car Loan % APR	2-yr T-Note Average	4-yr T-Note Average	Difference (Range)
1991	11.17	6.47	7.45	3.73-4.70
1990	11.78	8.16	7.59	3.63-4.19
1989	12.07	8.58	7.88	3.49-4.19
1988	10.85	8.1	9.17	1.68-2.75
1987	10.45	7.41	8.26	2.19-3.04
1986	11.33	6.92	6.74	4.41-4.59
Average for 6 years	11.28	7.61	7.85	3.43-3.67

*Best rate available to consumers

Other consumer loans and credit card rates much higher

JFK CONSULTING GROUP

TREASURY MANAGEMENT

John F. Kiley, President

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Olympia, WA 98501
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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.

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.

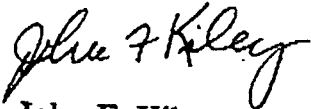
KANSAS: We have previously described some of the important control techniques your office and PMIB will use to ensure the protection of all investment funds in the Pool. Additionally, the public deposit collateralization program in Kansas will serve to protect operating balances and certificates of deposit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

3rd & Unincorporated <\$25 Million

			Total Assets (000's)	Trea/Govt Assets	Loans/ Assets	Pub Funds (000's)	PF, P P
Linn	Centerville	Centerville St. Bk.	6,731	75.12%	11.22%	720	12.16%
Anderson	Colony	State Bk. of Colony	12,514	74.40%	19.62%	1,721	15.38%
Cloud	Miltonvale	Citizens State Bank	14,253	73.98%	15.48%	1,610	12.89%
Comanche	Wilmore	Wilmore State Bank	4,873	71.74%	12.42%	816	20.51%
Franklin	Pomona	Citizens State Bank	7,994	69.03%	20.95%	1,483	21.66%
Riley	Leonardville	Leonardville St Bk	7,195	68.64%	18.93%	599	10.23%
Washington	Haddam	Citizens State Bank	3,755	68.55%	7.38%	842	26.27%
Reno	Plevna	State Bank of Plevna	2,690	68.48%	19.96%	217	9.29%
Crawford	Walnut	Farmers State Bank	13,563	65.02%	29.45%	1,846	15.30%
Cowley	Udall	Bank of Commerce	6,263	63.39%	15.58%	979	18.58%
Dickinson	Woodbine	Citizens State Bank	5,176	60.12%	20.21%	492	10.46%
Doniphan	Denton	Bank of Denton	8,392	59.15%	23.72%	1,379	19.33%
Reno	Arlington	Citizens State Bank	9,118	57.59%	31.68%	1,034	12.37%
Marshall	Summerfield	First Nat'l Bank	5,290	56.73%	25.14%	488	11.06%
Jefferson	Oskaloosa	St. Bk. of Oskaloosa	19,757	56.44%	32.01%	3,871	20.93%
Jewell	Esbon	State Bank of Esbon	9,773	56.21%	21.00%	1,516	17.35%
Rice	Little River	Home Nat'l Bank	13,342	55.37%	29.28%	4,586	37.05%
Comanche	Coldwater	Coldwater Nat'l Bank	11,857	55.18%	21.27%	1,129	11.38%
Marion	Durham	Durham State Bank	7,771	55.13%	29.55%	1,147	16.60%
Ford	Spearville	Ford County St. Bk.	10,931	54.62%	27.55%	1,268	12.50%
Reno	Pretty Prairie	State Bank of P. P.	14,220	54.32%	33.62%	1,623	12.88%
Jackson	Whiting	St. Bk. of Whiting	16,313	53.63%	31.85%	1,976	13.37%
McPherson	Canton	State Bank of Canton	16,236	52.57%	30.20%	1,650	11.53%
Meade	Fowler	Fowler State Bank	23,149	52.50%	38.38%	1,788	9.22%
Washington	Greenleaf	Citizens Nat'l Bank	24,290	52.47%	42.48%	1,081	4.88%
Doniphan	Troy	First Bank of Troy	13,733	52.38%	30.28%	2,299	19.99%
Johnson	DeSoto	DeSoto State Bank	20,372	52.02%	26.33%	4,238	23.92%
Cloud	Clyde	Exchange Bank	13,582	51.38%	31.14%	693	5.80%
Norton	Lenora	Exchange Bank	19,381	50.29%	22.91%	1,868	10.85%
Mitchell	Glen Elder	Traders State Bank	14,209	49.91%	27.76%	1,643	12.87%
Sedgwick	Mt. Hope	First Nat'l Bank	20,430	49.57%	27.68%	1,796	9.87%
Ellsworth	Wilson	Wilson State Bank	19,659	49.47%	28.69%	984	5.75%
Morris	Dwight	Farmers State Bank	11,403	48.96%	37.15%	1,383	14.19%
Russell	Luray	Peoples State Bank	16,427	48.83%	30.93%	218	1.44%
McPherson	Inman	Bank of Inman	13,816	48.72%	33.71%	2,388	19.26%
Phillips	Stuttgart	Farmers State Bank	14,395	47.43%	26.27%	1,213	9.64%
Marshall	Beattie	Marshall Co. Bank	5,553	46.64%	34.58%	315	6.18%
Rush	Bison	Bison State Bank	6,132	46.61%	32.81%	1,303	23.92%
Decatur	Norcatour	Citizens State Bank	11,509	46.59%	39.93%	1,027	10.05%
Rawlins	Ludell	Farmers State Bank	3,602	46.47%	24.51%	654	19.67%
Marshall	Vermillion	Vermillion St. Bk.	9,488	46.37%	41.91%	921	11.00%
Stafford	Stafford	Farmers Nat'l Bank	18,461	46.14%	36.05%	2,420	14.64%
Johnson	Spring Hill	St Bk of Sp Hill	21,737	45.82%	38.41%	3,089	15.92%
Finney	Holcomb	First Nat'l Bank	10,792	45.64%	43.75%	3,807	39.09%
Doniphan	Highland	Farmers State Bank	10,096	45.35%	36.15%	1,447	15.77%
Cheyenne	St. Francis	BankWest-St. Francis	22,902	45.01%	29.60%	3,054	14.82%
Neosho	Erie	Home State Bank	17,812	44.84%	46.90%	4,238	25.79%
Jefferson	Meriden	State Bk of Meriden	24,445	44.42%	38.99%	3,375	15.80%
Osage	Overbrook	First Security Bank	20,997	43.69%	36.31%	2,084	10.90%
Washington	Palmer	Bank of Palmer	9,400	43.55%	41.15%	542	6.30%
Graham	Hill City	Farm & Merch Bank	24,145	43.23%	41.19%	2,746	12.44%
Jefferson	Perry	Bank of Perry	17,636	42.93%	40.70%	2,782	18.29%
Rice	Bushton	Bushton State Bank	7,075	42.46%	37.39%	619	9.44%

3rd & Unincorporated <\$25 Million

			Total Assets (000's)	Trea/Govt Assets	Loans/ Assets	Pub Funds (000's)	PF, P P
Reno	Haven	Haven State Bank	23,138	42.35%	40.39%	1,766	9.00%
Sumner	Conway Springs	St Bk of Conway Spgs	11,214	42.30%	41.49%	951	9.26%
Butler	Potwin	Emprise Bank	11,605	42.19%	46.97%	1,239	11.94%
Marshall	Blue Rapids	St Bk of Bl Rapids	22,450	42.16%	44.54%	1,564	7.65%
Franklin	Richmond	Peoples Bank of Ks	13,910	42.06%	48.11%	681	5.38%
Jewell	Mankato	State Exchange Bank	17,423	41.63%	18.80%	2,005	12.82%
Wabaunsee	Maple Hill	Stockgrowers St. Bk.	12,036	41.48%	47.22%	1,135	10.48%
Hodgeman	Jetmore	Farmers State Bank	17,361	41.40%	22.82%	4,440	29.92%
Cloud	Clyde	Elk State Bank	15,966	41.19%	47.48%	1,683	11.51%
Rice	Raymond	Raymond State Bank	6,481	41.06%	45.93%	1,006	17.42%
Marshall	Frankfort	First Nat'l Bank	18,938	40.99%	48.31%	1,583	9.46%
Osborne	Downs	Downs Nat'l Bank	16,691	40.91%	33.46%	1,756	11.68%
Rush	LaCrosse	Nekoma State Bank	13,189	40.70%	35.29%	2,546	21.15%
Reno	Buhler	Buhler State Bank	11,812	40.69%	40.48%	1,355	12.69%
Neosho	St. Paul	Exchange State Bank	13,011	40.10%	36.22%	1,644	13.66%
Marshall	Axtell	State Bank of Axtell	13,971	39.66%	38.34%	1,029	8.37%
Rawlins	Atwood	State Bk of Atwood	22,615	39.63%	35.00%	3,198	15.29%
Crawford	Arma	First State Bank	7,852	39.45%	29.78%	1,389	19.30%
Lyon	Olpe	Olpe State Bank	20,940	39.22%	44.99%	1,264	7.31%
Sedgwick	Goddard	Suburban West St Bk	24,302	39.16%	44.89%	7,051	31.04%
Ford	Bucklin	Bucklin State Bank	15,939	38.87%	47.76%	2,817	19.35%
Neosho	Thayer	First State Bank	11,003	38.85%	39.48%	2,217	21.91%
Smith	Kensington	First Nat'l Bank	11,550	38.63%	27.84%	894	9.06%
Dickinson	Enterprise	Dickinson Co. Bank	8,718	38.59%	45.92%	1,361	18.53%
Chase	Cedar Point	Cedar Point St. Bk.	5,734	38.39%	32.82%	585	11.95%
Rawlins	McDonald	Peoples State Bank	8,511	38.14%	50.53%	1,105	14.93%
Cloud	Jamestown	Jamestown State Bank	17,149	37.99%	29.87%	918	6.12%
Harper	Attica	First Nat'l Bank	15,363	37.90%	36.32%	3,701	26.90%
Greenwood	Hamilton	First Nat'l Bank	5,183	37.84%	33.71%	1,277	26.59%
Rice	Alden	Alden State Bank	8,057	37.54%	51.81%	1,431	19.52%
Barber	Isabel	Isabel State Bank	7,235	37.48%	36.46%	1,302	19.58%
Wabaunsee	Alta Vista	Alta Vista St. Bk.	10,858	37.32%	45.86%	1,070	10.94%
Trego	WaKeeney	First Bk of WaKeeney	8,040	37.19%	33.88%	153	2.12%
Anderson	Kincaid	Bank of Kincaid	14,523	37.15%	43.35%	2,090	15.78%
Marshall	Bremen	Bremen State Bank	4,246	37.07%	36.95%	268	6.79%
Dickinson	Chapman	Chapman State Bank	14,836	37.02%	43.97%	1,861	13.94%
Brown	Fairview	Farmers State Bank	10,837	36.92%	48.74%	683	6.85%
Coffey	Aliceville	Farmers State Bank	9,073	36.85%	27.77%	559	7.59%
Atchison	Lancaster	St Bk of Lancaster	4,311	36.77%	43.31%	826	20.52%
Woodson	Piqua	Piqua State Bank	13,153	36.65%	41.22%	2,074	17.01%
Jewell	Jewell	Brooke State Bank	9,364	36.64%	38.42%	1,785	20.60%
McPherson	Roxbury	Roxbury State Bank	7,197	36.47%	47.44%	1,002	16.89%
Butler	Whitewater	Bank of Whitewater	11,355	36.42%	53.39%	698	6.69%
Rooks	Woodston	Rooks Co. State Bank	7,678	36.40%	36.66%	1,490	22.10%
Cheyenne	Bird City	Security State Bank	16,645	36.30%	35.60%	2,690	18.59%
Shawnee	Auburn	Security State Bank	16,945	36.23%	49.73%	1,960	12.76%
Butler	Towanda	Towanda State Bank	4,564	36.02%	47.81%	1,161	28.17%
Ford	Bucklin	Farmers State Bank	20,517	35.99%	52.24%	1,893	10.37%
Anderson	Greeley	Bank of Greeley	16,914	35.69%	50.11%	2,377	15.81%
Clark	Ashland	Citizens State Bank	11,047	35.63%	50.32%	1,185	11.63%
Marion	Peabody	Peabody State Bank	20,575	35.58%	47.20%	2,423	13.17%
Lincoln	Beverly	Beverly State Bank	6,215	35.58%	57.57%	121	2.14%
Kingman	Cunningham	First Nat'l Bank	15,065	35.43%	34.38%	2,507	18.72%

			Total Assets (000's)	Trea/Govt Assets	Loans/ Assets	Pub Funds (000's)	PF/DEP
Kiowa	Haviland	Haviland State Bank	12,644	34.79%	42.91%	2,907	25.57%
Nemaha	Goff	First Nat'l Bank	4,352	34.56%	51.47%	606	15.28%
Rooks	Palco	First Nat'l Bank	8,877	34.29%	44.19%	1,593	20.70%
Osage	Burlingame	First State Bank	24,033	34.28%	49.60%	4,426	20.50%
Osage	Carbondale	St Bk of Carbondale	10,442	34.02%	50.23%	2,193	23.03%
Lyon	Hartford	Hartford St. Bank	10,698	34.00%	57.98%	2,118	22.44%
Pawnee	Burdett	Burdett State Bank	14,970	33.92%	36.66%	1,995	15.33%
Rush	Otis	Bank One	10,710	33.90%	32.62%	1,516	15.33%
Comanche	Coldwater	Peoples Bank	23,627	33.84%	41.26%	2,681	13.12%
Butler	Douglass	Exchange State Bank	14,595	33.46%	51.97%	1,860	13.95%
Russell	Gorham	Gorham State Bank	7,304	33.45%	30.26%	309	4.51%
Washington	Hanover	Community St. Bk.	19,112	33.35%	40.84%	1,091	6.58%
Russell	Lucas	Farmers State Bank	8,556	33.27%	42.24%	617	8.07%
Neosho	Stark	Stark State Bank	8,014	33.15%	56.94%	2,301	32.11%
Marion	Goessel	Wheatland Bank	6,995	32.95%	38.43%	469	7.31%
Marion	Lincolnville	Pilsen State Bank	11,703	32.95%	57.05%	698	6.80%
Miami	Osawatomie	American St Bk	15,361	32.60%	48.48%	1,557	11.49%
Lyon	Americus	Americus State Bank	9,764	32.35%	48.26%	2,772	31.01%
Linn	Mound City	Farm & Merch Bank	19,611	32.11%	43.28%	2,639	14.61%
Mitchell	Tipton	Tipton State Bank	6,198	32.03%	51.02%	1,075	18.85%
McPherson	Marquette	Marq. Farmers St. Bk	13,420	31.93%	46.63%	1,293	10.84%
Elk	Howard	Howard State Bank	10,165	31.92%	50.21%	2,175	25.87%
Butler	Andover	Andover State Bank	20,925	31.70%	53.50%	3,816	20.11%
Sumner	Argonia	Farm & Merch St. Bk.	13,924	31.62%	55.39%	1,310	9.96%
Clay	Wakefield	Farm & Merch St Bk	9,264	31.41%	56.23%	1,100	12.94%
Linn	Prescott	Prescott State Bank	5,799	31.38%	35.97%	717	13.48%
Wabaunsee	Harveyville	First Nat'l Bank	7,118	31.08%	50.17%	934	14.61%
Barber	Hazelton	Farmers State Bank	5,322	31.06%	23.81%	1,196	25.38%
Doniphan	Troy	Troy State Bank	11,511	30.85%	59.75%	1,403	13.12%
Ellsworth	Lorraine	Lorraine State Bank	9,095	30.79%	55.87%	551	6.60%
Harvey	Burrton	St. Bk. of Burrton	8,462	30.71%	40.14%	1,271	17.44%
Republic	Courtland	Swedish Amer. St Bk	17,033	30.70%	59.38%	2,114	13.91%
Republic	Scandia	Scandia State Bank	16,257	30.38%	44.67%	2,094	15.62%
Rice	Geneseo	Citizens State Bank	4,337	30.02%	25.78%	716	19.91%
Sedgwick	Maize	Maize State Bank	5,886	29.85%	50.20%	1,024	19.48%
Wabaunsee	Eskridge	Flint Hills Bank	8,885	29.27%	54.01%	1,975	24.44%
Jefferson	McLouth	Bank of McLouth	19,805	29.23%	51.10%	2,063	12.38%
Leavenworth	Easton	Fort Nat'l Bank	15,084	29.14%	60.20%	1,159	9.23%
McPherson	Canton	Farmers State Bank	8,644	29.00%	48.03%	1,102	14.13%
Nemaha	Bern	State Bk of Bern	21,768	28.55%	43.70%	1,490	7.64%
Brown	Robinson	Bank of Robinson	8,911	27.75%	49.07%	746	9.08%
Stafford	Macksville	Farm & Merch St Bk	17,488	27.56%	56.79%	1,728	10.77%
Norton	Almena	First State Bank	9,855	27.46%	49.76%	1,418	15.71%
Coffey	Burlington	First Nat'l Bk of Ks	14,828	27.02%	53.30%	2,118	17.23%
Marion	Tampa	Tampa State Bank	15,159	26.89%	51.86%	2,658	19.69%
Sedgwick	Clearwater	Home State Bank	24,552	26.48%	54.08%	2,118	9.36%
Mitchell	Cawker City	Farm & Merch St. Bk.	4,811	25.98%	55.50%	715	15.97%
Saline	Gypsum	Gypsum Valley Bank	17,495	25.78%	60.12%	937	6.59%
Doniphan	Bendena	Bendena State Bank	10,152	25.62%	55.52%	1,168	13.03%
Jackson	Circleville	Farmers State Bank	16,430	25.47%	53.85%	2,339	15.80%
Riley	Riley	Riley State Bank	16,492	25.45%	58.30%	1,202	8.58%
Nemaha	Corning	Farmers State Bank	4,552	25.24%	54.83%	689	16.63%
Labette	Edna	First State Bank	10,625	24.87%	57.60%	303	3.11%

3rd & Unincorporated <\$25 Million

			Total Assets (000's)	Trea/Govt Assets	Loans/ Assets	Pub Funds (000's)	PF/DEP
Brown	Everest	Union State Bank	12,033	24.83%	62.85%	835	7.88%
Chase	Strong City	Chase County Bank	8,303	24.45%	59.52%	861	11.60%
Wabaunsee	Alma	First Nat'l Bank	16,198	24.41%	57.79%	2,813	18.96%
Clark	Minneola	Peoples State Bank	12,584	24.22%	43.26%	2,704	23.96%
Hodgeman	Hanston	Hanston State Bank	18,670	24.21%	49.27%	1,944	11.74%
Thomas	Brewster	Brewster Nat'l Bank	8,084	23.96%	54.74%	984	14.35%
Johnson	Gardner	Gardner Nat'l Bank	7,570	23.91%	48.16%	863	14.04%
Washington	Clifton	First Nat'l Bank	8,045	23.74%	61.28%	549	7.51%
Lincoln	Sylvan Grove	Sylvan State Bank	11,526	23.62%	54.96%	1,145	10.77%
Stafford	St. John	St. John Nat'l Bank	24,573	23.42%	53.77%	2,820	12.88%
Sedgwick	Cheney	Citizens State Bank	23,734	23.28%	51.94%	2,056	9.71%
Edwards	Offerle	Farmers State Bank	10,646	22.66%	61.98%	1,732	18.02%
Geary	Fort Riley	Ft. Riley Nat'l Bank	20,104	22.38%	59.00%	1,095	5.62%
Republic	Munden	Munden State Bank	15,984	22.05%	65.09%	3,128	21.56%
Barber	Hardtner	Farmers State Bank	17,712	21.92%	59.60%	2,157	13.76%
Reno	Yoder	Farmers State Bank	13,726	21.83%	51.57%	495	3.85%
Phillips	Logan	First Nat'l Bank	5,035	21.81%	38.67%	814	18.30%
Butler	Leon	State Bank of Leon	5,881	21.10%	63.37%	1,375	26.05%
Graham	Morland	Citizens State Bank	13,982	20.83%	66.11%	1,806	14.35%
Stafford	Macksville	Macksville St. Bk.	7,663	20.67%	60.15%	815	11.42%
Greeley	Tribune	First Nat'l Bank	20,220	20.60%	66.78%	4,749	25.38%
Sumner	Conway Springs	First Nat'l Bank	16,138	20.50%	59.42%	592	3.97%
Ellsworth	Holyrood	Bank of Holyrood	16,417	20.45%	66.43%	1,546	10.35%
Comanche	Protection	Bank of Protection	10,717	19.93%	67.31%	1,044	10.68%
Marshall	Waverille	Citizens State Bank	18,489	19.40%	66.85%	991	5.87%
Washington	Washington	Tri-Co. Nat'l Bank	18,744	19.32%	63.36%	1,971	11.42%
Ottawa	Delphos	St. Bk. of Delphos	14,406	19.27%	67.71%	1,589	12.10%
Pottawatomie	Olsburg	Union State Bank	11,657	18.74%	56.17%	1,533	16.00%
Osage	Lyndon	Lyndon State Bank	23,531	18.70%	57.96%	4,615	21.60%
Bourbon	Uniontown	Union State Bank	13,234	18.23%	69.67%	1,732	14.22%
Coffey	LeRoy	First Nat'l Bank	16,861	17.93%	66.43%	2,751	18.37%
Franklin	Wellsville	Wellsville Bank	20,924	17.88%	48.52%	1,910	10.15%
Ford	Spearville	First Nat'l Bank	10,859	17.40%	59.06%	1,667	17.19%
Reno	Turon	Turon State Bank	16,804	16.93%	57.94%	2,021	13.29%
Gove	Grainfield	Citizens State Bank	6,247	16.54%	35.86%	880	15.30%
Harvey	Sedgwick	Sedgwick State Bank	11,600	16.47%	54.15%	2,242	20.96%
Elk	Longton	Home State Bank	6,842	16.06%	65.05%	748	11.52%
Coffey	Lebo	State Bank of Lebo	14,970	15.64%	67.29%	1,700	13.09%
Cowley	Burden	State Bank of Burden	2,959	15.14%	52.86%	461	16.95%
Harvey	Walton	Walton State Bank	2,789	14.20%	57.87%	368	14.29%
Elk	Howard	First Nat'l Bank	8,349	12.47%	55.07%	1,573	20.30%
Osage	Overbrook	Kansas State Bank	21,185	11.15%	70.55%	2,162	11.33%
Doniphan	Elwood	First State Bank	16,398	10.46%	74.52%	1,860	12.43%
Chase	Elmdale	Peoples Exchange Bk	5,547	10.33%	70.74%	690	13.31%
Kingman	Norwich	Farmers State Bank	23,497	10.27%	66.02%	2,792	12.86%
Rice	Chase	Bank Chase	7,739	8.76%	59.12%	1,161	16.19%
Lyon	Reading	Reading State Bank	3,703	8.64%	28.71%	169	5.42%
Chase	Cottnw'd Falls	Exchange Nat'l Bank	19,450	8.50%	57.53%	2,305	12.82%
Mitchell	Simpson	Farmers State Bank	2,175	8.32%	61.75%	387	19.59%
Washington	Barnes	State Exchange Bank	4,481	8.12%	64.72%	223	5.36%
Sheridan	Selden	Selden State Bank	8,227	7.24%	67.91%	1,322	17.55%
Kiowa	Greensburg	First State Bank	9,412	6.34%	80.33%	686	8.20%
Butler	Andover	Nat'l Bk of Andover	11,963	6.27%	59.35%	395	3.52%

3rd & Unincorporated <\$25 Million

			Total Assets (000's)	Trea/Govt Assets	Loans/ Assets	Pub Funds (000's)	PF/DEP
Greenwood	Fall River	Fall River St. Bk.	4,935	4.56%	23.65%	236	5.16%
Mitchell	Hunter	Farmers State Bank	3,508	4.53%	55.93%	351	10.75%
Gove	Grinnell	Peoples State Bank	11,488	0.00%	63.41%	613	5.81%
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			215 2,728,078	34.76%	45.61%	342,867	14.04%
			=====			=====	

Inception Dates of LGIPs

1972	Connecticut	1981	Georgia Idaho
1973	Montana		North Carolina Pennsylvania Virginia
1974	Illinois Oregon Utah	1982	Maryland
1977	California Florida Massachusetts Wisconsin	1985	Colorado
		1986	Ohio Washington
1978	New Jersey West Virginia	1988	New Mexico
		1990	Texas
1979	Tennessee		
1980	Arizona		

States With LGIPs

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Arizona
California
Colorado (1)
Connecticut
Florida
Georgia
Idaho
Illinois
Maryland
Massachusetts
Montana
Nevada
New Hampshire (2)
New Jersey

New Mexico
North Carolina
Ohio
Oklahoma
Oregon
Pennsylvania (1)
South Carolina
Tennessee
Texas
Utah
Virginia
Washington
West Virginia
Wisconsin
Wyoming

1) Non-state sponsored

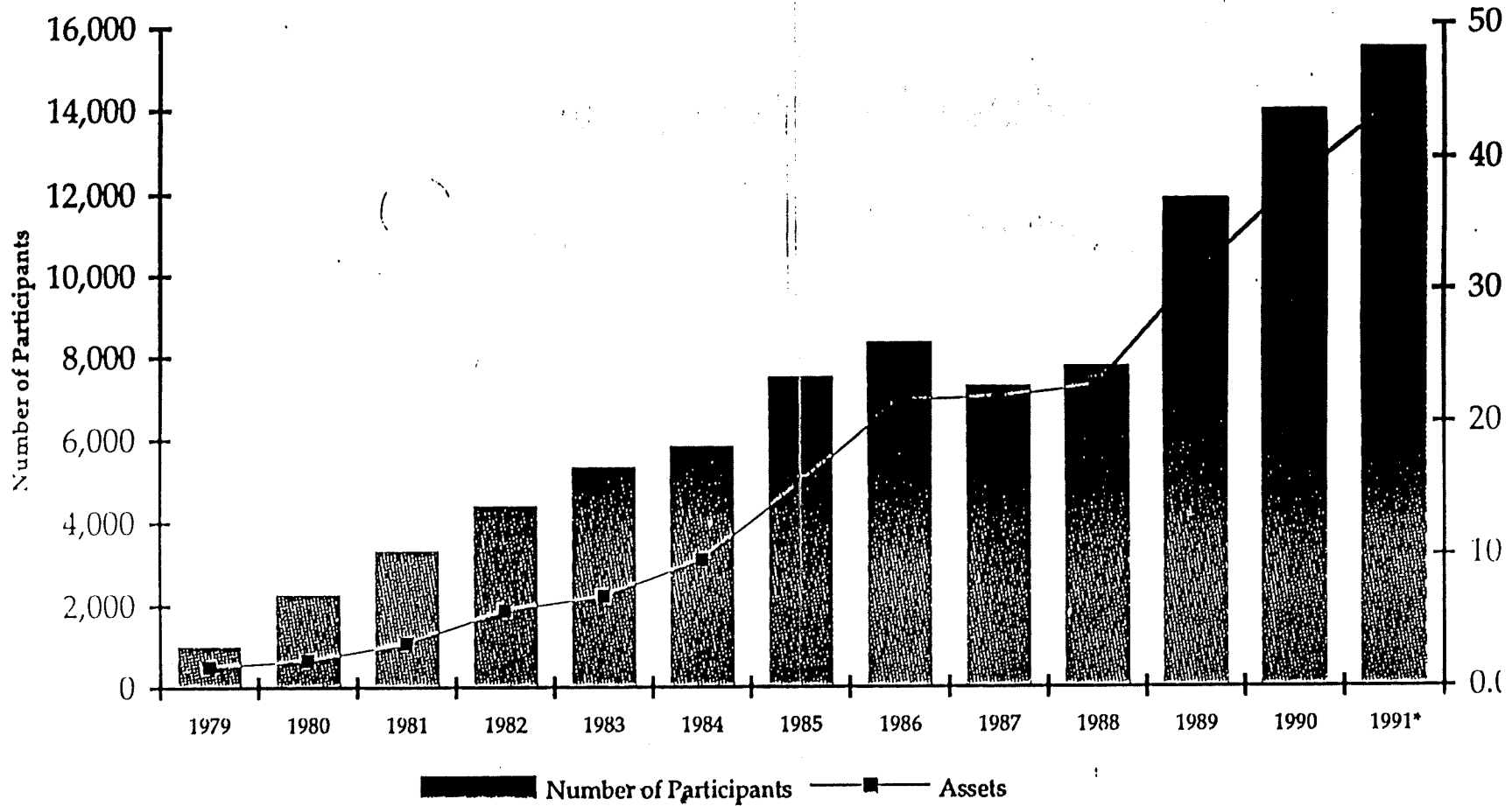
2) Legislation passed 1991. Not yet operational.

Benefits Of Pooled Investments

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

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Growth of LGIP Assets & Participation



* As of June 30, 1991