

Approved 2/10/92  
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

The meeting was called to order by SENATOR RICHARD L. BOND at  
Chairperson

9:00 a.m./~~p.m.~~ on Thursday, February 6, 1992 in room 123-S of the Capitol.

~~All~~ members ~~were~~ present ~~except~~:

Senators Bond, Kerr, Moran, Parrish, Reilly, Strick, Ward, and Yost.

Committee staff present:

Fred Carman, Revisor  
Bill Wolff, Research  
Richard Ryan, Research  
June Kossover, Committee Secretary

Conferees appearing before the committee:

Nancy Hempen, Douglas County Treasurer  
Willie Martin, Sedgwick County  
Donald Seifert, City of Olathe  
Gerry Ray, Johnson County  
Nancy Zielke, City of Kansas City, KS  
Ann Smith, Kansas Association of Counties  
Larry J. Stutz, First National Bank of Alma  
James Maag, Kansas Bankers Association

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

Chairman Bond reopened the hearings on SB 480 and SB 482.

Appearing before the committee in support of SB 480 and SB 482 were:

-Nancy Hempen, Douglas County Treasurer (Attachment #1.)  
-Willie Martin, representing Terry Coltrain, Sedgwick County (Attachment #2.)  
-Donald Seifert, City of Olathe (Attachment #3.)  
-Gerry Ray, representing Ron Cousino, Johnson County (Attachment #4.)  
-Nancy Zielke, City of Kansas City, Kansas (Attachment #5.)  
-Ann Smith, representing John Torbert, Kansas Association of Counties (Attachment #6.)

Written testimony in support of SB 480 and SB 482 was submitted by the following:

-Dorothy Hunter, Ford County Treasurer (Attachment #7.)  
-E. A. Mosher, League of Kansas Municipalities (Attachment #8.)  
-Norman Wilks, Kansas Association of School Boards (Attachment #9.)  
-Robert L. Walters, City of Lawrence (Attachment #10.)  
-Ron Thornburgh, City Clerks and Municipal Finance Officers Association (Attachment #11.)  
-Curt Wood, City of Manhattan (Attachment #12.)  
-Cathy Holdeman, City of Wichita (Attachment #13.)

Appearing before the committee in opposition to SB 480 and SB 482 in its present form were:

-Larry J. Stutz, First National Bank of Alma, KS (Attachment #14.)  
-James Maag, Kansas Bankers Association (Attachment #15.)  
Mr. Maag also submitted proposed amendments to the bill. (Attachment #16.)

Chairman Bond announced that the committee will meet Monday, February 10, 1992 in Room 529-S for continued hearings on SB 480 and SB 482, as well as possible action on bills previously heard.

Senator Reilly made a motion to approve the minutes of the meeting of 2/5/92 as submitted. Senator Yost seconded the motion. The motion carried.

The committee adjourned at 10:02 a.m.

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

GUEST LIST

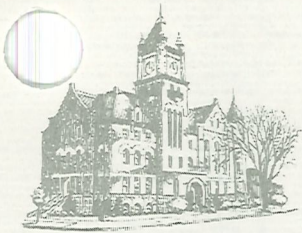
SENATE

COMMITTEE: FINANCIAL INSTITUTIONS AND INSURANCE

DATE: 2/6/92

NAME	ADDRESS	ORGANIZATION
D. Lipsy	TOPEKA	AP
Dee A Jensen	Goodland	K.B.A.
Catherine Holdeman	Wichita	City of Wichita
Merry Ray	Olathe	Johnson Co
Nancy Simpson	Lawrence	Blount Co. Kans.
JEFF SOXNICH	TOPEKA	KNLS
Lokey Taylor	Topeka	KBA
Don Seibert	Olathe	City of Olathe
Linda McGill	Topeka	CBA
GARY SHERRE	WICHITA	First Financial Corp.
Dola Gossert	Topeka	St. Treasurer Office
Jean Wendling	Lyndon	Lyndon State Bank
Harold Stones	Topeka	Ks Bankers Assn
Norma Jones	Oberlin	Farmers Natl Bank
Noem Wickes	TOPEKA	KASB
Jim Mac	"	KBA
Chuck Stutz	"	"
PAUL H. VIETS	INDEPENDENCE	"
Murray Lull	Smith Center	Smith County State Bank
Hub Jans	Topeka	KBA
John Davis	Garden City	KBA
John Berlopf	Prairie Village, Ks	KBA
Stephen J. Wanta	El Dorado Ks	KBA - National Bank of El Dorado





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

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TO: Senator Bond, Chairperson  
Senate Financial Institutions and Insurance Committee,  
and Committee Members

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

RE: Senate Bill 480

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

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

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

Nancy L. Hempen, County Treasurer  
Courthouse

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

FI+I 2-6-92  
Attachment #1

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

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

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

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

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

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

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

Your support and passage of SB 480 will still insure safe and secured investments of local units of government. It will also give us the opportunity to enhance revenues at a time when property tax relief is of utmost concern.

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

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

# Douglas County

January 27, 1992

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

SUBJECT: Senate Bill No. 480

Dear Betty Jo:

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

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

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

Sincerely,



Christopher McKenzie  
County Administrator

CM:rw  
encl  
a/s

cc: Nancy Hempen, County Treasurer - w/encl

Courthouse

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

1-4

RESOLUTION NO. 92-3

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

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

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

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

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

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

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


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

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

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

ADOPTED this 27th day of January, 1992.

BOARD OF COUNTY COMMISSIONERS  
OF DOUGLAS COUNTY, KANSAS

  
Mark A. Buhler, Chairman

  
Louie McElhaney, Member

  
Mike Amyx, Member

ATTEST:

  
Patty Jaimes, County Clerk





SEDGWICK COUNTY, KANSAS

Terry Coltrain, CPA, Controller

525 N. Main, Suite 333  
Wichita, KS 67203  
(316) 383-7591

Comments Regarding Proposed Senate Bill No. 480  
Terry Coltrain, CPA, Sedgwick County Controller  
February 4, 1992

Good morning, and thank you for the opportunity to testify before you. My name is Terry Coltrain. I am the Sedgwick County Controller, and a Certified Public Accountant. I am here in support of proposed Senate Bill No. 480. I believe that this bill will allow the taxpayers of Sedgwick County, and the State of Kansas, to benefit, without additional risk, from higher yields on idle funds, while guaranteeing that local government funds will be available for investment by Kansas businesses when they are needed.

I have participated in the planning process for this bill, having met with the State Treasurer, representatives of other local governments, and representatives of governmental associations. When we began, a study of the investment laws in effect across the United States showed that Kansas was among the most conservative in the types of investments allowed. If this bill is passed without change, we will still be among the most conservative in the nation.

I'm confident that the current laws governing the investment of idle funds in Kansas were written to protect the best interests of Kansas citizens. However, the current laws also give local financial institutions the ability to receive local government funds at "bargain-basement rates." The proposed bill still gives financial institutions the right of first refusal on local government funds, but requires that a more equitable rate be paid for the funds. If the difference between the existing and proposed rates were only twenty-five basis points, Sedgwick County would realize increased investment revenues of approximately \$300,000 in a single year.

For large local governments like Sedgwick County, placing funds in local financial institutions is difficult at best. Very few local financial institutions bid on the funds that we place daily. On some occasions, there are no bids. Again, the bill under consideration would allow the local financial institutions to use our idle funds when they need them, but would provide

FI+I 2-6-92  
Attachment #2

other avenues, such as the municipal investment pool, for the safe investment of our funds when they are declined by the local institutions.

Finally, I would like to discuss the safety of our investments under the proposed bill. During the last few months, there have been several highly-publicized examples of governments losing taxpayers' money by making highly speculative investments. The bill under consideration prohibits investment in any of the instruments involved in these cases. In fact, this bill requires that local governments can invest in additional types of instruments only after having written investment policies approved by both their governing bodies and by the Pooled Money Investment Board. This bill simply does not compromise the safety of investments which will be made by local Kansas governments.

I have read a great deal of commentary from opponents to this bill. They have suggested that the State Treasurer is going to ship all the money available in Kansas for local investment to New York, or that Kansans are paying extra taxes just so that local government officials can pretend to be investment experts. I don't believe these statements are true. I do believe that careful examination of this bill will show that it represents a plan for safe, equitable investment of idle funds for the benefit of all Kansans. On behalf of the taxpayers of Sedgwick County, thank you.



City of Olathe

MEMORANDUM

**TO:** Members of the Senate Committee on Financial Institutions and Insurance

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

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

**DATE:** February 4, 1992

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

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

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

*FI&I 2-6-92  
Attachment #3*

Senate Committee on Financial  
Institution and Insurance  
February 4, 1992  
Page 2

In our view, Senate bill 480 will help local officials better perform their fiduciary duties. We urge the Committee to favorably recommend passage of this bill.

rc

RESOLUTION NO. 92-1014

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

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

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

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

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

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

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

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

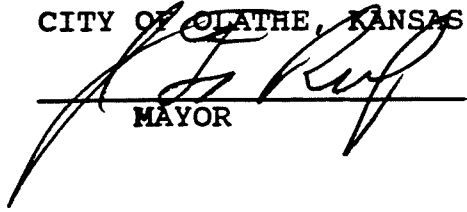
SECTION TWO: That the city urges its state legislative delegation to support Senate Bill 480.

SECTION THREE: This Resolution shall take effect immediately.

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


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

CITY OF OLATHE, KANSAS

  
MAYOR

(Seal)

ATTEST

  
City Clerk

APPROVED AS TO FORM:

  
Municipal Counsel



HEARING ON SENATE BILL 480

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

February 4, 1992

Mr. Chairman, members of the Committee, my name is Ron Cousino, Director of Finance for Johnson County.

You have heard various advocates identifying the facts as to the positive impact Senate Bill 480 will provide the State of Kansas and its political jurisdictions. The County Commission strongly supports this bill because it will result in increased revenues without increased taxes. It could mean additional annual revenue of \$1,200,000 to the Johnson County government.

For your edification, let me present a few points that need to be addressed. Some may seem rhetorical, but more and more, people are asking questions with stronger voice and stronger convictions. Tax payers are expecting a responsible government to manage and protect their assets in a manner that will benefit everyone. The following are some of the key issues in this discussion.

.. Local governments are not getting aggressive bids or market rates on public funds.

.. Some banks have indicated they would find it to their benefit to have the money longer so that loans can be made without fear of returning the money back to the local jurisdiction in a six month turnaround. Senate Bill 480 not only helps the local jurisdictions by extending the maturing dates to a maximum of five (5) years, but the banks as well.

.. Concerns have been expressed that Kansas public funds will go outside the state, however, this is happening now vis-a-vis the financial institutions. The public funds are not always loaned but many times are reinvested in the same type of funds that local governments could invest in under SB 480. The only difference is that rather than market rates, the local units receive rates of 0.75% to 1.50% below market.

.. Why should there be concern that if SB 480 were passed as is, local governments would not show the necessary responsibility to comply with the safeguards that are written into the bill? Great care has been taken to assure only those who have sound management systems and oversight could participate in the program outlined in the bill.

FI+I 2-6-92  
Attachment #4

..Senate Bill 480 allows only three new features for local governments to manage public funds:

1. Allows them to invest in maturity over the current six (6) month limitation.
2. Allows them to set standards for banks to bid a minimum rate for maturities needed.
3. Gives the ability to participate in a state wide investment pool.

These additional features do not add risk to those managing the public funds, except for market risk. There are no new types of investments such as stocks, corporate bonds, real estate property, etc.

.. The bill gives local governments no more authority to invest idle funds than they have had for years to invest bond receipts.

.. There is no need to fear that local banks will be cut from receiving public funds. The bill gives them the FIRST RIGHT OF REFUSAL. If they provide the local governments aggressive bids, ample public funds will be available to them.

.. The bottom line issue is that state and local governments should not be controlled by any particular industry nor should they be expected to subsidize and industry with public dollars.

These are issues that need to be addressed and questions that need to be answered. As they should, tax payers are beginning to examine how government does business. They want to ensure their tax dollars are being used wisely and for the good of the majority of the citizens. On their behalf we ask that we be allowed to manage the public funds in a manner that will best serve the majority of tax payers.





# CITY OF KANSAS CITY, KANSAS



**Nancy L. Zielke**  
**Finance and Budget Director**  
**One McDowell Plaza**  
**Kansas City, Kansas 66101**  
**(913) 573-5270**

February 4, 1992

Senator Richard L. Bond, Chairman  
Committee on Financial Institutions and Insurance  
Statehouse Capital Room-214 East  
Topeka, Kansas 66612

Dear Senator Bond and Members of the Financial Institutions and Insurance Committee:

**RE: PRESENTATION OF TESTIMONY ON SENATE BILL 480**

The City of Kansas City, Kansas appreciates the opportunity to address the Committee on Senate Bill 480. The City strongly supports Senate Bill 480 as recommended by the interim study of the Legislative Budget Committee.

The following materials have been prepared as background information and analysis related to this important municipal finance issue. The City has for several years attempted to work with the State Treasurer's Office and the Kansas League of Municipalities to broaden local investment authority.

The City sees three main policy issues to the proposed legislation for local units of government:

\* **INCREASE YIELD LIMITS**

While the City of Kansas City, Kansas has had a favorable relationship with area banks regarding the investment of funds, the City could conservatively see an additional \$ 500,000 assuming a .75 percent interest gain. If the City realized the full 1.0 percent, \$ 1.0 million could be gained. This would result in the possibility of up to 3.0 percent in property tax reductions.

Statistics provided by the State Treasurer, indicated that statewide more than \$ 30.0 million could be gained by local units of government in added revenues. In today's environment, enhanced yield on our idle funds lessens the pressures on real and personal property taxes.

\* **RIGHT OF FIRST REFUSAL BY LOCAL FINANCIAL INSTITUTIONS**

In the discussion of this proposal with various local banks concern with local governments pulling public funds from local banks surfaced.

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Attachment #5

**PRESENTATION OF TESTIMONY - SENATE BILL 480**

Page 2 of 3

In discussion of this proposal with various local banks the concern with local governments pulling public funds from local banks was discussed. Our city is very aware of how local banks rely on public funds for make loans local businesses and citizens.

Under this proposed Senate Bill, local banks have right of first refusal on all available funds. Public funds will only be invested on government securities if and when the local financial institutions decline funds.

The City of Kansas City, Kansas has no intention to transfer all idle investments to the State Municipal Pool. However, as public officials we have the responsibility to safeguard City investments and to maximize the use of public funds and be responsible to the taxpayers of the community. The proposed legislation is good public policy in the City's eyes to gain the highest yield on our investments without jeopardizing the local financial community.

**\* MARKET RATE**

Senate Bill 480 changes the benchmark of the 91-day Treasury Bill rate to a State determined "Market Rate". The Market Rate is proposed to be based on the average of U.S. government securities rates and specified U.S. agency securities having the same maturities. This rate would be calculated by the State Treasurer and published in the Kansas Register.

Cities are not allowed to "buy direct" treasury bills from Federal Agencies. Cities are required to go through brokers and financial institutions to purchase treasury bills at a premium due to added broker fees. These added fees then lowers the interest yield local units of government can achieve.

It's important to again emphasize however, if local financial institutions meet or exceed the "Market Rate", then municipalities would not be able to make direct investments, like the current statute allows, not utilize the state local investment pool, nor the expanded investment authority options that cities have available policies approved by the Pooled Money Investment Board.

The City of Kansas City, Kansas has a very sophisticated cash management and investment review process. The City has defined by City Ordinance internal investment procedures that must be followed and has experienced cash managers to overview this process if needed.

**PRESENTATION OF TESTIMONY - SENATE BILL 480**

Page 3 of 3

In closing, the City of Kansas City, Kansas sees Senate Bill 480 as a means to broaden the City's investment authority for all units of government in Kansas. This support is based on the need to provide safeguards for cities to maximize the use of public funds while being responsible to the taxpayers of our communities. The City of Kansas City, Kansas supports Senate Bill 480 as an alternative revenue source to lessen the pressure of real and personal property taxes.

Respectfully submitted,



Nancy L. Zielke  
Director of Finance/Budget Director



Russell J. Breitenstein  
City Treasurer/Deputy Finance Director

Attachments

cc: Wyandotte County Legislative Delegation Members

0083346

(Published January 10, 1985)

ORDINANCE NO. 64778

AN ORDINANCE relating to the procedure for the investment of temporarily idle city moneys amending Section 2-12 of the Code of Ordinances, City of Kansas City, Kansas, and repealing original Section 2-12.

BE IT ORDAINED BY THE COUNCIL OF THE CITY OF KANSAS CITY, KANSAS:

Section 1. That Section 2-12 of the Code of Ordinances, City of Kansas City, Kansas, be and the same is hereby amended to read as follows:

Sec. 2-12. Same -- Procedures.

Sec. 2-12(1). On or before October 1, 1982, the governing body of the city shall cause to be prepared and mailed to each eligible bank and trust company that has been designated by the city as a depository of its funds and each eligible savings and loan association that has been designated by the city as a depository of its invested funds a letter inquiring whether such financial institutions wish to be solicited for competitive bids on an ongoing basis on the investment of idle city monies, and inviting them to participate in such a bid process. Those institutions responding affirmatively shall be placed on a list of institutions to be solicited each time idle city monies are available for investment.

Sec. 2-12(2). The city treasurer, on an ongoing basis shall determine the amount of money available for investment and the period of time such amount will be available for investment. He shall so limit the amounts available for investment and schedule the maturities of such investments so that the city will at all times have sufficient moneys available on demand deposit to ensure prompt payment of all city obligations.

Sec. 2-12(3). The city treasurer shall determine the appropriate type and term of investment that should be made and shall make the investment pursuant to the following procedure:

(a) He or she shall package temporarily idle city monies

so as to secure the highest available interest rate.

- (b) He or she shall seek competitive bids by telephone on both the entire amount available for investment and any portion of that amount from all eligible financial institutions which have expressed an interest in bidding.
- (c) He or she shall document all bids received on a form which shall include the amount being bid upon, the term of the investment, the maturity date, the time each bid was solicited, the time each bid was received, the name of each financial institution called, the interest rate bid by each institution, and the ninety-one-day treasury bill rate at its most recent offering prior to the time the bid was received. Each bid form shall then be signed and dated by the city treasurer and/or assistant city treasurer.
- (d) He or she shall accept the highest interest rate bid on investments of idle city monies; provided, however, that if the highest bid is less than the ninety-one-day treasury bill rate, then the city treasurer is directed to invest the idle city monies in ninety-one-day treasury bills. The ninety-one-day treasury bill rate referred to above, is the ninety-one-day treasury bill rate (bond equivalent yield basis) derived from the most recent Monday auction by the Federal Reserve bank.
- (e) He or she shall invest the idle monies on behalf of the City of Kansas City, Kansas.

Sec. 2-12(4). The city treasurer, the city treasurer's office, or anyone associated with receiving or reviewing bids shall not release, divulge, or publicize such bids to other bidders, to other financial institutions or to the public until after the successful bidder has been notified of the acceptance of its bid and the investment has been made, or until the treasury bills have been purchased.

Sec. 2-12(5). The city treasurer shall submit all original bid tabulation sheets to the governing body of the city weekly for their review along with an accounting of all investments

made, including the amounts invested, the rate of interest received, the yield, the name of the institution where invested, the type of investment made, and the date of the investment made.


~~Sec. 2-12(6)---All investments of idle city monies for a term longer than ninety-one (91) days shall require the prior approval of the governing body of the city.~~

Section 2. That said original Section 2-12 of the Code of Ordinances, City of Kansas City, Kansas, be and same is hereby repealed.

Section 3. This ordinance shall be in full force and take effect from and after its passage, approval and publication in the Kansas City Kansan.

ADOPTED BY THE COUNCIL OF THE CITY OF KANSAS CITY, KANSAS, THIS 3 DAY OF January, 1985.

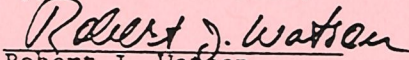
Approved:

  
\_\_\_\_\_  
John E. Reardon Mayor

Attest:

  
\_\_\_\_\_  
Daniel F. Kubel  
City Clerk

Approved as to Form:

  
\_\_\_\_\_  
Robert J. Watson  
City Attorney

**INVESTMENT AND TREASURY POLICIES**  
**City of Kansas City, Kansas**

**POLICY STATEMENT**

A well-managed cash flow system enables a City to release funds for profitable investment in marketable securities. Investments, which consist of long-term U.S. government securities, are stated at cost, which approximates market value. City policy is to invest only in securities that are authorized as collateral for deposits by state law. The City will invest with financial institutions who have notified the City of their interest to be solicited for competitive bids on an ongoing basis on the investment of idle city monies.

**POLICY GUIDELINES**

- \* The City will make a cash-flow analysis of all funds on a regular basis. Disbursement, collection and deposit of all funds will be scheduled to ensure maximum cash availability.
- \* The City will pool cash from several different funds for investment purposes.
- \* The City will analyze market conditions and investment securities weekly to determine what yield can be obtained.
- \* In accordance with City Charter Ordinance No. 64778, the City Treasurer shall:
  - On an ongoing basis, determine the amount of money available for investment and the period of time such amount will be available for investment. The Treasurer shall limit the amount available for investment and schedule the maturities of such investments so that the City will at all times have sufficient monies available on demand deposits to ensure prompt payment of all city obligations.
  - Determine the appropriate type and term of investment that should be made and shall make investments pursuant to the following procedures:

Package all temporarily idle City monies so as to secure the highest available interest rate.

Seek competitive bids by telephone from all eligible financial institutions which have expressed an interest in bidding on the entire amount available for investment or any portion of that amount.

Document all bids received on the appropriate form which shall then be signed and dated by the City Treasurer and/or Assistant City Treasurer.

## BID PROCEDURES

At present, bids are generally set for Thursday of each week. There are two reasons for this, the first being the Federal Reserve holds its' treasury bill auction every Monday setting a new rate eliminating any speculation as to what the rate will be. The second reason being the City Treasurer works up his cash needs forecast on Mondays which, at the present time, does not allow sufficient time to go out for bids the same day. By holding the bids on Thursday, it enables the Treasurer to give the banks and savings and loans additional notice that may enhance bid yields. The following steps outline bid procedures.

Wednesday of each week, after the Treasurer forecasts his cash needs which determines the term and type of investment appropriate, the Treasurer works up the bid sheet listing those banks showing interest in city's idle cash. Each bank is then contacted, by telephone, normally around 1:00 p.m. whereby the following information is given to each bank:

1. Total amounts of investment
2. Type of investment instrument
3. Term, transaction date, and maturity date
4. Date and bid call back time

Once this information is reported, the Treasurer records the exact time, date, person, and bid information given.

Thursday (date of bid) Treasurer performs the following tasks:

1. Calls the bank holding matured investment and gives wire instructions as to where the principal and interest are to be wired, as well as any other pertinent information.
2. Calls city's operating bank alerting bank wire room official of incoming wire transfer, and request bank official notify Treasurer as soon as wire transfer is received with total amount of principal and interest.
3. Treasurer calls Federal Reserve information number for the 13-week treasury bill rate from the most recent Monday auction. The rate is recorded on the bid sheet for comparison with bids called in.
4. Treasurer sets up tape recorder and clock to record and verify time of bids called in. The tapes are then documented for future reference.
5. Treasurer lists the date, time, bank, and bank official calling in bid as well as the amount bided upon and the interest rate quoted. This information is listed on the bid sheet at the same time bids are being taken. A designated person will be entering the bid information into the city's computer to calculate and evaluate the bids to determine the highest and best interest rate received. This information will be listed both on the terminal and in hard copy form for future reference. This procedure is very critical in respect to time constraints. The Treasurer's Office must evaluate the bid results, and determine the overall highest and best bid from bid sheet calculations and computer generated information. All this must be done in approximately 15 minutes due to constraints placed on banks by their securities dealers whom ordinarily will only hold verbal bid commitments on securities for a period of 15 minutes.



Consequently, the time constraints are passed onto the Treasurer who, in turn, must notify the bank awarded the bid within minutes. Once this is done, said bank must verify commitment with the securities dealer, and order said securities to be wired to a third party bank for holding in joint custody with the bank and City of Kansas City, Kansas. The bank must then, in turn, contact the City Treasurer to verify the following:

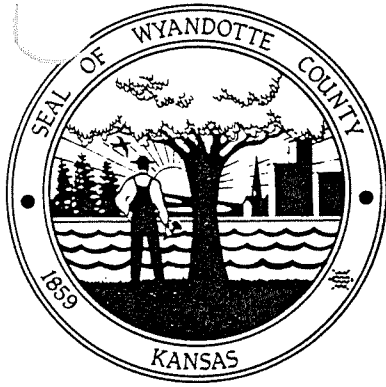
- A. Third party bank holding securities in joint custody
- B. Contact person at bank and telephone number
- C. Description of securities pledged

With this information, the Treasurer must call the third party bank and verify securities pledged. If matured principal and interest have been wired into the city's operating account as requested and outlined earlier, then, and only then, can the Treasurer notify operating bank to wire transfer bid money to bank. At the same time, the Treasurer writes up treasurer's check for payment and authorization of wire transfer.

Bank awarded bid normally delivers investment instrument same day as transaction; and the joint custody receipt should follow within a couple of days, but, generally no longer than three days.

The Treasurer's Office reviews the investment agreement for any errors, then records said investment agreement in the treasurer's log book, and enters information into the computer for generation of a hard copy of the open investment report.

The original investment instrument is then coded with a code number and placed into a corresponding bank file folder for future reference. When the investment agreement matures, the process starts all over again.



OFFICE OF  
**BOARD OF COUNTY COMMISSIONERS**

WYANDOTTE COUNTY COURT HOUSE

KANSAS CITY, KANSAS 66101

PHONE (913) 573-2827

FAX (913) 321-0237

32

**FRANK A. LIPOVITZ**  
COMMISSIONER 1ST DISTRICT  
**VERDIS J. ROBINSON**  
COMMISSIONER 2ND DISTRICT  
**KAY NIES**  
COMMISSIONER 3RD DISTRICT

February 3, 1992

Senator Richard L. Bond  
Chairman, Financial Institutions and Insurance  
Room 128-S  
State Capitol  
Topeka, KS 66112

Senator Bond,

Wyandotte County supports the passage of 1992 Senate  
Bill 480, as recommended by the Interim Legislative Budget  
Committee.

Wyandotte County supports efforts to broaden investment  
authority that could yield additional monies for the County.  
However, the County stresses that control of investment  
authority remain with the local governing body.

Board of Wyandotte County Commissioners



January 31, 1992

Honorable Richard Bond  
Senate Committee on Financial Institutions and Insurance  
State Capitol Building  
Topeka, Kansas 66612

Senator Bond and Committee members:

I would like to be put on record as being in support of Senate Bill #480. Senate Bill #480 will allow the City of Manhattan more investment options and secure for the City and the taxpayer additional investment income.

Specifically, I am in support of the elimination of the 91-day treasury bill rate "benchmark" and the establishment of a state determined market rate. Secondly I am in favor of the creation of a state-local investment pool.

Your favorable consideration of Senate Bill #480 will benefit not only local governments across Kansas but the taxpayers which we all serve.

Sincerely,

*Curt Wood*

Curt Wood,  
Director of Finance

b1s



# CITY OF KANSAS CITY, KANSAS



**Nancy L. Zielke**  
**Finance and Budget Director**  
**One McDowell Plaza**  
**Kansas City, Kansas 66101**  
**(913) 573-5270**

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## SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE SENATE BILL 480 - INVESTMENT OF IDLE FUNDS

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The City of Kansas City, Kansas strongly urges the support of the Senate Committee on Financial Institutions and Insurance to consider passage of Senate Bill 480. The current Senate Bill as studied by the Legislative Budget Committee and recommended by the State Treasurer enhances and expands existing investment authority of both state and local governments throughout the State.

The City of Kansas City, Kansas views Senate Bill 480 as broadening the authority of local units of government to invest idle funds in a manner that would safely earn market rates of return for local taxpayers. In today's environment, enhanced yield on our idle funds lessens pressures on property taxes. The City of Kansas City, Kansas could realize increased interest earnings that could range from .75 to 1.5 percent annually. A minimum of .75 percent could increase the City's interest earnings to \$ 500,000. This yield amount could reach \$1,000,000 if the higher interest rates were achieved. This could result in an estimated City property tax savings of approximately of 1.75 to 3.25 percent.

The City of Kansas City, Kansas understands broadening of the public investment authority will provide opportunity for Kansas government entities to raise revenues without raising taxes. It is the proper exercise of fiduciary responsibility to earn interest on public funds to benefit the taxpayers at every level of government, within a strict boundary of safety on return of public funds. This Legislation will ensure that:

- \* Public funds will only be invested in government securities if and when the local financial institutions decline the funds. **Local banks will have first right of refusal on all funds available.** Funds will be available on a continual basis all year long.
  
- \* The competitive bidding process in which funds are invested with the highest bidder will continue. **Local banks will still have the first option at the City investment monies.**

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**SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE  
SENATE BILL 480 - INVESTMENT OF IDLE FUNDS**

Page 2 of 2

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- \* The primary role of the investment of public funds is not to create economic development within the state of Kansas. Public funds should earn the highest rate possible within safety guidelines which in turn can be returned to the taxpayers of Kansas City. Statistics provided by the State Treasurer shows the Kansas based banks are investing 50 cents of every \$ 1.00 of Kansas consumer deposits in government securities purchased out of state. Investment of public funds by banks in government securities is probably much higher due to the short term maturities.
  
- \* Banks will be required to collateralize the deposits; otherwise the risk of investment would be equal to the higher risk investment such as unrated corporate paper. Some states require 120 percent collateral value.
  
- \* Lengthening maturities does not create more interest rate risk or make additional income possible only in a declining interest rate market. Over a twenty year history the best earning rates have been between two to five years. Most importantly, the local financial institutions can better use these longer term deposits under the more recent regulations.

The City Council of Kansas City, Kansas unanimously passed a City Resolution expressing support for changes to the general investment authority of local units of government. Its support is based on the need to provide "safeguards" for local units of government to maximize the use of the public funds and be responsible to the taxpayers of the community. The City views Senate Bill 480 as a means to lessen the pressure of real and personal property taxes.

The City of Kansas City, Kansas appreciates the Committees review and consideration of this proposal.

**CITY OF KANSAS CITY, KANSAS  
RESOLUTION NO. 37514**

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

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

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

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

**WHEREAS**, the City of Kansas City, Kansas supports efforts to broaden the investment authority of both the state of Kansas and its local government units; and

**WHEREAS**, the City of Kansas City, Kansas estimates that broaden local investment authority could yield an additional minimum of \$ 500,000 annually for its general and bond and interest funds.

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

**Section 1:** That the City of Kansas City, Kansas supports the passage of 1992 Senate Bill No. 480, as recommended by the 1991 Interim Legislative Budget Committee.

**Section 2:** That the City of Kansas City, Kansas urges the State Legislative Delegation to support Senate Bill 480.

**Section 3:** This Resolution shall take effect immediately.

**ADOPTED BY THE CITY COUNCIL OF THE CITY OF KANSAS CITY, KANSAS  
THIS 30TH DAY OF JANUARY, 1992.**

  
Donna M. Teasley, CMC, Deputy/City Clerk

**CITY OF KANSAS CITY, KANSAS**  
**SUMMARY OF INVESTMENT OF IDLE FUNDS OF LOCAL ENTITIES - K.S.A. 12-1675**

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5-15

**CURRENT INVESTMENT LAW:**

Under current law municipalities are allowed to invest in the following:

**U.S. Treasury Bills (T-Bills) or Notes not exceeding Six Months**

May purchase T-Bills only if local financial institutions will not pay rate of return equal to or greater than 91-day T-Bill rate.

**Repurchase Agreements (Repos)**

Must use local financial institutions within corporate limits.

Financial institutions may pay a rate up to 2.0 percent below the 91-day T-Bill rate.

**Time Deposits, Open Accounts, Certificate of Deposits**

Must use local banks and savings and loans unless financial institutions will not pay interest earnings equal to or greater than the average yield on a 91-day T-Bill.

**Temporary Notes and No Fund Warrants**

**PROPOSED LAW UNDER SENATE BILL 480:**

Under the proposed law the following instruments would be possible:

**U.S. Treasury Bills (T-Bills) or Notes not exceeding Six Months**

May purchase T-Bills only if local financial institutions will not pay rate of return equal to or greater than 91-day T-Bill rate. Rate would be based on "market rate" calculated weekly by the State Treasurer.

**Repurchase Agreements (Repos)**

Must use local financial institutions within corporate limits. The benchmark of the 91-day treasury bill benchmark and the 2.0 percentage point differential is eliminated. Rate to be based on average "market rate" to be calculated weekly by the State Treasurer.

**Time Deposits, Open Accounts, Certificate of Deposits**

Must use local banks and savings and loans unless financial institutions will not pay interest earnings equal to or greater than the average yield on an average "market rate" calculated weekly by the State Treasurer.

**Temporary Notes and No Fund Warrants**

5-16

**CITY OF KANSAS CITY, KANSAS**  
**SUMMARY OF INVESTMENT OF IDLE FUNDS OF LOCAL ENTITIES - K.S.A. 12-1675**  
Page 2 of 3

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**Municipal Investment Pool**

Administered by the State Treasurer - Allows Pooled Money Investment Board to invest local money deposited in state fund. Municipalities investing in fund may be assessed up to 1.0 percent of the interest earned.

Investments allowed in the pool include:

- Direct obligations of the U. S. Government
- Obligations of federal agencies (not more than 10 percent can be invested in mortgage backed securities).
- Time Deposits with Kansas Banks
- Repurchase agreements for direct obligations and obligations of the federal agencies

**Investments Allowed with Approved Investment Policy**

Local governments may expand investment options if written policy is annually approved by governing body and the Pooled Money Investment Board.

Investment policy must address safety of principal, liquidity, yield, diversification, maturity and quality, and the capability of an in-house cash management or investment manager.

Investments include the following:

- Direct obligations of the U. S. Government
- Obligations of federal agencies (not more than 10 percent can be invested in mortgage backed securities).
- Time Deposits with Kansas Banks
- Repurchase agreements for direct obligations and obligations of the federal agencies

**Investments Allowed With the Trust Department of Commercial Banks**

Authorized investments include the following:

- Direct obligations of the U. S. Government
- Obligations of federal agencies (not more than 10 percent can be invested in mortgage backed securities).
- Time Deposits with Kansas Banks
- Repurchase agreements for direct obligations and obligations of the federal agencies



CITY OF KANSAS CITY, KANSAS  
SUMMARY OF INVESTMENT OF IDLE FUNDS OF LOCAL ENTITIES - K.S.A. 12-1675  
Page 3 of 3

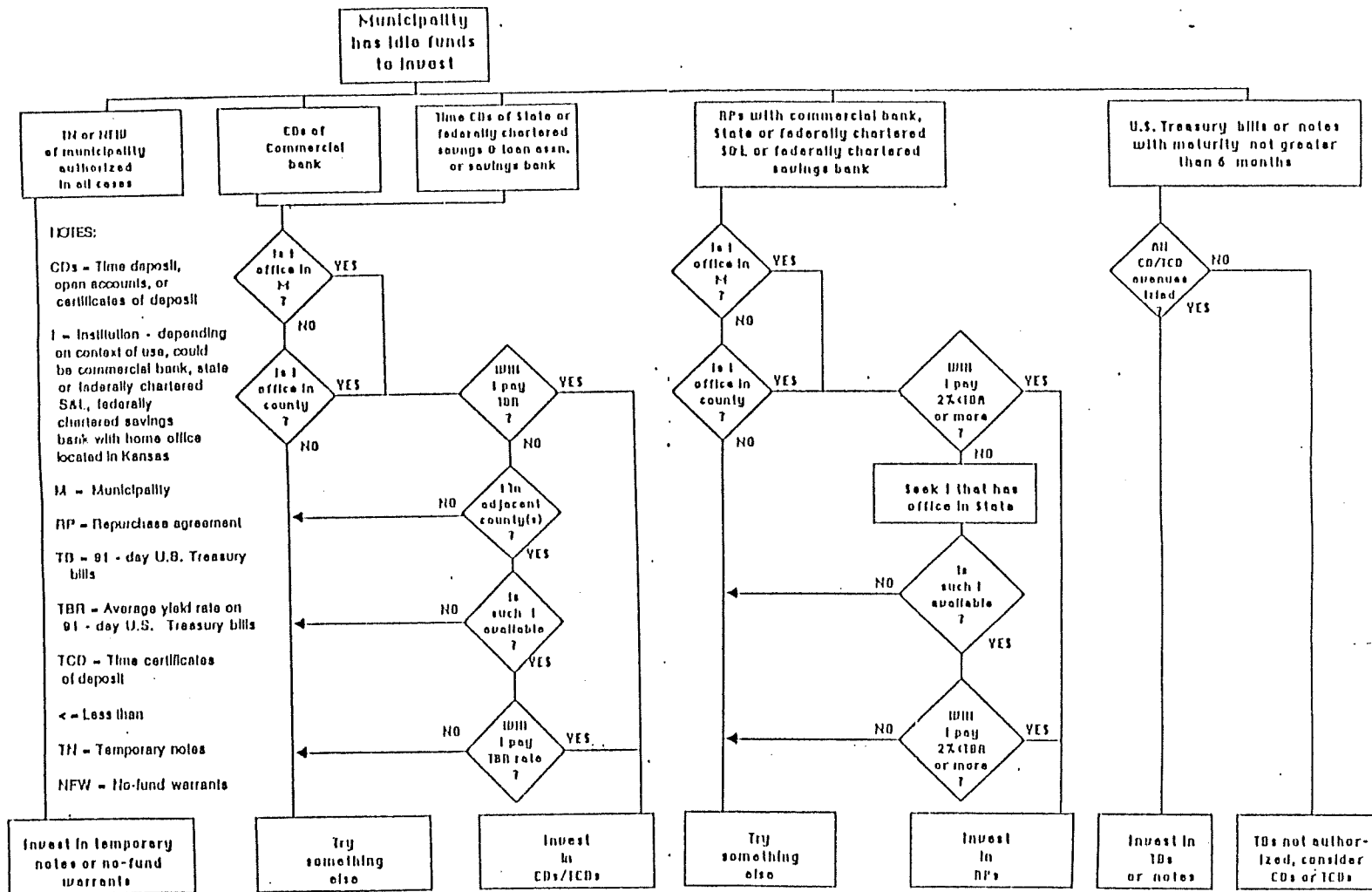
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5-17

NOTES:

1. "Market Rate" is the average of rates on U.S. government securities and specified U.S. agency securities having the same maturities. This rate would be calculated by the State Treasurer and published in the Kansas Register.
2. Municipalities may only invest in T-Bills or Notes, the Municipal Investment Pool Fund, Investments Allowed with an Approved Investment Policy and Investments allowed with a trust Department if the eligible banks and savings loans do not pay market rates.
3. See accompanying flowchart of current criteria under K.S.A. 12-1675 for local unit government investment of idle funds.

## CITY OF KANSAS CITY, KANSAS FLOWCHART OF CURRENT CRITERIA UNDER K.S.A. 12-1675 FOR INVESTMENT OF IDLE FUNDS



Source: Kansas Department of Administration, Division of Accounts and Reports, Municipal Accounting Section, September 1990.



"Service to County Government"

1275 S.W. Topeka Blvd.  
Topeka, Kansas 66612  
(913) 233-2271  
FAX (913) 233-4830

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Barbara Wood  
Bourbon County Clerk  
(316) 223-3800, ext 54

**NACo Representative**  
Keith Devenney  
Geary County Commissioner  
(913) 238-7894

**Executive Director**  
John T. Torbert, CAE

February 4, 1992

**TESTIMONY**

**To:** Senator Richard Bond, Chairman  
Senate Financial Institutions and Insurance  
Committee

**From:** John T. Torbert  
Executive Director

**Re:** Senate Bill 480

The Kansas Association of Counties supports SB 480. Our membership approved platform statement is as follows: "Local governments should have the ability to earn a higher rate of return on collected revenue - without exposing these public funds to unsafe or risky investments." SB 480 accomplishes these goals.

Kansas banks have long enjoyed a monopoly on idle public funds. There was a time when that sort of relationship made some sense. It served the banking community well and it served local governments and the taxpayers they represent well. This relationship, however, as it is set out in state law, has not kept pace with change. What worked twenty and thirty years ago doesn't work nearly as well now. It is no longer appropriate that local taxpayers subsidize the banking industry. That system may work for the banker but it doesn't work for the county that is trying to get a higher return on their investment dollars so that property tax increases can be kept to a minimum level.

We are in a period of time when people are demanding a lot from their government. There is a concern about property taxes and a general mistrust of elected officials - no matter what branch of government they represent. At the same time, most taxpayers want the services that government provides to continue. Some even want more service but don't seem to realize that this might cost money. This basic contradiction puts local government in the position of having to find more and more creative ways to service the public. Anything that can be done to improve the revenue stream while not putting public funds at risk is good policy. SB 480 represents such a policy.

FI+I 2-6-92  
Attachment #6

Every dollar that is raised through investment is one that doesn't have to be raised through taxation.

KAC believes that SB 480 will focus more courthouse attention on investments. This is also a desired result. The county treasurers in this state, some of which you will hear from in a few minutes, have invested a lot of time and money in putting together extensive training programs on money management. They will be well served by such legislation - as will the taxpayer.

We believe that the key to this legislation is the section that allows a more market driven rate of investment return. This is absolutely a critical part and will do much towards generating more investment dollars. We do not believe that this bill is going to "open the floodgates" in terms of public money being invested in other counties. That simply will not happen. Local financial institutions will have the right to accept public funds at the market rate before they would leave the county. The local banker is either going to have to play or leave the game.

It is rare that legislators get the opportunity to vote for legislation that is not a "mixed bag" - that is, the legislation, in an attempt to balance competing interests, contains both good and bad features. This legislation is unique in that it doesn't have the usual "bad" features. It increases the potential rate of return on investments. It protects the safety and security of public dollars. And it protects the local business interests, if they still choose to be protected. It also solves the problem that you will hear about shortly of not being able to provide a guaranteed place in which these public dollars can be invested. This issue has become more and more of a problem. Increasingly, banks don't want the public dollars. The cost factors are simply too high for them.

This is good legislation. KAC urges your support of SB 480.

tsj funds

50 Banks Holding Highest Dollars of Public Funds  
(as of 12-31-1990)

County	City or Town	Bank name	Public Funds (000's)
Wyandotte	Kansas City	Security Bank	76,427
Sedgwick	Wichita	First Nat'l Bank	74,150
Sedgwick	Wichita	Bank IV Wichita NA	73,729
Wyandotte	Kansas City	Commercial Natl Bank	71,314
Johnson	Mission	Mission Bank	51,768
Johnson	Overland Park	Valley View St. Bank	46,758
Sedgwick	Wichita	Kansas State Bank	44,885
Johnson	Olathe	Bank IV KC NA	42,246
McPherson	McPherson	Bank IV	31,666
Johnson	Olathe	First Nat'l Bank	28,902
Wyandotte	Kansas City	Twin City State Bank	23,128
Labette	Parsons	Commercial Bank	22,714
Wyandotte	Kansas City	Brotherhood Bank	21,586
Montgomery	Coffeyville	Bank IV	21,114
Reno	Hutchinson	First Nat'l Bank	20,590
Reno	Hutchinson	Emprise Bank NA	20,574
Kearny	Lakin	Kearny County Bank	20,185
Finney	Garden City	Fidelity State Bank	19,819
Cowley	Arkansas City	Home National Bank	19,449
Johnson	Shawnee	Shawnee State Bank	18,886
Johnson	Overland Park	Overland Park Bank	17,264
Finney	Garden City	Bank IV	17,159
Cowley	Winfield	First Nat'l Bank	17,086
Montgomery	Independence	Citizens Nat'l Bank	16,586
Stevens	Hugoton	Citizens State Bank	15,772
Butler	ElDorado	Bank IV	15,501
Saline	Salina	First Nat'l Bank	15,434
Miami	Paola	Miami Co. Nat'l Bank	15,410
Johnson	Overland Park	First Cont'l Bank	15,389
Grant	Ulysses	Grant Co. St. Bank	14,935
Barton	Great Bend	Bank IV	14,392
Wyandotte	Kansas City	Home State Bank	14,219
Johnson	Merriam	United Kansas Bank	14,156
Johnson	Overland Park	College Blvd. Ntl Bk	13,587
Shawnee	Topeka	Merchants Nat'l Bank	13,267
Pratt	Pratt	Peoples Bank	12,843
Morton	Elkhart	First State Bank	12,686
Sumner	Wellington	First Nat'l Bank	12,235
Shawnee	Topeka	Bank IV Topeka NA	12,164
Johnson	Mission	Midland Bank of Ks.	12,006
Ford	Dodge City	Bank of the S. W.	11,910
Douglas	Lawrence	First Nat'l Bank	11,742
Wyandotte	Kansas City	Douglass Bank	11,671
Neosho	Chanute	Bank of Commerce	11,318
Barton	Great Bend	Farmers Bank & Tr.	11,274
Wyandotte	Kansas City	Industrial St. Bk.	11,110
Johnson	Prairie Village	Southgate Bank	11,103
Douglas	Lawrence	Douglas County Bank	11,069
Franklin	Ottawa	Peoples Nat'l Bank	10,783
Riley	Manhattan	Union National Bank	10,494

1,154,455

9% of Banks hold 43% of Public Funds

6-3

FEBRUARY 4, 1992

Mr. Chairman and committee members.

Thank you for the opportunity to speak before you today in support of Senate bill #480.

My name is Dorothy Hunter, Ford County Treasurer. I am here as a member of the Kansas County Treasurers Association and a member of the legislative committee, within that association.

As a southwest county and President of the Southwest Treasurers Association, let me share information from ten of the nineteen counties in the southwest district.

I asked several questions of the Treasurers relating to banking and their investment procedures. How many Banks in your county? What type of investments do you use? Do you get the T-Bill rate of interest? Do you get a higher rate? Do you enter a peak deposit agreement with your Bank?

These counties, as all Kansas counties, are investing idle funds in CD's, T-Bills or Repurchase agreements. Several counties have a combination of investments, one county has only repurchase agreements, and the idle funds are put out for bid. All have interest bearing checking accounts and are getting the T-Bill rate of interest. One small county has gotten a higher rate of interest at times, this is almost unheard of these days. Only one county enters into a peak deposit agreement with their bank.

After discussion of Senate bill #480 each of these Treasurers would be supportive of Senate bill #480, however, they doubted at this time they would ever need to use the investment pool, Realizing that others may need the pool, they support it.

FI&I 2-6-92  
Attachment #7

The southwest area is not unique, in as much as some counties have only one bank, in the event they should have none, Senate bill #480 gives them an option to use the investmant pool. This can be done ONLY if all other alternatives within the Kansas Statutes, pretaining to investment of idle funds has been exhausted.

To conclude my testimony, we are governed by Statute in all our duties as Treasurer. We are prudent in the investment of monies. Our obligations are to our counties. We answer to the taxpayers and those who elected us. We like "Made in America" and "Shop at Home" and we will continue to invest at home as long as we have a place to go.

Thank you,

Dorothy Hunter  
Ford County Treasurer



# League of Kansas Municipalities

## MUNICIPAL LEGISLATIVE TESTIMONY

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 W. 7TH TOPEKA, KS 66603 (913) 354-9565 FAX (913) 354-4186

**TO:** Senate Committee on Financial Institutions and Insurance  
**FROM:** E.A. Mosher, Research Counsel, League of Kansas Municipalities  
**RE:** SB 480--Investment of Public Funds  
**DATE:** February 5, 1992

On behalf of the League and its member cities, I appear in support of SB 480. This position is supported by the League's convention-adopted "Statement of Municipal Policy" which provides as follows:

"To reduce the local tax burden, cities should have broad authority to safely invest their active and inactive moneys, including investing in money market funds and securities guaranteed as to principal. The general investment statute in K.S.A. 12-1675 should be amended to eliminate the six month limit on treasury bills or notes. A state-local investment pool program should be established, optional for local government use, similar to those which have proved very advantageous to local units and taxpayers in other states."

At the outset, I would emphasize that the bill before you is a significant issue in terms of local government finance. We estimate that Kansas cities, in calendar in 1990, received about \$60.2 million in investment earnings--about \$22.2 million from earnings on the investment of general fund moneys and about \$38.0 million from investment of utility, bond and other moneys other than those in the general fund. Investment earnings, especially in these days, is important to good, responsible public management.

As we understand the analysis by State Treasurer Sally Thompson, school district balances average around \$900 million, while the average daily balances of cities and counties is about \$2 billion. The 1% increase in investment earnings predicted under SB 480 would thus result in about \$29 million of additional local revenue. Assuming the projected 1% increase is reasonably accurate, we think the \$29 million local increase may be conservative, especially if the public moneys and balances of all local governments, including special funds, are included.

The provisions of SB 480 falls somewhat short of our expectations. We would prefer that local governing bodies have authority to invest their inactive funds directly in various high quality securities, or in the proposed state-local pool, without the requirement of a first offer to local financial institutions. The use of the "market rate" benchmark is, we think, an improvement over the present 91-day treasury bill benchmark rate. But we still think locally-elected governing bodies ought to have the authority to make decisions as to how and where investments are made, since the purpose of public funds is not to subsidize local financial institutions. However, we think SB 480 is a workable compromise, and assume it is supported by most Kansas financial institutions.

President: Bob Knight, Mayor, Wichita \* Vice President: Joseph E. Steineger, Jr., Mayor, Kansas City \* Past President: Frances J. Garcia, Commissioner, Hutchinson \* Directors: \* Donald L. Anderson, Mayor, Lindsborg \* Michael A. Conduff, City Manager, Manhattan \* Ed Ellert, Mayor, Overland Park \* Harry L. Felker, Mayor, Topeka \* Idella Frickey, Mayor, Oberlin \* William J. Goering, City Clerk/Administrator, McPherson \* Ralph T. Goodnight, Mayor, Lakin \* Jesse Jackson, Commissioner, Chanute \* Stan Martin, City Attorney, Abilene \* Mark Mingenback, Councilmember, Great Bend \* John Nalbandian, Commissioner, Lawrence \* Mary E. Reed, City Clerk/Director of Finance, Parsons \* Acting Executive Director: Jim Kaup

FI & I 2-6-92  
Attachment #8



We do not know how many cities will elect to use the proposed new state-local pool. Experience in about other states indicates that such a pool will be used, especially by smaller municipalities. In addition, we suspect the net interest earnings rate of the state-local pool will tend to improve the competitive environment that exists where two or more financial institutions are located within the same area.

Further, we do not know how extensively cities and other local units will utilize the new investment authority under Section 2 of the bill, where the local investment policy has been approved by the state investment board. We suspect it will be used primarily by larger units, and for larger amounts which will not be bid on at the "market rate" by local financial institutions.

We do have one amendment to the bill. On page 5, line 2, a part of the existing general investment law, we propose that the phrase "but not exceeding six months" be stricken. We never have understood any public policy reason for this limitation. If there are public moneys that may be invested in treasury bills of more than six months, why shouldn't this be permitted?

In conclusion, we urge the passage of SB 480. It meets the fundamental requirements of safety and liquidity and has the potential of improving local investment earnings, thus reducing the level of local taxes or other revenue sources essential to finance local government. While we would prefer increased local discretion, the bill appears to provide a reasonable compromise between the public interest and the private interests of banks and other financial interests. Given the environment of local revenue shortages and fiscal problems, opposition to property tax increases, and the present and predicted low interest earnings possible under existing state laws and economic conditions, we think it is vital that the bill be passed this session.



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

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

February 4, 1992

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

We support the bill for the following reasons:

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

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

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

4. The bill increases the yield for repurchase agreements. If the local bank does not pay the FDIC premium on repurchase accounts,

the interest rate paid to the school district should be equal to or greater than the rate paid on deposits rather than less.

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

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

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



*City of Lawrence*  
KANSAS

CITY COMMISSION

MAYOR

ROBERT L. WALTERS

COMMISSIONERS

BOB SCHULTE

SHIRLEY MARTIN-SMITH

JOHN NALBANDIAN

BOB SCHUMM

MIKE WILDGEN, CITY MANAGER

CITY OFFICES

6 EAST 6th

BOX 708

66044-0708

913-832-3000

February 4, 1992

Senator Richard Bond  
Chair, Financial Institutions and Insurance Committee  
and Members of the Committee  
Room 128-S  
Statehouse  
Topeka, Kansas 66612

Dear Senator Bond and Members of the Committee,


On behalf of the City of Lawrence, we urge your support for Senate Bill 480 regarding the investment of public funds.

Senate Bill 480 represents an appropriate broadening of the direct investment authority of cities and establishes a state-local investment pool. Both the pool investments and direct local investments would still be required to meet pledging or security requirements -- public funds will be appropriately safeguarded. The investments allowed under Senate Bill 480 are safe and prudent, yet can represent additional investment earnings -- which translate into taxdollars saved.

In recognition of the need for state and local governments to maximize public taxdollars, Senate Bill 480 is a necessary piece of legislation to allow better investments of public funds.

We urge your support of Senate Bill 480.

Sincerely,

  
Robert L. Walters  
Mayor

cc: Douglas County Delegation

FI+I 2-6-92  
Attachment # 10





# CITY CLERKS AND MUNICIPAL FINANCE OFFICERS ASSOCIATION

OF KANSAS

February 3, 1992

Mr. Richard L. Bond, Chairperson  
Senate Committee on Financial  
Institutions and Insurance

RE: Senate Bill 480 - Investment of Idle Funds

The City Clerks and Municipal Finance Officers Association of Kansas supports efforts to broaden the investment authority of both the State of Kansas and the local governmental units. This country's financial markets have undergone significant structural changes in innovations since the original enactment of K.S.A. 12-1675.

It is the financial responsibility of each local unit of government to enhance revenues, to earn a fair rate of interest on its available funds consistent with a high degree of liquidity and most importantly, safety. The investment of these public funds, which are not immediately required for the purposes for which the funds were collected, is a very important financial consideration for every governing body.

The Executive Committee of the City Clerks and Municipal Finance Officers Association of Kansas supports Senate Bill 480 and recommends its adoption at your earliest possible convenience.

If you have further questions or wish additional information, please do not hesitate to contact this office.

Sincerely,

Ron Thornburg  
President/City Clerks  
and Municipal Finance  
Officers of Kansas

FI+I 2-6-92  
Attachment #11



January 31, 1992

Honorable Richard Bond  
Senate Committee on Financial Institutions and Insurance  
State Capitol Building  
Topeka, Kansas 66612

Senator Bond and Committee members:

I would like to be put on record as being in support of Senate Bill #480. Senate Bill #480 will allow the City of Manhattan more investment options and secure for the City and the taxpayer additional investment income.

Specifically, I am in support of the elimination of the 91-day treasury bill rate "benchmark" and the establishment of a state determined market rate. Secondly I am in favor of the creation of a state-local investment pool.

Your favorable consideration of Senate Bill #480 will benefit not only local governments across Kansas but the taxpayers which we all serve.

Sincerely,

Curt Wood,  
Director of Finance

bls

FI & I 2-6-92  
Attachment #12

SENATE FINANCIAL INSTITUTIONS AND INSURANCE  
TESTIMONY: SENATE BILL 480  
INVESTMENT OF IDLE FUNDS  
FEBRUARY 4, 1992

CHAIRMAN BOND, AND MEMBERS OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE, I AM CATHY HOLDEMAN, INTERGOVERNMENTAL RELATIONS DIRECTOR FOR THE CITY OF WICHITA. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO ADDRESS THE ISSUE OF THE INVESTMENT OF IDLE FUNDS AS SET FORTH IN SENATE BILL 480.

STATE TREASURER SALLY THOMPSON AND OTHERS HAVE OUTLINED FOR YOU INVESTMENT OPTIONS AVAILABLE WITH THE PROPOSED LEGISLATION. THOSE EXPANDED OPTIONS ALLOW A A HIGHER RATE OF RETURN ON INVESTMENTS MADE BY THE STATE OF KANSAS AND BY UNITS OF LOCAL GOVERNMENT. WITH THE CURRENT PRESSURE ON THE GENERAL PROPERTY TAX, LOCAL UNITS OF GOVERNMENT NEED TO CONTINUALLY LOOK FOR WAYS TO DIVERSIFY OUR SOURCE OF REVENUES TO ENABLE US TO FUND GOVERNMENT OPERATIONS. THIS BILL IS A VIABLE TOOL WHICH CAN ASSIST US IN THAT ENDEAVOR.

AT ANY ONE TIME THE CITY OF WICHITA HAS APPROXIMATELY \$155 MILLION IN IDLE FUND INVESTMENTS. IN REVIEWING 1991 INVESTMENTS, THE CITY ESTIMATES THAT AN ADDITIONAL \$500,000 COULD HAVE BEEN EARNED ON OUR INVESTMENTS IF THE CITY WOULD HAVE HAD THE OPTIONS AVAILABLE UNDER SENATE BILL 480. THIS ESTIMATE IS BASED ON A 35 BASIS POINT INCREASE IN EARNINGS. THIS MEANS THAT IF OUR AVERAGE RATE OF RETURN WAS 7%, WITH THE OPTIONS AVAILABLE UNDER SENATE BILL 480, THE CITY BELIEVES THAT INTEREST RATES COULD HAVE AVERAGED 7.35%.

TO PUT THIS IN PERSPECTIVE, I WOULD LIKE TO GIVE YOU A FEW EXAMPLES OF WHAT \$500,000 CAN FUND IN TERMS OF PUBLIC SERVICES.

THE SALARIES OF APPROXIMATELY ELEVEN POLICE OFFICERS.

APPROXIMATELY 10% OF THE LIBRARY'S OPERATING BUDGET.

ONE-HALF OF THE COST OF OPERATING ONE OF THE CITY'S FIRE STATIONS.

ALMOST ONE-HALF OF THE OPERATING COSTS FOR THE ART MUSEUM.

ONE-HALF OF THE COST OF FLOOD CONTROL MAINTENANCE.

OBVIOUSLY IN TODAY'S MARKET, OUR AVERAGE RATE OF RETURN HAS DECLINED AND SO WILL OUR ESTIMATES ON FORGONE INTEREST EARNINGS. HOWEVER, THE POINT IS THIS--WHETHER THE MARKET IS DECLINING, STAGNANT OR GROWING, MUNICIPALITIES HAVE THE ABILITY TO EARN MORE MONEY ON IDLE FUND INVESTMENTS UNDER THE PROPOSED LEGISLATION.

ONE OF THE MOST IMPORTANT FEATURES OF THIS BILL IS THE ABILITY FOR UNITS OF LOCAL GOVERNMENT TO EARN MARKET RATE VERSUS THE 91 DAY T-BILL RATE. MARKET RATE IS DEFINED AS THE AVERAGE OF INTEREST RATES OF U.S. GOVERNMENT SECURITIES, AND SPECIFIED U.S. AGENCY SECURITIES HAVING THE SAME MATURITIES. LOCAL BANKS ARE GIVEN FIRST OPTION FOR A MUNICIPALITY'S MONEY IF THEY PAY MARKET RATE. THIS ONLY SEEMS FAIR. OUR CITIZENS DESERVE A FAIR RATE OF RETURN ON PUBLIC DOLLARS.

IF THE BANKS DO NOT PAY MARKET RATE, MUNICIPALITIES THEN HAVE OTHER OPTIONS SUCH AS INVESTING IN THE STATE INVESTMENT POOL OR WITH TRUST DEPARTMENTS OF BANKS. IF A MUNICIPALITY CAN DEMONSTRATE CERTAIN EXPERTISE, THEY CAN DIRECTLY MAKE THE SAME INVESTMENTS AS AUTHORIZED FOR THE STATE

FI&I 2/6/92  
Attachment #13

INVESTMENT POOL. THIS GIVES UNITS OF LOCAL GOVERNMENT OPTIONS FOR SAFE INVESTMENTS THAT INCREASE THE POTENTIAL RATE OF RETURN, YET PROTECT PUBLIC DOLLARS.

THERE WILL BE THOSE WHO WILL QUESTION WHETHER UNITS OF LOCAL GOVERNMENT OF ALL SIZES HAVE THE ABILITY TO MAKE WISE INVESTMENTS. MOST WILL NOT QUESTION THE CITY OF WICHITA'S ABILITY AS WE ARE THE LARGEST CITY IN THE STATE AND CAN DEVOTE THE EFFORTS OF A PROFESSIONAL STAFF PERSON TO THIS TASK. FOR THE MOST PART, QUESTIONS WILL CENTER ON THE ABILITIES OF SMALL MUNICIPALITIES. IN ANSWER TO THIS QUESTION, I WOULD LIKE TO POINT OUT THAT THE BILL REQUIRES ALL UNITS OF LOCAL GOVERNMENT TO HAVE A WRITTEN INVESTMENT POLICY, ANNUALLY APPROVED BY THE GOVERNING BODY, AND THE POOLED MONEY INVESTMENT BOARD. THIS POLICY MUST ADDRESS SAFETY OF PRINCIPAL, LIQUIDITY, YIELD, DIVERSIFICATION, MATURITY AND QUALITY OF INVESTMENTS, AS WELL AS THE CAPABILITIES OF AN IN-HOUSE INVESTMENT MANAGER.

AS THIS BILL WAS DEVELOPED, IT WAS DETERMINED THAT IT WAS IMPORTANT FOR THE PERSON MAKING THESE INVESTMENTS TO BE EMPLOYED BY THE UNIT OF GOVERNMENT. THIS WILL PREVENT AN OUTSIDE MONEY MANAGER FROM OVERSEEING THE INVESTMENTS OF ANY COMMUNITY. AS A RESULT, A COMMUNITY WILL BE PROTECTED FROM SUCH AN INDIVIDUAL MAKING INVESTMENTS TO SERVE THEIR OWN SELF INTEREST, OR THE INTEREST OF AN INVESTMENT FIRM. IT IS NOT UNCOMMON FOR SMALL CITY MANAGERS TO HAVE THE EXPERTISE THAT IS NECESSARY TO MAKE WISE INVESTMENTS, AND THUS, THE CITY OF WICHITA BELIEVES THIS BILL CAN BE SAFELY UTILIZED BY BOTH SMALL AND LARGE COMMUNITIES.

IN CLOSING, THE CITY OF WICHITA, LIKE OTHER UNITS OF GOVERNMENT, TAKES VERY SERIOUSLY OUR RESPONSIBILITY TO INVEST PUBLIC DOLLARS ENTRUSTED TO US BY THE TAXPAYERS. WE BELIEVE THE OPTIONS PRESENTED IN THIS BILL ALLOW US TO BETTER MAXIMIZE OUR RATE OF RETURN, WHILE MAINTAINING THE SAFETY AND LIQUIDITY OF PUBLIC DOLLARS. WE URGE YOU TO FAVORABLY CONSIDER THIS BILL AS IT IS ONE THAT IS IN THE BEST INTEREST OF THE STATE OF KANSAS AS WELL AS UNITS OF LOCAL GOVERNMENT.



SENATE COMMITTEE HEARINGS 2/5/92.  
INVESTMENT OF PUBLIC FUNDS  
TESTIMONY OF LARRY J. STUTZ  
PRESIDENT FIRST NATIONAL BANK  
ALMA, KANSAS

I AM LARRY J. STUTZ, PRESIDENT OF FIRST NATIONAL BANK IN ALMA, KANSAS, A BANK WITH TOTAL ASSETS OF 18,490,000 AS OF 12-31-91.

I AM HERE TO SPEAK IN OPPOSITION TO SENATE BILL #480 ADDRESSING INVESTMENT OF PUBLIC FUNDS.

FIRST OF ALL, I AM OPPOSED TO ANY LEGISLATION WHICH WOULD REMOVE PUBLIC FUNDS FROM THE BOUNDARIES OF THE TAXING ENTITY IN WHICH THEY ARE COLLECTED. I BELIEVE THAT TAX DOLLARS RAISED IN A GEOGRAPHIC BOUNDARY SHOULD REMAIN WITHIN THAT SAME BOUNDARY TO PROVIDE THE LIQUIDITY NECESSARY TO PROMOTE THE CONTINUED GROWTH AND PROSPERITY OF THAT AREA.

IN YESTERDAY'S TESTIMONY THE BANKS IN KANSAS WERE CRITICIZE FOR THEIR INVESTMENTS IN U.S. GOVERNMENT AND AGENCY SECURITIES. ALL BANKS WILL HAVE SOME LEVEL OF INVESTMENT IN THESE TYPES OF SECURITIES DEPENDING ON THEIR OWN LOAN DEMAND. FEDERAL REGULATORS RATE BANKS ON WHAT IS KNOWN AS THE CAMEL SYSTEM OF RATING IN WHICH EACH COMPONENT OF THE RATING SYSTEM HAS AN INTEGRAL PART. CAMEL STANDS FOR:

C=CAPITAL THE INVESTMENT OF THE BANKS OWNERS  
A=ASSET QUALITY-BOTH LOAN AND INVESTMENTS  
M=MANAGEMENT-IS IT PRUDENT  
E=EARNINGS-ARE THEY ADEQUATE  
L=LIQUIDITY-IS IT SUFFICIENT

HERE I WOULD PARTICULARLY LIKE TO ADDRESS THE AREAS OF EARNINGS AND LIQUIDITY. FIRST, LIKE ANY BUSINESS A BANK MUST CONTINUALLY REMAIN PROFITABLE IN ORDER TO SURVIVE. KANSAS CAN BE PROUD OF THE FACT THAT ITS BANKS HAVE REMAINED BOTH SOLVENT AND PROFITABLE WHEN THERE HAVE BEEN IMMENSE BANK PROBLEMS ACROSS THE UNITED STATES. BUT, IN THIS DISCUSSION THE MORE IMPORTANT RATING IS LIQUIDITY. IN PRIOR TESTIMONY KANSAS BANKS WERE CRITICIZE FOR THEIR LIQUID INVESTMENTS. I SUBMIT TO YOU THAT BANKS IN KANSAS MUST HAVE A DEGREE OF LIQUIDITY IN ORDER TO SUSTAIN FUTURE LOAN GROWTH FOR WITHOUT LIQUIDITY THERE CAN BE NO LOAN GROWTH WHATSOEVER. REGULATORS WOULD SHUTDOWN LENDING ACTIVITIES IN BANKS THAT DID NOT DEMONSTRATE ADEQUATE LIQUIDITY.

CONTRARY TO PRIOR TESTIMONY, ALL RURAL BANKS IN KANSAS DO NOT SUFFER FROM A LACK OF LOAN DEMAND. YESTERDAY, I CALLED

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Attachment #14

FOR OR CALCULATED THE LOAN TO DEPOSIT RATIOS OF ALL FIVE BANKS WITHIN WABAUNSEE COUNTY. THE RATIOS AS OF 12-31-91 ARE:

ALTA VISTA STATE BANK	50.70%
FIRST NATIONAL BANK HARVEYVILLE	56.00%
STOCKGROWERS STATE BANK MAPLE HILL	60.00%
FLINT HILLS BANK OF ESKRIDGE	73.60%
FIRST NATIONAL BANK IN ALMA	72.30%

I DON'T KNOW WHAT YEAR'S FIGURES WERE USED IN CALCULATING THE AVERAGE FOR BANKS' UNDER \$25,000,000 IN ASSETS IN KANSAS IN YESTERDAYS TESTIMONY BUT IN WABAUNSEE COUNTY WE ARE TAKING CARE OF BUSINESS AND OUR CUSTOMERS. WE NEED PUBLIC DEPOSITS.

FIRST NATIONAL BANK IN ALMA IS AN \$18,490,000 BANK SITUATED IN THE MOST BEAUTIFUL PART OF KANSAS, THE FLINT HILLS TALL GRASS COUNTRY. AS OF YEAR END WE HAD \$10,869,000 IN LOANS, DEPOSITS OF \$15,034,000 AND PUBLIC FUND REPO'S OF \$2,100,000 TOTAL PUBLIC FUND DEPOSITS AND REPO'S WERE \$3,760,000 WHICH REPRESENTED 20.34% OF TOTAL DEPOSITS AND REPO'S. THE LOSS OF PUBLIC FUNDS WOULD MEAN THE TERMINATION OF NEW LENDING BY THE FIRST NATIONAL BANK IN ALMA AND POTENTIALLY THE CALLING IN OF SOME EXISTING LOANS AS OUR LIQUIDITY WOULD BE TOTALLY UNACCEPTABLE TO BOTH THE REGULATORS AND OUR OWN BOARD OF DIRECTORS. A LARGE PERCENTAGE OF OUR CURRENT LOAN DEMAND COMES FROM THE AREA OF REAL ESTATE. CURRENTLY WE HAVE A TOTAL OF \$4,665,000 IN REAL ESTATE LOANS ON OUR BOOKS. OF THAT TOTAL \$3,356,000 ARE IN HOME LOANS. MANY OF THESE LOANS WOULD NOT HAVE BEEN MADE WITHOUT A LOCALLY OWNED HOME TOWN BANK. I CAN SAY THIS BECAUSE MOST REAL ESTATE LENDERS SELL THEIR LOANS ON THE SECONDARY MARKET. A STANDARD REQUIREMENT IN THAT MARKET IS THAT THE ORIGINAL LOAN IS A MINIMUM OF \$35,000, WHILE OUR AVERAGE LOAN IS JUST UNDER \$26,000 FOR A HOME LOAN. THEREFORE, I FIRMLY BELIEVE THAT THE WILLINGNESS OF FIRST NATIONAL BANK IN ALMA TO LEND ON HOME LOANS IS ONE REASON THAT THE MAIN STREET OF ALMA TODAY IS THRIVING. THERE IS NOT A SINGLE VACANT COMMERCIAL PROPERTY ON THE MAIN STREET OF ALMA, KANSAS. AND I SUBMIT TO YOU, SENATORS, THAT WHEN YOU TRAVEL RURAL KANSAS, YOU CAN PASS THROUGH A LOT OF ALMA'S, SMALL TOWNS WITH BUSY MAIN STREETS, ATTRACTIVE RESIDENTIAL AREAS AND A LOT OF ACTIVITY. AND YOU CAN GO THROUGH GHOST TOWNS WITH NO MAIN STREET BUSINESSES AND RUN DOWN HOUSING. THE MAIN DIFFERENCE IN THE TWO TYPES OF COMMUNITIES IS NOT THE PEOPLE THAT WERE OR ARE LIVING THERE BUT THE AVAILABILITY OF CREDIT TO THOSE PEOPLE. THE KEY TO SMALL TOWN SURVIVAL IS THE AVAILABILITY OF CREDIT FOR HOUSING, AGRICULTURE AND SMALL BUSINESSES. MANY TIMES THE COMMUNITIES THAT DIE HAVE NO FINANCIAL INSTITUTION IN TOWN. BUT, EVEN IN COMMUNITIES WITH FINANCIAL INSTITUTIONS, THESE INSTITUTIONS MUST HAVE THE LIQUIDITY AND STRONG DEPOSIT BASE FROM WHICH TO LEND IN ORDER TO BE AGGRESSIVE ENOUGH TO PROMOTE THE COMMUNITY.

NO ONE YESTERDAY SUGGESTED THAT THIS PROPOSAL MIGHT RESULT IN LOST TAX REVENUES OR OTHER COSTS TO THE KANSAS TAX PAYER. I WOULD LIKE TO POINT OUT A FEW REASONS THAT THIS PROPOSAL MIGHT REDUCE REVENUES.

IF THE BANKS OF KANSAS DON'T TAKE THE PUBLIC DEPOSITS WHAT EFFECT WILL THAT HAVE ON PRIVILEGE TAXES? BANK'S EARNINGS ARE GENERALLY MEASURED BY THEIR RETURN ON ASSETS. FOR AN EXAMPLE MOST BANKS STRIVE FOR A RETURN OF AT LEAST 1.00% ON TOTAL ASSETS. THEREFORE, IF YOU REDUCE THE AVERAGE SIZE OF A KANSAS BANK BY 10% YOU WILL IN TURN REDUCE ITS EARNINGS BY 10%, IF THE EARNINGS FALL BY 10% SO WILL THE BANKS' TAX LIABILITY. THEREFORE A REASONABLE PERSON WOULD CONCLUDE THAT BANK PRIVILEGE TAXES PAID TO THE STATE WOULD DECLINE. SECONDLY, IF A BANKS' SIZE IS DECREASED BY 10% THAN ITS STAFFING NEEDS WOULD ALSO DECLINE AND MANY BANKS WOULD BE FACED WITH EITHER REDUCING STAFF OR RECLASSIFYING FULL TIME STAFF POSITIONS TO PART TIME POSITIONS. THIS NOT ONLY WOULD RESULT IN A LOSS OF PERSONAL INCOME TAXES TO THE STATE BUT POTENTIALLY AN INCREASE IN UNEMPLOYMENT AND WELFARE BENEFITS.

LASTLY, IF KANSAS BANKS NO LONGER HAVE SIGNIFICANT VOLUMES OF PUBLIC FUNDS THEY WILL NO LONGER NEED TO LOOK EXCLUSIVELY TO KANSAS MUNICIPAL BONDS FOR TAX EXEMPT INVESTMENTS. AT THE PRESENT TIME I GET AT LEAST TWO CALLS A WEEK FROM BOND DEALERS WANTING TO SELL ME MUNICIPAL BONDS. THE BONDS THEY OFFER ARE SELDOM KANSAS ISSUES BECAUSE KANSAS ISSUES CARRY BELOW MARKET RATES. THE REASON THAT KANSAS TAX EXEMPT ISSUES SELL AT BELOW MARKET INTEREST RATES IS THE DEMAND CREATED BY KANSAS BANKS FOR THESE ISSUES TO PLEDGE TO KANSAS PUBLIC FUNDS. ANY DAY OF THE WEEK I CAN PURCHASE A SIMILAR OUT OF STATE TAX EXEMPT ISSUE WITH AN INTEREST RATE SIGNIFICANTLY HIGHER THAN THAT OF A KANSAS ISSUE. THEREFORE, IF KANSAS BANKS NO LONGER NEED KANSAS MUNICIPAL BONDS FOR PLEDGING, THOSE MUNICIPALITIES ISSUING BONDS IN THE FUTURE WILL BE FORCED TO PAY NATIONAL MARKET RATES. ADDITIONALLY, MANY KANSAS COMMUNITIES ARE NON-RATED. IN TODAY'S MARKET THEIR BONDS ARE STILL ATTRACTIVE TO AREA BANKS FOR INVESTMENT BECAUSE THEY MEET PLEDGING REQUIREMENTS. HOWEVER, IF THIS DEMAND IS DIMINISHED THEN THESE SMALLER TAXING ENTITIES MAY BE FORCED NOT ONLY TO PAY HIGHER INTEREST RATES BUT ALSO TO PAY THE HIGH COST OF HAVING THEIR ENTITY RATED BY THE BOND RATING COMPANIES, THIS DOES NOT COME CHEAP.

THE PROPONENTS SAY THAT RURAL KANSAS BANKS WILL BE PROTECTED FROM THE LOSS OF THE PUBLIC FUNDS BECAUSE THEY WILL GET THE FIRST SHOT AT THEM. HOW DOES THIS PROTECT THE BANK THAT HAS A WEAK LOAN DEMAND TODAY BUT A YEAR OR TWO DOWN THE ROAD LOAN DEMAND INCREASES DRAMATICALLY? IF THESE FUNDS ARE INVESTED FOR THE LONG TERM WHERE WILL THE LIQUIDITY BE TO FUND INCREASED LOAN DEMAND. ECONOMIC STRENGTH AND LOAN DEMAND TEND TO RUN IN CYCLES. PERIODS OF TIME LIKE THE LATE 1980'S WHERE BOTH THE ECONOMY AND LOAN DEMAND WERE WEAK IN A

GIVEN AREA, BUT THEN THE ECONOMY BEGINS TO STRENGTHEN AND LOAN DEMAND BEGINS TO EXPAND. IN PAST ECONOMIC CYCLES KANSAS BANKS HAVE ALWAYS HAD THE NECESSARY LIQUIDITY TO ABSORB ANY INCREASE IN LOAN DEMAND THAT OCCURS. WHAT WOULD HAPPEN IN THE FUTURE IF OUR KANSAS BANKS WERE 10-12% LESS LIQUID AND WE EXPERIENCED AN ECONOMIC BOOM? WHO WOULD FUND THE ECONOMIC EXPANSION?

I BELIEVE THAT THE SYSTEM HAS WORKED IN THE PAST PROVIDING INCOME AND SECURITY TO THE PUBLIC FUNDS AND LIQUIDITY TO THE KANSAS BANKING SYSTEM. I WOULD LIKE TO CLOSE WITH TWO TIME PROVEN SAYINGS:

"IF IT AIN'T BROKE DON'T FIX IT"

"THE RETURN OF YOUR MONEY IS MORE IMPORTANT THAN THE RETURN ON YOUR MONEY"

PLEASE CONSIDER CAREFULLY ANY CHANGES IN THE CURRENT SYSTEM.

### FIRST NATIONAL BANK OF ALMA

	1990	1991	Projected 1992
Loan Growth	14.65%	11.66%	11.13%
Deposit Growth	4.37%	7.62%	6.26%
Investment Income to Total Income	34.59%	26.50%	25.10%



The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

February 5, 1992

TO: Senate Committee on Financial Institutions and Insurance  
RE: **SB 480** and **SB 482**

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the committee to discuss our concerns and recommendations on **SB 480** and **SB 482**. As the result of an interim study, the Legislative Budget Committee has recommended these two measures which encompass major amendments to the present investment laws for state and local government idle funds and to the structure of the Pooled Money Investment Board (PMIB). While there are several provisions of these bills the KBA can support, there are also provisions which we believe will be detrimental to the safety of taxpayers dollars and to the economic well-being of the state. Therefore, there are several amendments which KBA is recommending.

Kansas has, for many years, had some of the soundest public funds investment laws in the United States which have assured the safety of invested tax dollars. Under these laws no public funds have ever been lost. Unfortunately for taxpayers in other states where investment laws are much broader, that has not been the case. The lure of higher yields in a declining market has caused many people to forget the age-old economic fact that higher yields mean greater risk. As the attached articles relate, a large number of government units in several states are now painfully aware of what can happen when government officials start chasing higher yields.

Several provisions of **SB 480** could create the potential for a similar occurrence in Kansas. For instance, the bill gives the Pooled Money Investment Board (PMIB) the authority to invest state moneys in direct obligations of the federal government as well as obligations of federal agencies and "government sponsored enterprises" with a broad range of maturities. While there is little, if any, credit risk in this additional authority there is certainly interest rate risk which requires public officials to be very knowledgeable about market conditions and to engage in a certain amount of guesswork. Please note the attached article by Robert Brickson of Country Club Bank in Kansas City about "measuring interest rate risk". In addition, the bill would give local units of government, under certain circumstances, the authority to make direct investments in various government securities with no maturity limitations, thus creating the same interest rate risk noted above.

Therefore, the Legislature is faced with the major policy question of whether to diminish the safety factor on investments in return for a potentially higher yield. Past legislatures have debated this issue and have, in our opinion, made the wise decision to put the safety of the funds above all other factors.

FI & I 2/6/92  
Attachment #15



**SB 480** also contains provisions which would change the "benchmark" rate which banks and S&Ls must pay to retain state and local funds from the 91-day Treasury bill rate to a weekly "market" rate which would be an average of the rates paid on various government securities and agency obligations. This would have the effect of significantly increasing the cost of money to the banks and S&Ls which, in turn, could impact loan rates and fees charged by those institutions. It could also have the effect of driving much of the idle funds investments out of Kansas thus diminishing the moneys available for loans in communities throughout the state. The reduction in available loans means, in turn, less potential tax dollars to be collected from banks and their customers. Again the Legislature is faced with a major policy decision. Would the increased yield in out-of-state investments offset the loss of tax revenues and economic development in communities throughout Kansas? We do not believe it would and we are requesting that the committee consider an amendment to Section 10 of **SB 480** which would replace "market rate" with "investment rate".

We are also requesting that a new section be added to **SB 480** which would allow the use of first mortgages on real estate for pledging against public funds. The ability of a bank to use existing assets for pledging purposes and not have to purchase additional securities for pledging purposes would give the banks an opportunity to offer a higher rate on public funds deposits.

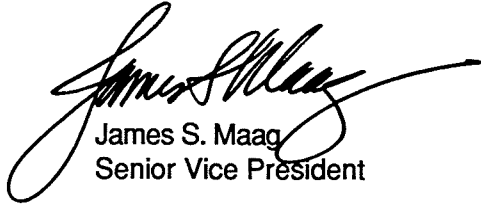
**SB 480** would also abolish over a four-year period the current method of distributing state idle funds to banks throughout the state based on a bank capital formula. That distribution method would be replaced with a bidding system whereby a bank would be forced to bid for any amount of the available investment moneys. We strongly believe this will result in an undue concentration of those moneys in a few Kansas communities. This could be particularly devastating to rural banks with a high loan demand and few means of replacing the lost state deposits.

The current distribution system assures that those funds will be invested safely in every Kansas county where it can have the broadest economic impact. Therefore, while we are not opposed to some alteration in the maturities of the investments made through the present distribution system, we are requesting that the committee amend **SB 480** to eliminate the language which would phase out the present distribution system.

The State Affairs Committee of the KBA has further recommended that the provisions in New Section 2 of **SB 480** which would allow local units of government to make direct investments under certain circumstances be eliminated. Similar authority granted to local units in other states has resulted in the loss of millions and millions of taxpayer dollars. The present sound investment laws for local units in Kansas give assurance that no taxpayer dollars will be lost! The banks and S&Ls stand as a "buffer zone" which must absorb the loss if any of the deposits made with those institutions are lost. We do not believe a review of the investment policies of local units by the PMIB is a sufficient safeguard to protect against the possibility of taxpayer dollars being lost through ill-timed or risky investments.

We recommend that these policy amendments be adopted. Without their inclusion, we strongly believe the bill creates a situation where taxpayer dollars are put at risk and the economic well-being of Kansas communities is severely impacted.

We sincerely appreciate this opportunity to discuss these measures with the committee and we strongly urge you to adopt the amendments outlined above.



James S. Maag  
Senior Vice President

(Kansas)

TABLE I

INACTIVE BANK ACCOUNTS AWARDED BY PMIB

		Amount (000)*	Interest Rate			Amount (000)*	Interest Rate
1975	Aug.-Oct.	\$ 309,135	5.39%	1985	Feb.-Apr.	\$ 430,568	8.80%
1975-76	Nov.-Jan.	309,135	6.33		May-July	429,076	8.18
					Aug.-Oct.	422,711	7.16
1976	Feb.-Apr.	310,026	5.63	1985-86	Nov.-Jan.	420,069	7.11
	May-July	310,026	4.92				
	Aug.-Oct.	330,033	5.16	1986	Feb.-Apr.	417,031	7.17
1976-77	Nov.-Jan.	330,033	5.15		May-July	407,285	6.90
					Aug.-Oct.	349,454	6.14
1977	Feb.-Apr.	330,361	4.67	1986-87	Nov.-Jan.	347,949	5.52
	May-July	330,361	4.63				
	Aug.-Oct.	279,862	4.84	1987	Feb.-Apr.	346,612	5.35
1977-78	Nov.-Jan.	279,862	5.50		May-July	346,275	5.54
					Aug.-Oct.	344,780	5.66
1978	Feb.-Apr.	279,862	6.11	1987-88	Nov.-Jan.	344,023	6.04
	May-July	329,141	6.39				
	Aug.-Oct.	329,141	6.48	1988	Feb.-Apr.	343,299	5.86
1978-79	Nov.-Jan.	329,331	7.31		May-July	341,702	5.72
					Aug.-Oct.	530,987	6.21
1979	Feb.-Apr.	329,331	8.57 <sup>a</sup>	1988-89	Nov.-Jan.	530,405	7.01
	May-July	387,346	9.38 <sup>a</sup>				
	Aug.-Oct.	407,457	9.38 <sup>a</sup>	1989	Feb.-Apr.	529,894	7.73
1979-80	Nov.-Jan.	407,925	9.67 <sup>a</sup>		May-July	528,533	8.54
					Aug.-Oct.	521,951	8.41
1980	Feb.-Apr.	407,925	11.84 <sup>a</sup>	1989-90	Nov.-Jan.	520,158	7.84
	May-July	437,012	13.35 <sup>a</sup>				
	Aug.-Oct.	431,184	9.62 <sup>a</sup>	1990	Feb.-Apr.	516,443	7.65
1980-81	Nov.-Jan.	431,914	9.15 <sup>a</sup>		May-July	511,880	7.76
					Aug.-Oct.	459,947	7.75
1981	Feb.-Apr.	432,728	13.61 <sup>a</sup>	1990-91	Nov.-Jan.	456,688	7.48
	May-July	432,728	14.39 <sup>a</sup>				
	Aug.-Oct.	353,867	14.91 <sup>a</sup>	1991	Feb.-Apr.	435,704	6.99
1981-82	Nov.-Jan.	353,867	15.05 <sup>a</sup>		May-July	427,616	6.02
					Aug.-Oct.	369,483	5.56
1982	Feb.-Apr.	353,751	11.75 <sup>a</sup>				
	May-July	353,751	12.80 <sup>a</sup>				
	Aug.-Oct.	274,997	12.42 <sup>a</sup>				
1982-83	Nov.-Jan.	245,337	9.32 <sup>a</sup>				
1983	Feb.-Apr.	245,337	7.90				
	May-July	245,337	8.11 <sup>a</sup>				
	Aug.-Oct.	245,013	8.40 <sup>a</sup>				
1983-84	Nov.-Jan.	241,822	9.14				
1984	Feb.-Apr.	328,237	8.80				
	May-July	328,025	9.17				
	Aug.-Oct.	390,009	9.80				
1984-85	Nov.-Jan.	387,542	10.32				

\* At the beginning of the 3-month period.

a) 8% on deposits of under \$100,000 (eliminated Oct. 1983).

15-4





January 28, 1992

Senator Ben Vidricksen  
Statehouse, Room 143-N  
Topeka, Kansas 66612

Dear Ben:

As you are aware S.B. 480 dramatically changes the way state and local funds are invested. State Treasurer, Sally Thompson, supports these changes:

I wanted to share the following enclosure with you. Our bank will be among the most impacted banks in the state, in one respect the most impacted, should this legislation pass. Our bank has the highest loan/deposit ratio, 75:33%, in the group of 10 banks which would be impacted the most severely under the new law. For every dollar of public funds we receive, we have loaned out over 75¢.

If the public funds law were to dramatically change, we would be forced to decrease our lending by \$4,311,000 to offset the loss of those deposits:

You are well aware of the work we have done to accomplish what we have in Ellsworth. Any substantial change in the law will affect our customers ability to borrow:

Thank you very much for your consideration:

Should you have any questions, please feel free to contact me.

Yours very truly,

Dane B. Britton  
President - CEO

Enclosure

DBB/st

15-5

INVESTMENT DIVISION  
 414 N. ... Road  
 Kansas City, Missouri 64112  
 Toll Free 800-288-5489  
 Kansas City No. 816-751-1410

# THE PRO SHOP



OCTOBER 1991

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 Richard P. Patterson  
 Executive Vice President

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 Executive Vice President  
 Steve W. Panknin  
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 Senior Vice President  
 Robert W. Brickson  
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 Louise Clossick  
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 Kevin A. Doyle  
 Vice President  
 John D. Jones  
 Vice President  
 Mark A. Tranckino  
 Assistant Vice President  
 Donna M. Walsh  
 Assistant Vice President  
 Audrey Brattain  
 Investment Officer  
 Judith G. Montgomery  
 Investment Officer  
 Liz Tomlin  
 Investment Officer  
 Craig Stephens  
 Investment Officer  
 Pat Drieling  
 Assistant Investment Officer  
 Marilyn Lafoon  
 Assistant Investment Officer  
 Michelle M. Abbott  
 Administrative Assistant

**TRADING & UNDERWRITING—  
 TAX EXEMPT**  
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 Elecia Seabolt  
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 Janet Williams

**BOND ACCOUNTING**  
 Gail A. Brooks  
 Asst. Investment Portfolio Officer  
 Paul Donovan

## Measuring Interest Rate Risk

Addressing interest rate risk for our customers is a secondary concern to the determination of credit risk. Our major emphasis is in the highest quality sector of the bond market (Treasury, government agencies and general obligation municipal bonds). This emphasis has enabled us to avoid the problems of default, which have become increasingly common. This safety concern is paramount to our customers. Regardless of your investment policy; whether you are a bank or insurance company portfolio manager, a state or local government treasurer, or an individual investor, high grade bonds are essentially free of credit risk, and an important part of your portfolio.

Measuring interest rate risk is also important to all investors because total return (income) from your bond portfolio is affected. Sophisticated portfolio managers of all types are acutely aware of interest rate risk. It is a major part of their jobs to manage it effectively. Rate risk is not well understood by the investing public, and with this in mind we wish to present some simple illustrations of the effects it can have on bonds.

Interest rates have declined through September to the lowest levels that we have seen in 15-20 years, in some cases. During the year of 1986 we experienced rates near the current levels. The difference in 1991 is that shorter maturities are slightly lower than 1986, and longer maturities are slightly higher. The structure of the current yield curve increases the temptations to extend maturities to increase current income. The idea of extending maturities in fixed income investments to increase income works well if interest rates stay the same or decline, over time. However, if rates rise, the strategy of extending maturities means the deferral of reinvestment opportunities at higher rates and principal losses, if the bonds are sold prior to maturity.

To illustrate mathematically what interest rate risk (and reward) is about, please consider the following assumptions; you have \$100,000 to invest now, and have the choice of buying three month U.S. Treasury Bills (a cash equivalent yield) at 5.25%, or various longer maturity Treasury issues:

**Current Treasury yield vs. 3-month Treasury Bills**  
 Annual increase in income per \$100,000 invested  
 3 Month T-Bills at 5.25%

	vs.			
	2 Year	5 Year	10 Year	30 Year
	T-Notes	T-Notes	T-Notes	T-Bonds
Yield	6.00%	6.90%	7.40%	7.80%
+Income	\$ 750	\$1,650	\$2,150	\$2,550

The good news is, you pick up income without sacrifice in credit quality if you extend, as shown above. The tradeoff lies with the increased interest rate risk you assume with each extension in maturity. Obviously, if rates go up extension is unfavorable, if rates go down it is favorable. Please examine what happens to principal values of these Treasuries if rates rise or fall 200 basis points (which may seem extreme, but is possible) in the next year:

**Interest rate risk/reward, if rates rise or fall 200 basis points by 10/1/92 per \$100,000 invested (In dollars of principal gained or lost, if sold 10-1-92)**

	2 Year	5 Year	10 Year	30 Year
	T-Notes	T-Notes	T-Notes	T-Bonds
10-1-92				
If rates rise to +200 bps	8.00% (1,886)	8.90% (6,609)	9.40% (11,698)	9.80% (19,135)
If rates fall to -200 bps	4.00% 1,942	4.90% 7,185	5.40% 14,101	5.80% 27,914

Bond funds of all types are currently trying to lure individual investors out of lower yielding short term investments into higher yielding long term investments. Investors need to understand that government bond funds do not protect the investor against interest rate risk.

Call your Country Club Bank Investment Officer if you need to learn more about this important investment consideration.

Robert W. Brickson, V.P.

# Local officials saw Iowa Trust as safe investment

## How did Iowa get in this mess?

Local officials believed the Iowa Trust was a safe investment that offered a good return.

By DALE KASLER

REGISTER BUSINESS WRITER

The \$71 million Iowa Trust scandal follows a familiar pattern in which local public officials, responsible for millions of tax dollars but not necessarily schooled in high finance, put their trust in aggressive bond dealers and investment counselors.

Iowa Trust investors — 88 cities, counties and other government bodies — were promised higher interest rates than they could find elsewhere.

Also, the risk seemed minimal. The fund's manager, Institutional Treasury Management Inc. of Irvine, Calif., said it would invest their money exclusively in U.S. government securities.

ITM was placed in receivership last Wednesday by a federal judge in Los Angeles. The firm's \$1.2 billion in customer accounts — including what's left of the \$106 million Iowa Trust fund — was frozen pending an examination of ITM's tangled finances. President and owner Steven D. Wymer, 43, of Newport Beach, Calif., remains under investigation. No criminal charges have been filed.

### \$71 Million

Securities and Exchange Commission lawyers said the Iowa fund was defrauded of about \$71 million in

### ANALYSIS

*Continued from Page 1A*

late November, apparently to cover shortfalls in other clients' accounts.

The fiscal fiasco is rooted in a fundamental change in the government securities market over the past decade.

"The big investment firms have ceased serving small investors, small political subdivisions," said Des Moines fund manager Richard Westcott. "They can't be economically served by the Merrill Lynch, the Morgan Stanleys."

Filling the void has been a host of lesser-known brokerages and investment advisers, said Westcott, manager of two Iowa public investment funds that competed with Iowa Trust for clients.

### Small Outfits

Some are obscure outfits, usually located in southern California or other parts of the Sun Belt.

"These firms have moved in and ... really taken advantage" of the smaller communities, Westcott said. "There are opportunities to take advantage of people who don't fully understand ... Sometimes they encourage them to purchase securities they shouldn't be purchasing."

Westcott said they often tempt local officials, particularly in smaller communities, with the lure of both higher returns and super-safe government securities. What the local officials don't realize is that government securities can become risky investments when they're traded aggressively, as some firms do.

The borderline companies are known in some circles as "bond daddies" and form a loose fraternity whose members know each other.

Four years ago a young assistant treasurer at Iowa State University lost \$4.3 million of ISU's money after speculating in government securities. The brokerage firm, Fitzgerald DeArman & Roberts of Tulsa, Okla., later collapsed amid charges of fraud and stock manipulation. The firm specialized in risky "penny stocks" and once promoted a phony investment scheme to extract gold from beach sand in Costa Rica.

Harry Jamason, the Fitzgerald DeArman broker who handled ISU's account, ran in the same circles as

“If the money is in U.S. Treasury notes, what better way to invest? We thought we were doing the right thing.”

— Lynde Lundquist  
Cherokee County treasurer

some of the people at ITM, the company implicated in the Iowa Trust case last week.

### Had Worked Together

Jameson (formerly Harry Noun) worked during the mid-1980s at two small southern California investment firms with John P. Tice. Tice runs ITM's Salt Lake City, Utah, office and is the unpaid executive director of Iowa Trust. Tice directed ITM's marketing efforts in Iowa.

Tice said last week that Jameson, whom he hasn't seen in years, had no connection to the Iowa Trust matter. Tice said ITM and its predecessor firm, Denman & Co., were honest firms brought down by their owner, Wymer.

"What we have with ITM is one man, and one man only, who has negatively impacted the lives and careers of many people who are dedicated," Tice said.

At a time when interest rates were falling, Wymer's firm offered the opportunity to earn hefty returns. The city of Marshalltown, which had its own separate account with ITM, received monthly reports saying it was earning more than 20 percent a year — even though government securities were yielding 8 percent or so.

When ITM salesmen came to Iowa to sign up Iowa Trust investors, the high returns raised a few eyebrows at first.

"That point was brought up by a lot of the cities and the counties," said Jim Telford of ITM's Salt Lake City office, who was working the Iowa market.

"But the record that the company was producing ... spoke for itself," Telford said.

### Marshalltown Account

It remains unclear how well ITM did by Marshalltown. City officials said last week the city earned good money on its investments with ITM the past four years. But the SEC, in papers filed last week in U.S. District Court in Los Angeles, said the Marshalltown account lost \$1 million in the past two years.

Despite the early skepticism, however, about 100 government bodies poured money into Iowa Trust. They were told their money was earning as much as 9.5 percent a year, about 1 percentage point higher than prevailing market rates.

"At the time, interest rates were so low and several of our local banks' interest rates were so low that we had to look elsewhere," said Sally Grunig, Buena Vista County treasurer. She said the state sets minimum interest rate requirements for parking public funds. Buena Vista has \$968,000 tied up in Iowa Trust.

Added Lynde Lundquist, Cherokee County treasurer: "If the money is in U.S. Treasury notes, what better way to invest? We thought we were doing the right thing since it was insured by the federal government."

Westcott said political influence sometimes is used to get municipalities to join these types of investment funds. Questions have been raised about state Sen. Joseph Walsh of Dubuque, president of the Iowa Senate, who acted as a sales agent for ITM in Iowa.

### Word of Mouth

Good references played a role; Altoona invested nearly \$128,000 because Polk County had joined the pool.

It began to look like a good deal all around. Indeed, municipalities that had put their money into other investment pools were envious of Iowa Trust's success.

Said Westcott: "Our members would call us saying, 'Why can't you generate the type of returns they're getting?'" His firm, Investors Management Group Ltd. of Des Moines, manages two rival funds, the Iowa Public Agency Investment Trust and the Iowa Schools Joint Investment Trust.

Westcott's response was to warn his clients that Iowa Trust's party wouldn't last forever. The Iowa League of Municipalities, which backs the Iowa Public Agency Investment Trust, circulated a news-

“There are opportunities to take advantage of people who don't fully understand.”

— Richard Westcott  
Des Moines fund manager

letter to its members saying Iowa Trust could be risky. Westcott said last week that his firm privately expected Iowa Trust to collapse sometime in 1992.

He said the California firm was a mystery in Iowa business circles.

“No one seemed to know anything about them,” Westcott said. “At least no one in the investment community.”

**Lawsuits**

ITM's owner, Wymer, was born in Fullerton, Calif., and received a math degree in 1969 from the University of California-Irvine, according to biographical information he filed with the SEC. He said in a company brochure that he spent several years as an engineer working on aircraft guidance and control systems for government contractors.

For a while he worked in real estate in Colorado. In 1979 a lumber company in Boulder, Colo., won a \$13,547 judgment against Wymer, the Los Angeles Times reported. In 1981 a Golden, Colo., medical equipment manufacturer obtained a \$14,121 judgment against Wymer, the newspaper said.

In March 1981, after Wymer moved back to Southern California, he was arrested at his Newport Beach home for failure to respond to the medical equipment lawsuit, the Times reported. The disposition of that case was not immediately clear.

Wymer began his investment career in 1980, starting as government securities futures and options trader with a small Newport Beach firm called Comark Securities, according to records he filed with the SEC. He worked for four firms in five years.

Along the way he used his math background to develop investment strategies, designing “a computerized fixed-income yield enhancement model,” according to a company brochure.

While working at the firm Ace America in Centu Calif., he and the firm's president, Ronald Olsen, were sued by an investor who said they defrauded her of about \$17,000 in the commodities futures market, the Los Angeles Times said. The lawsuit wasn't pursued and the firm went out of business.

**Lavish Lifestyle**

Wymer became president of a company named Denman & Co. in the mid-1980s and changed the firm's name to ITM.

Wymer's lifestyle is said to be lavish. Wymer and his wife, Ann Marie, own \$1.5 million in real estate, four cars and three boats, the Orange County (California) Register reported. SEC lawyer Clifford Hyatt said company employees told him that Wymer has an estate in Idaho.

The SEC, in court papers filed last week, said Wymer has tried to establish offices in Guernsey, a tax haven island in the English Channel.

THIS ARTICLE includes reports from Register staff writer William Petrocki.

**THE STORY OF IOWA TRUST**



■ 1986: The Iowa Legislature approves a bill permitting the mingling for investment purposes of all money held by schools and other local governments.

■ 1990: Iowa Trust is in business, advertising high yields on investments in Treasury securities.

Three local government officials — Polk County Treasurer Mary Maloney, Dubuque County Treasurer Robert Carr and Marshalltown City Treasurer Elaine Gundacker — launch the fund with an initial investment by their governments of \$3.5 million.

Institutional Treasury Management of Irvine, Calif., is hired to manage the fund.

■ 1991: Iowa Trust's assets have grown to \$106 million. Eighty-eight Iowa cities, counties and other local governments now have investments of surplus money in the pool of funds.

■ October: The U.S. Securities and Exchange Commission discovers \$10 million is missing from a Marshalltown account with ITM.

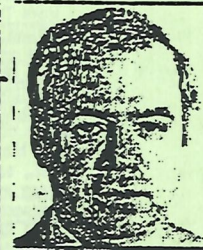
■ Friday, Dec. 6: Polk County Treasurer Maloney, aware of an SEC investigation, withdraws \$18 million of Polk County's money from Iowa Trust.

■ Monday, Dec. 9: The SEC alleges in a lawsuit that ITM made hundreds of unauthorized transactions and, when those trades lost money, the company moved funds from other accounts to make up the difference. The SEC says ITM took \$10 million — \$8 million from Iowa Trust and \$4 million from a Colorado fund — to cover the shortfall in a separate ITM account held by Marshalltown.

Marshalltown City Treasurer Gundacker withdraws \$11 million the city had in its own ITM account, but leaves its \$1 million investment in Iowa Trust.

ITM owner and president Steven D. Wymer resigns.

■ Tuesday, Dec. 10: The SEC alleges that ITM took an additional \$85 million from Iowa Trust to conceal shortfalls in other customer accounts. The \$85 million was wired to ITM by Bankers Trust Co. of Des Moines, the Iowa custodian of Iowa Trust, at ITM's request. Bankers Trust said its contract did not require it to receive collateral before transferring the securities.



**Robert Carr**  
Dubuque County treasurer, an Iowa Trust board member



**IOWA TRUST**



**Joseph Welsh**  
Iowa Senate president worked for Iowa Trust

■ Wednesday, Dec. 11: A federal judge, at the SEC's places ITM in receivership and freezes \$1.20 billion in customer funds, leaving what's left in Iowa Trust.

■ Thursday, Dec. 12: Local across Iowa meet to assess potential impact from the Iowa Trust investment.

Trust officers say there does not appear to be insurance to cover potential losses. Gov. Terry Branstad orders state enforcement and regulatory agencies the investigation.

An Iowa deputy state treasurer Bolin, says she tried to blow the whistle a year ago on ITM, but her effort rebuffed.

Iowa Senate President Joseph acknowledges he has worked commissioned salesman enlisting local governments to invest in Iowa Trust.

■ Friday, Dec. 13: The SEC says clear how much, if any, of the money be returned to Iowa.

Iowa Senate President Jack Rife legislative investigation into Welsh's scandal.

Deputy State Treasurer Bolin, Treasurer Michael Fitzgerald says asked for her resignation Dec. 5, unrelated manner.

SEC Chairman Richard Breidenbach from Washington, D.C., by saying the investment advisers are in for supervision and higher examination fees.

■ Saturday, Dec. 14: Robert (court-appointed receiver of ITM, says Trust may have the legal right to recover the money it lost.

State Sen. George Kinley of Le Mars joins the call for a legislative ethics bill fellow Democrat Welsh of Dubuque.



**Elaine Gundacker**  
Marshalltown treasurer

**INSTITUTIONAL TREASURY MANAGEMENT**

**INVESTMENT ADVISORS**



**Mary Maloney**  
Polk County treasurer, secretary-treasurer of the Iowa Trust

# The Community Bank President

## *Iowa Public Money Scandal Underscores Market Risks*

Local governments in Iowa are learning a tough lesson in the school of hard knocks. A total of 88 governmental units, most of them cities or counties, are wondering when or if they can recover over \$70 million that apparently disappeared from an investment fund.

Even if the money is eventually recovered, bankers say the scandal underlines the value of investing in a community financial institution.

The Iowa governmental units were seeking higher returns on their excess funds by pooling the money into an Iowa Trust Fund. The fund, which totals more than \$100 million, was managed by Institutional Treasury Management (ITM) (Irvine, California), whose President is Stephen Wymer.

But on December 12, 1991, officials read some alarming headlines. The Des Moines Register reported that the fund, over \$100 million, was frozen by the SEC because more than \$70 million was missing.

The scandal also affects public funds invested by governmental units in California and Colorado. A Colorado fund has \$4 million and five California cities have \$20.6 million placed in jeopardy by the affair.

Wymer has been charged with one count of security fraud and two counts of mail fraud. According to press reports, prosecutors allege that ITM shifted funds from account to account to mask trading losses.

Iowa officials reacted with shock, saying that the fund was supposed to be safe because it invested in U.S. Government securities. But the fund was created to earn higher interest. Bankers say that officials, as well as other customers, don't always understand that the rate of return is directly related to risk.

"A lot of people are going to lose money in this rate cycle reaching for that extra quarter, half or 1 percent interest," says George Schaller, President of Citizens First National Bank (\$149 million, Storm Lake, Iowa).

"They don't understand that they can lose their principal or at the least put their principal at greater risk. Customers have to realize there are no gifts in the marketplace," he explains.

Iowa law requires financial institutions to provide Treasury bonds as collateral for government deposits over the \$100,000 FDIC insurance limit. The institution must pledge bonds equal to 110 percent of those deposits.

The county where Schaller's bank is located has almost \$1 million invested in the Iowa Trust Fund. Schaller says the bank could have easily handled those deposits. "We have \$45 million in U.S. Treasuries," he notes.

But the county wanted a higher rate than the bank was willing to pay. The bank will not accept public funds at interest rates that are above the market level. "No bank is obligated to lose money by accepting funds at a demanded interest rate that is not in line with the market," he says.

President Steve Afdahl of Green Belt Bank and Trust (\$66 million, Iowa Falls, Iowa) says the Iowa Falls City Council considered investing in the Iowa Trust Fund a year ago.

Afdahl was able to talk them out of the move. He urged the council to leave the city money in local financial institutions where it would be backed by government securities. "It's the safe thing to do, and the smart thing to do," he says.

Then he explained to the council the economic benefits and the community involvement of local financial institutions.

"I told them to leave the money in a local bank where it will be loaned to someone here who buys a car at a local dealership and the guy at the local dealership buys his groceries in the local store," Afdahl says. "The minute the money leaves the community, it's gone."

"You're not going to see a Little League team in Iowa Falls wearing uniforms bought by a trust fund manager in California," he adds.

# Alleged Fraud Shakes Towns In Many States

By KEVIN G. SALWEN  
And RICHARD GIBSON

Staff Reporters of THE WALL STREET JOURNAL

Yield-chasing municipalities in 13 states are at risk of losing at least \$75.4 million in an alleged fraud by an Irvine, Calif., investment adviser.

At the request of the Securities and Exchange Commission, a federal district court in California froze the assets managed by Institutional Treasury Management—said by the firm to total \$1.2 billion—as well as the personal assets of its sole owner, Steven D. Wymer. SEC officials said the alleged fraud involves only \$75.4 million of the funds, but the enforcement attorney handling the case, Lori A. Richards, called the case “a fraud of still-unknown proportions.”

The SEC charged in a civil suit that Institutional Treasury made hundreds of unauthorized transactions and, when those were unsuccessful, moved funds illegally gained from other accounts to make up the difference. In addition, the agency said, the firm took \$65 million in Treasury securities from an Iowa fund without paying for them and used the money for other clients' accounts.

The funds freeze sent city and state financial authorities scrambling, particularly in Iowa, where many local governments have placed funds with Mr. Wymer. The Waterloo office of Iowa's Department of Correctional Services found itself \$110,000 short when it sought to transfer money to meet today's payroll for 140 parole officers, clerks and other employees in north-east Iowa. The state issued an emergency loan to cover the paychecks.

“We are victims,” said Elaine Gundacker, finance director of Marshalltown, Iowa. “All of us treasurers are in a state of stroke.” Iowa Gov. Terry Branstad called an emergency meeting of state officers yesterday and said, “We fully intend to investigate this and find out what happened and why. The governor said he had

asked Richard Breeden, the SEC's chief, to give him daily updates on the SEC's investigation.

The case is a graphic demonstration of the risks individual and institutional investors face when they chase higher yields to counter plummeting interest rates. Institutional Treasury advertised that it was able to produce double-digit returns by investing in Treasury securities, the SEC said in its suit, in some cases touting returns as high as 30%. Thirty-year Treasury bonds, the highest-yielding instrument sold by the federal government, currently yield less than 7.9%. Iowa officials indicated that the investments were not insured.

Indeed, in an October interview with Dan Dorfman, a financial columnist for USA Today, Mr. Wymer urged investors to buy Treasury securities, calling them “the gold investment of the 1990s.”

Marion, Iowa, a town of 20,000 near Cedar Rapids, invested \$4.3 million, partly because of the promise of higher yields than were available in certificates of deposit in local banks, said Wes A. Nelson, city finance director. “They were at least a percentage point higher. That's what drew us in,” he said.

While Mr. Nelson said his municipality doesn't face any immediate financing problems, he said “long-range construction projects or large-dollar equipment purchases that this money was earmarked for” may be affected. “It depends if the money is recoverable.”

The SEC said that about five banks or thrifts also were some of Institutional Treasury's 64 clients, many of which were small cities, water and parks departments and school districts. Many pooled their funds into such entities as the Iowa Trust and the Investment Trust of Colorado, which then invested as a pool.

While the agency wouldn't identify either the financial institutions or the municipalities involved, the largest clients appear to be in Iowa, said Ms. Richards, assistant regional administrator in the SEC's Los Angeles office. An attorney for the Iowa Trust said that 106 government entities in the state invested with Institutional Treasury, including about 42 of the state's 99 counties.

A lawyer for Mr. Wymer, Michael Perlis, said his client has offered to settle part of the SEC's case in which, without admitting or denying wrongdoing, he would agree not to violate securities laws

in the future. But Mr. Perlis said that Mr. Wymer hasn't agreed to pay a fine, disgorge funds or allow his assets to be frozen.

“The commission's allegations relate to a fraction of the sums under management,” Mr. Perlis said. In addition, “There is no allegation that Mr. Wymer misappropriated the money for his own benefit. There is no allegation of money in a Swiss account, in Mr. Wymer's pocket or in a lavish house. In the end I don't think the commission will be able to prove that Mr. Wymer used the funds for his own benefit.”

A spokesman for Institutional Treasury said company officers were meeting with the SEC and had no immediate comment on the asset freeze.

Institutional Treasury, formerly called Denman & Co., kept a low profile in Southern California money-management circles. None of the large Los Angeles money-management concerns queried said they had heard of the firm. The 1991 Money Market Directory of Pension Funds describes the firm as following “a duration-driven tactical asset allocation strategy to buy and sell U.S. Treasury securities in the one-to-10-year security sector.”

The most egregious scheme alleged by the SEC concerns the account of Marshalltown, Iowa, which invested \$10 million with Institutional Treasury. The SEC tries to review large investment advisers but has a limited budget for such reviews. It began looking at Institutional Treasury during the summer because the firm was trading options on Treasury securities for Marshalltown, raising the question of whether municipalities should be trading in such risky investments. The city said its monthly account statements reflected only one or two options transactions a month, while the SEC said there were hundreds of such transactions over the past two years. The firm disclosed only one or two of the profitable transactions, the SEC said.

So the agency asked the city's securities custodians, Refco Securities Inc. and American Express Co.'s Shearson Lehman Brothers Inc. unit, how much money was in the city's account. The answer: \$1 million, or about one-tenth of what should have been there.

The agency stepped up its investigation, and in late November discovered that the \$10 million was back in Marshalltown's account. Further investigation showed that \$3

million had been transferred from Mr. Wymer's personal account and \$1 million had been gained by making what the SEC said were fraudulent transactions in the account of Investment Trust of Colorado and Iowa Trust. That was only part of the \$10 million that those two investment pools lost, the SEC said.

“The trust was a ‘park your money’ place for us,” which the city used as a savings account, said Marshalltown's Ms. Gundacker. She said her city has done business with the California firm for more than four years without a hint of trouble. Marshalltown has about \$970,000 frozen in the trust.

Another scheme alleged by the SEC involved \$65 million of reverse repurchase agreements, in which Iowa Trust was to sell Treasury securities to Institutional Treasury in return for cash and an agreement to buy them back. The trust placed the securities with Bankers Trust Co. of Iowa in Des Moines, after which the California firm took the securities but didn't pay the \$65 million, the SEC said. Mr. Wymer then sold the securities, the agency alleged, and funneled the funds into other client accounts; that would indicate that other accounts also were missing funds that were being made up through the Iowa Trust transaction.

David Van Sickle, a Des Moines attorney representing the Iowa Trust, said Institutional Treasury had been hired because of “a track record of producing good yields.” He said of about \$97 million in Iowa Trust funds invested, about \$65 million was missing. The balance presumably is available for the affected governments and agencies to tap.

The court-ordered freeze will be in effect until next Friday, during which a receiver, Los Angeles lawyer Robert Carlson will try to determine where the funds are. Mr. Carlson couldn't be reached for comment.

In addition to Iowa, states in which municipalities invested through Institutional Treasury are California, Colorado, Nevada, Minnesota, Utah, Texas, Illinois, New Mexico, Wyoming, Oklahoma, Virginia and Florida, the SEC said. The agency added that Institutional Treasury also managed funds from Micronesia,

—Earl C. Gottschalk Jr. in Los Angeles contributed to this article.

15-10

## Flimflam Man?

# Small Town Treasurers Rue the Day They Met Steve Wymer

## The Big Returns He Offered Seemed Almost Too Good To Be True, and Were Intriguing Bedtime Reading

By EARL C. GOTTSCHALK JR.

Staff Reporter of THE WALL STREET JOURNAL

Almost like Prof. Harold Hill in "The Music Man," Steven D. Wymer marched into Big Bear Lake, Calif., one day in 1989 and told finance director Jeffrey Brunson some things he was more than ready to hear.

Mr. Wymer wasn't promising band uniforms or big trombones, just a quick buck: a virtually risk-free way to invest the little resort town's \$2 million capital-improvement fund. The investment, he said, would earn at least two percentage points more than neighboring towns were getting on their money, all because of his firm's sophisticated trading of Treasury notes.

Mr. Brunson, an easygoing accountant, liked Mr. Wymer. It was such a "positive experience" dealing with the 6-foot-2, athletic-looking salesman, who kept a rowing machine just a few steps from his office desk in Irvine, Calif. And he fit right in with the 5,700 retirees, ski buffs, and urban escapees in this town nestled in the San Bernardino Mountains above Los Angeles.

### Newsy Phone Call

But after the phone rang the afternoon of Dec. 13, 1991, Mr. Brunson realized he had been had. The call was from the Securities and Exchange Commission. And the message was this: The capital-improvement account managed by Mr. Wymer had a stated balance of \$2,481,207 but was really worth \$247. "There must be a mistake," Mr. Brunson said.

Mr. Wymer was arrested four days later at his house in Newport Beach, Calif., and later was indicted by a federal grand jury on charges of "orchestrating a massive fraud scheme" that the government says has cost 14 cities and investment trusts more than \$113 million. Mr. Wymer has been charged with 30 counts of securities fraud, mail fraud, money laundering and making false statements.

Prosecutors say Mr. Wymer, 43, put some of the money to use financing a life style that included several homes, three pleasure boats and at least nine cars, including a \$140,000 Ferrari. Much of the \$1.2 billion he managed has been accounted for; \$113 million is still missing. Attorneys for Mr. Wymer, who himself declines to be interviewed, say that there were "trading losses," and that Mr. Wymer isn't guilty of any wrongdoing.

### Blending In

It's clear he did a very good job sweet-talking officials, weaving himself into the local fabric, and camouflaging his personal spending. Then, too, there's the matter of all those allegedly phony account statements.

"There may be a lot of Steve Wymer's out there" selling dubious investments to unsophisticated local finance officials, says Colorado securities commissioner Philip A. Feigin. The higher the rates treasurers get, the lower the tax burden. So they're likely to fall for the first "Music Man" to come to town.

Small-town treasurers can be easy marks. Most have accounting or bookkeeping backgrounds but "aren't knowledgeable about the increasing number of sophisticated investment strategies," says Connie Jamieson, San Diego treasurer and president of the California Municipal Treasurers Association. They are often part-timers, and they have so many other things on their minds. "Some hire cops and firefighters and people to pick up the trash," says Ms. Jamieson. "And they're also given the responsibility of investing millions of dollars."

### In With the Sharks

A growing number of investment firms are catering to the cash-management and investment needs of municipalities. It can easily be a case of predator and easy prey.

"There are a lot of sharks swimming around out there, and inexperienced people are going to get bit," says Stan Lindsay, president of the California Municipal Finance Officers Association.

The arrest of Mr. Wymer and the collapse of the company he owned, Institutional Treasury Management, have engendered bitter legal battling among cities over what remains of the \$1.2 billion. A number of people have had their lives thrown into disarray. They include a city finance director in Iowa who is out of a job and whose own pension money is in limbo, and an Iowa legislator who moonlighted as a marketing agent for Mr. Wymer and is now the subject of a state ethics investigation.

Federal investigators say the Wymer case is an instructive tale of how small-town treasurers can be snookered by a clever confidence game. The Wymer scheme, if it was that, was timed perfectly. Small-town treasuries were hurting because of lower tax revenues in a recession. They had suffered cuts in allocations and grants from federal and state govern-

ments. As interest rates plunged on Treasury securities and certificates of deposit, they frantically sought ways to keep up city income.

Enter Mr. Wymer—low-key and unobtrusive. Few big money managers had ever heard of him. And he remains something of a mystery, thanks to a penchant for privacy and for inventing at least parts of his past.

Born and raised in Fullerton, Calif., south of Los Angeles, Mr. Wymer came from a middle-class family. At Fullerton High School, he ran cross-country, worked on the school newspaper and was senior-class president. A school friend, Dan Webster, calls him "the kind of guy you would want your daughter to go out with."

### A Math Major

In applying for a license to sell securities with the National Association of Securities Dealers, Mr. Wymer wrote, correctly, that he graduated from the University of California at Irvine in 1969 with a degree in mathematics. He added that he then moved to Boulder, Colo., and was self-employed. A friend says he was a building contractor part of the time.

So far so good. But according to information he provided to Dun & Bradstreet in March last year, he had been "a senior engineer" at Rockwell International Corp. in Anaheim, Calif., from 1966 to 1975. Rockwell says he worked for it from June 1966 until June 1968, as a "part-time data reduction clerk while he was a student." He was a "summer-hire mathematician" in 1968, and worked as a beginning engineer for nine months after that. He was never a senior engineer, the company says.

In 1980, Mr. Wymer moved back to Southern California, where, after a brief stint selling classic cars, he had a series of jobs at small brokerage firms, according to the filing for his securities license. In 1986, he started Denman & Co., and specialized in managing money for small cities. As president of Denman, which later became Institutional Treasury Management, he built the firm's assets from \$200 million in 1988 to \$1.2 billion, federal prosecutors say.

### A Bit Awed

A few investment pros who met him were surprised at his apparent success. "He was a sales type by temperament instead of a fixed-income person," says Michael Stolper, a San Diego consultant who picks money managers for wealthy clients and pension funds. "I could never figure out how he could [consistently] increase returns by two percentage points by sophisticated trading techniques with Treasuries. It's hard to be clever in some areas, and trading Treasuries is one of them."

City treasurers didn't invest their short-term cash with Mr. Wymer merely because he was charming and athletic: He didn't charge a commission on trades, as other brokers do. His contract called for his firm to get 30% of any net trading gains; cities would get 70%.

# Flimflam Man? Towns Rue the Day Steve Wymer Arrived With His Seductive Investment Schemes

Continued From First Page

More important, Mr. Wymer used politicians and former officeholders to help market his services. In California, he hired Harold Brewer, for 26 years the finance director for the city of Riverside. He also enlisted Kirby Warner, the former assistant city manager and treasurer of Palm Desert. Neither man has been charged with any crime, and both decline to talk about their ties to Mr. Wymer.

A good word from Mr. Brewer helped a lot. "I wouldn't have done this if Steve Wymer approached me directly—only because I had a working relationship with Hal Brewer," says Ronney C. Wong, director of administrative services for Beaumont, Calif. "If he is working with Steve Wymer, I thought things have got to be good."

## Happy Returns

And, overall, things were good, Mr. Wong says. "We received monthly confirmations of various trades. Every time I asked for a withdrawal, I got my money that same day. And we were getting returns of 2 or 3 percentage points over the going C.D. rate. I didn't see how we could lose." But Beaumont did lose. The \$527,048 the city thought its account with Mr. Wymer was worth turned out to be only \$22,439, the SEC says.

In Iowa, Mr. Wymer hired the president of the state senate, Joseph Welsh, as a commissioned salesman. In January 1990, three local governments set up the Iowa Trust, an investment pool formed to get a higher return than might otherwise be possible. By the end of 1991, 88 Iowa municipalities were participating. They hired Mr. Wymer's firm to manage their money.

Mr. Welsh, who is now being investigated by a special ethics panel of the Iowa Senate, has been accused by other senators of using his position to advance legislation that allowed the Iowa Trust to be set up, and to block legislation that would have put controls on the trust's investment policies. As an Institutional Treasury salesman, Mr. Welsh was paid \$16,000 in 1990; his 1991 earnings haven't been disclosed.

Iowa authorities now allege that Mr. Wymer illegally diverted more than \$75 million from Iowa Trust accounts through transfers of its investments, overcharges and inaccurate credits.

Mr. Welsh, who declines to be interviewed, said in testimony to the Iowa senate ethics committee earlier this month that he had lived up to the senate's rules and standards and hadn't done anything wrong. "I'm sorry Steven Wymer stole money from Iowa Trust," he said. "I am sorry my family has had to experience my pain and embarrassment."

Other Iowans also are paying a price for their involvement with Mr. Wymer. Elaine Gundacker, an Iowa Trust trustee and city finance director of Marshalltown, one of the first Iowa cities to invest with Mr. Wymer, has been put on administrative leave and sued by Dubuque, one of the cities with money in the fund.

Mrs. Gundacker, 58, who hasn't been reappointed to another term as finance director, says she is being made a scapegoat. "After 30 years in municipal government in Iowa, I've been abandoned by my government," she says. Mrs. Gundacker says that she met Mr. Wymer just two or three times and "didn't know him personally." He was "nice but always very busy" when she talked to him on the phone about the city's account, she says.

In its indictment, the government charges that Mr. Wymer sent clients phony confirmations of trades and false account statements. The goal, investigators say, was to make current clients think they were getting higher returns than they actually were and to attract new customers. To cover losses or to meet a withdrawal request, Mr. Wymer shifted funds from account to account, "robbing Peter to pay Paul," says Los Angeles Assistant U.S. Attorney James R. Asperger.

## When It All Began

Mr. Asperger says that the allegedly illegal scheme apparently dates back to 1986, when Mr. Wymer started Denman & Co. From February 1988 through December 1991, Denman and successor Institutional Treasury Management prepared at least one fraudulent transaction confirmation for at least 69 of the two firms' 105 government and pension-fund clients, the indictment charges.

There were some warning signals along the way that something irregular was going on. Clients never got detailed print-outs of the 70-30 splits, despite repeated requests, several say. Michael Williams, who was elected part-time treasurer of Colton, Calif., says he asked Mr. Wymer to come up with just one documented example of a trade—"pick any one you want," he recalls saying—to verify that Colton got its 70%. After three meetings, Mr. Wymer was never able to produce the example, so Mr. Williams dismissed the firm.

Although he drove a Mercedes-Benz, Mr. Wymer didn't flaunt his lavish life style to the city treasurers with whom he dealt. "He didn't wear gold chains or \$4,000 suits," says Mr. Williams.

His neighbors on Santiago Drive in Newport Beach, an affluent city 40 miles south of Los Angeles, say Mr. Wymer and his second wife, Anne Marie, pretty much kept to themselves. Their house is sur-

rounded by high shrubs and protected by a security gate. The government seized the house and a total of \$10 million in Wymer property earlier this month.

A year ago, Mr. Wymer purchased three identical red Mazda Miata convertibles as Christmas bonuses for his three secretaries. His wife paid for them with a company check, says Kory Johnson, sales manager of Campbell Mazda in Costa Mesa, Calif.

When federal agents entered the Wymer home to search for evidence last month, they found a copy of a book called "How to Launder Money" on a bedroom night stand. One of Mr. Wymer's attorneys, Paul N. Murphy, says the book is Anne Marie's, and "there is no indication that Mr. Wymer either read or subscribed to [advice in] the book." Mr. Murphy says he wouldn't "presume to comment on Mrs. Wymer's bedtime reading."

—Wall Street Journal staff reporter  
Amy Stevens contributed to this article.

THE WALL STREET JOURNAL

WEDNESDAY, JANUARY 22, 1992



# Iowa governments lose \$71 million in fund pool

CORYDON, Iowa — This little farming town just a few miles from the Missouri border still remembers the stranger who rode onto the square's north side, looted the local bank and got out of town fast.

But Jesse James and his boys, for all their daring a century ago, just can't measure up to the modern gang that cruised in here, sweet-talked the town fathers and slipped away without so much as a nasty word — taking along nearly \$140,000 of the town's money.

"Blame it on interest rates. It's as simple as that," said Corydon City Clerk Norma Rockhold. "They promised us a bigger return and no risk. And we believed them."

Institutional Treasury Management Inc., led by a man named Steven D. Wymer, came to town waving a promise of easy money.

By the time Institutional Treasury Management's web began to unravel last month, 88 towns, cities and other public entities across Iowa may already have lost up to \$71 million in public investment money. It could take the courts years to track the accounts and figure exactly who

lost what. Meanwhile, Institutional Treasury Management is shut down, its myriad accounts are frozen by federal investigators, and Wymer stands indicted on a long list of federal trading and fraud charges.

Wymer's Institutional Treasury Management was the agent and money manager for the Iowa Trust, a statewide pool of idle public money waiting to be spent on anything from Dubuque's firefighters' pension fund to Corydon's new garbage truck. Iowa permits such pooling of idle money for investment, just as 29 other states do in one form or another.

But Iowans can't really say, though many are trying, that they did everything right and that they simply were victims. In fact, the Iowa Trust was born in controversy, came of age under suspicion and collapsed in December long after many public officials knew or should have known something was badly wrong.

## Higher interest rates

The Iowa Trust was created in 1989 by the city treasurer of Marshalltown, the Dubuque County treasurer and the Polk County treasurer. They weren't satisfied with the only other investment pool available to them, which was called the Iowa Public Agency Investment Trust and was sponsored by the League of Iowa Municipalities and the Iowa State Association of Counties.

"I already had been working with Steven Wymer for several years as Marshalltown's treasurer," said Elaine Gundacker. "The company helped me contact others. Then when we started the trust, they asked me to serve as chair."

Indeed, Gundacker appeared to know a lot about Institutional Treasury Management. She could point to interest income that it had sent to Marshalltown that was almost always four points and sometimes as much as 10 points above anything IPAIT earned. Word began to get around, and more public entities moved at least some of their funds out of IPAIT and into the Iowa Trust.

Yet the first of the red flags started waving almost immediately. IPAIT and its sponsors circulated fact sheets to city and county treasurers criticizing Iowa Trust policies and questioning the safety of investments. The Iowa Trust responded with a four-page point by point rebuttal and a veiled threat to sue its critics for libel.

The battle was joined, and all handlers of public money in Iowa who read their mail knew it. Rockhold said she only wishes she had paid more attention.

"Most of us (treasurers and clerks) knew the two funds were feuding," she said, "but the Iowa Trust people said it was just sour grapes and competition on the part of IPAIT. We wanted to believe. We all liked the high interest."

Peter King, executive director of the League of Iowa Municipalities, said it was much more than sour grapes or competition.

"We were concerned about many things, and we feared that our cities could lose their money," he said. "But we expected it to come because the Iowa Trust was buying securities with too long a maturity period. We didn't suspect that they were doing far worse."

## Playing an options game

Joan Fitzpatrick Bolin did. She was a deputy state treasurer who noticed naked calls in Iowa Trust records a friend sent her. A naked call is, in essence, a contract to sell at a specified price a government security that you do not, in fact, own.

As a former attorney for the Securities and Exchange Commission, she thought she knew what that meant: Wymer, on behalf of the Iowa Trust, was playing the options game with government securities.

To the layman, that means he was betting on the interest rate, moving a certain direction. In such option trading the rewards — and the consequences — can be great.

"It was December 1990, and a war was right around the corner," Bolin said. "I knew that the whole fund could be at risk if interest rates started to move dramatically, as wars tend to make them do."

"Buying high-risk options is certainly not appropriate for public bodies," Bolin said. "I believed then and I believe now that nobody (on the Iowa Trust's board or Iowa Trust investors) would have been doing this if they really understood what was happening."

She says she took her fears to top state officials, senators and representatives. Nothing happened. Without her bosses' permission, she called friends in the SEC, triggering an investigation that would take a year to stop Institutional Treasury Management. (Ironically, she was fired, allegedly for other reasons, just two days before that investigation broke in December.)

In spring 1991, more red flags waved in Marshalltown. Since Marshalltown had an individual Institutional Treasury Management account aside from participation in the Iowa Trust, Institutional Treasury Management officers came to give their annual account briefing. Among other things, they said they had been making naked calls, taking Marshalltown deeply into the options game.

The Marshalltown City Council reacted by rewriting its investment policy to forbid such activity in the future, but no one, even the local brokers present, seemed overly distressed.

"A lot of people were blinded by the returns," said Marshalltown City Administrator Jay Gsell. "You hear, 'government securities and treasury notes,' and that's reassuring. In truth, we had been exposed to over \$100 million in potential losses."

## Few facts available

What apparently did not soak through was that Institutional Treasury Management had, in effect, been going to the racetrack with those highly secure government securities and treasury notes. Marshalltown's response essentially was, "Don't do that anymore."

Gundacker, who has been fired as Marshalltown's treasurer, said she should perhaps have seen some of those red flags, that perhaps she should have begun to wonder about Wymer and Institutional Treasury Management somewhere along the line. When the hard questions finally were asked, she realized how little she really knew.

"It is very difficult for me to give you a lot of facts since I never got a lot of facts," she said last week in her modest living room west of the business district. "The (Iowa Trust) trustees were given the same information as the city. I don't know if it was fraudulent or not."

To her critics, that is more an indictment than an excuse. Yet it is almost word for word what every bliked public official in Iowa is saying these days: "We just didn't know."

And Bolin says that is the very root of the problem.

"Treasurers of cities and towns are very nice people, and they believe everyone out there is as nice as they are," she said. "Beyond that, they love to talk that talk, throw around invest-

ment terms and feel like they are big-time investors. The truth is that they don't have the slightest idea what they are doing. For a crook, that's heaven."

It all might have gone on longer and cost Iowa governments far more. But the SEC investigators tipped a year earlier by Bolin finally penetrated Institutional Treasury Management last fall, first through Marshalltown's separate account and then through Iowa Trust accounts. On Dec. 11, Institutional Treasury Management accounts in 13 states were frozen, and Wymer's indictment soon followed.

## All tangled up

By now it's all so tangled nobody yet understands what has happened. The insurance commissioner has taken over the Iowa Trust, under orders from the governor to sort it out. The old Iowa Trust board is trying to file for bankruptcy. And cities, towns and sewer districts are worried about meeting their bills.

What money still remains has many claims laid to it, including some from banks in Colorado and probably from municipalities in the several states where Wymer operated. Fraudulent paperwork only complicates all that.

Meanwhile, Gundacker and fellow trustee Mary Maloney, of Polk County, are hated by many former friends and co-investors because the two somehow

managed to withdraw millions of their own governments' money from the Iowa Trust just hours before the December collapse. That has led to charges that they protected themselves and their governments' accounts at the expense of those for whom they served as trustees. And it has triggered lawsuits against them personally and encouraged other cities' legal claims on Marshalltown and Polk County funds.

The SEC, whose investigation closed Institutional Treasury Management, is saying little, except that money apparently was moved from account to account to cover shortages or hide losses.

And in Iowa's capitol, Senate President Joe Welsh is defending himself against charges that he recruited governments to the Iowa Trust as an employee of the trust while shaping legislation to the trust's advantage on the Senate floor.

The senator denies any wrongdoing. Wymer denies any lawbreaking. And the trustees deny any breach of faith.

In Corydon, meanwhile, they're fixing up the old garbage truck. The new one, like a lot of other things in Iowa, will have to wait.

"Only one thing really is sure right now," said Paul Coates, executive director of the counties' association. "This mess is going to put a lot of lawyers' kids through college."

15-13



# PUBLIC POLICY STATEMENT

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

RE: S.B. 480 -- Relating to the Investment of Public Funds

February 5, 1992  
Topeka, Kansas

Presented by:  
Paul E. Fleener, Director  
Public Affairs Division  
Kansas Farm Bureau

**Mr. Chairman and Members of the Committee:**

Last summer ... August, 1991 ... our Kansas Farm Bureau Resolutions Committee had an opportunity to hear from the State Treasurer and the Kansas Bankers Association concerning philosophies and practices in the investment of Public Funds. The Resolutions Committee of our organization is the committee responsible for researching, examining closely public policy issues and sharing information on those issues with our farmers and ranchers throughout the state. Every member of the Resolutions Committee is a farmer. Each represents 10 or 11 counties (administratively in the state), so the entire state is represented.

After hearing both sides of the issue discussed, our Resolutions Committee shared with Policy Committees in each of the 105 counties information on investment of Public Funds. Responses came back to the committee, indicating strongly the desire to retain in Kansas a system of placement or bidding for Public Funds so that financial institutions in rural Kansas are not cut out of the picture ... still

have an opportunity to bid on, receive, utilize in local communities some of the Public Funds that may become available through state government. With that thought uppermost in their minds, the Resolutions Committee developed a "tentative" resolution and presented it to the delegate body at our annual meeting in November, 1991. The delegates discussed, amended and eventually adopted the language shown below. We share this with you today and encourage you as you examine S.B. 480 to keep in mind the desire of farmers and ranchers throughout the state for a system of Public Funds Investment that permits small banks, small financial institutions in rural settings an opportunity to receive some of these funds. We thank you for the opportunity to present this policy position of the farmers and ranchers in Kansas who are members of the 105 County Farm Bureaus.

### **Idle Funds Investments**

**GOV-4**

We encourage the Legislature to establish by statute appropriate provisions concerning investment of state and local idle funds. We believe those provisions should:

1. Maximize the safety of the deposits.
2. Prohibit the opportunity for favoritism or inappropriate investments.
3. Insure that the highest possible percentage of the funds be invested in banks throughout Kansas for the purpose of assisting economic growth in both the urban and rural areas of the state; and
4. Provide the best possible return on the funds which is consistent with the highest safety and best economic use of the funds.

# SENATE BILL No. 480

By Committee on Legislative Budget

Re Proposal No. 17

12-23

10 AN ACT relating to the investment of public funds; providing for  
 11 the investment thereof; creating the municipal investment pool;  
 12 amending K.S.A. 12-1675, 68-2060, 75-3676, 75-3679, 75-4202,  
 13 75-4205, 75-4208, 75-4209, 75-4210, 75-4212a, 75-4213, 75-4226,  
 14 75-52,120, 76-829 and 82a-1369 and K.S.A. 1991 Supp. 68-415,  
 15 75-4201, 75-4218 and 75-52,130 and repealing the existing sec-  
 16 tions; also repealing K.S.A. 75-4206, 75-4207, 75-4211, 75-4212,  
 17 75-5341 and 75-5342.

and providing additional securities for deposits of public funds;

K.S.A. 9-1402

18  
 19 *Be it enacted by the Legislature of the State of Kansas:*

20 New Section 1. (a) Moneys deposited by any municipality with  
 21 the state treasurer for investment authorized in paragraph (6) of  
 22 subsection (b) of K.S.A. 12-1675, and amendments thereto, shall be  
 23 deposited in the municipal investment pool fund which is hereby  
 24 created in the state treasury.

25 (b) The pooled money investment board may invest and reinvest  
 26 moneys in the municipal investment pool fund in the following  
 27 investments:

28 (1) Direct obligations of the United States government or any  
 29 agency thereof;

30 (2) obligations of federal agencies or government sponsored en-  
 31 terprises, except that not more than 10% of the moneys available  
 32 for investment under this [paragraph] shall be invested in mortgage  
 33 backed securities;

34 (3) ~~interest-bearing time deposits~~ interest-bearing time deposits in any of the following, which  
 35 is ~~doing business~~ doing business within the state of Kansas, any state or national  
 36 bank, state or federally chartered savings and loan association, or  
 37 federally chartered savings bank; or

38 (4) repurchase agreements for securities described in paragraph  
 39 (1) or (2).

40 (c) All interest earnings received from investments of money in  
 41 the municipal investment pool fund shall be credited to the municipal  
 42 investment pool fund. Interest earnings on investments due each  
 43 participating municipality shall be prorated and credited to the in-

subsection

chartered or has its principal place of business

FI+I  
 2/6/92  
 Attachment #16

1 individual account of the municipalities, maintained by the state treas-  
2 urer. A statement for each municipality participating unit account  
3 showing deposits, withdrawals and earnings distributions shall be  
4 provided periodically to the municipality.

5 (d) The state treasurer may assess reasonable charges not to ex-  
6 ceed 1% of the interest earned against the fund for reimbursement  
7 of expenses incurred in administering the fund. The state treasurer  
8 shall certify, periodically, the amount of the assessment and only  
9 the director of accounts and reports shall transfer the amount certified  
10 from the municipal investment pool fund to the municipal investment  
11 pool fund fee fund, which is hereby created. All expenditures from  
12 the municipal investment pool fund fee fund shall be made in ac-  
13 cordance with appropriation acts upon warrants of the director of  
14 accounts and reports issued pursuant to vouchers approved by the  
15 state treasurer or a person or persons designated by the state  
16 treasurer.

17 (e) The state treasurer may adopt rules and regulations necessary  
18 to carry out the provisions of this act and may enter into agreements  
19 with any municipality as to methods of deposits, withdrawals and  
20 investments.

21 New Sec. 2. (a) The governing body of any city or county which  
22 has a written investment policy approved by the governing body of  
23 such city or county and approved by the pooled money investment  
24 board may invest and reinvest in the following investments:

25 ~~(1) Direct obligations of the United States government or any~~  
26 ~~agency thereof;~~

27 ~~(2) obligations of federal agencies or government sponsored en-~~  
28 ~~terprises, except that not more than 10% of the moneys available~~  
29 ~~for investment under this subsection shall be invested in mortgage~~  
30 ~~backed securities;~~

31 (3) interest-bearing time deposits in any of the following, which  
32 is doing business within the state of Kansas, any state or national  
33 bank, state or federally chartered savings and loan association, or  
34 federally chartered savings bank; or

35 (4) repurchase agreements for securities described in paragraph  
36 (1) or (2).

37 (b) The investment policy of any city or county approved by the  
38 pooled money investment board under this section shall be reviewed  
39 and approved annually by such board or when such city or county  
40 makes changes in such investment policy.

41 Sec. 3. K.S.A. 12-1675 is hereby amended to read as follows:

42 12-1675 (a) There shall be a pooled money investment board, consisting of

as authorized under paragraph (7) of  
subsection (b) of K.S.A. 12-1675, and  
amendments thereto

chartered or has its principal place of business

1 men's relief association, community mental health center, community  
 2 facility for the mentally retarded or any other governmental entity,  
 3 unit or subdivision in the state of Kansas having authority to receive,  
 4 hold and expend public moneys or funds may invest any moneys  
 5 which are not immediately required for the purposes for which the  
 6 moneys were collected or received, and the investment of which is  
 7 not subject to or regulated by any other statute.

8 (b) Such moneys shall be invested only in:

9 (1) In temporary notes or no-fund warrants issued by such in-  
 10 vesting governmental unit;

11 (2) in time deposit, open accounts or certificates of deposit: (A)  
 12 In commercial banks which have offices located in such investing  
 13 governmental unit; or (B) if the office of no commercial bank is  
 14 located in such investing governmental unit, then in commercial  
 15 banks which have offices in the county or counties in which all or  
 16 part of such investing governmental unit is located; or (C) if such  
 17 appropriate eligible commercial banks cannot or will not make de-  
 18 posits available to the investing governmental unit at interest rates  
 19 equal to or greater than the average yield before taxes received  
 20 on ninety-one day United States treasury bills as determined  
 21 by the federal reserve banks, as fiscal agents of the United  
 22 States, at its most recent public offering of such bills prior to  
 23 the inception of such deposit contract market rate, as defined in  
 24 subsection (k) of K.S.A. 75-4201, and amendments thereto, then in  
 25 commercial banks which have offices in the county or counties of  
 26 the state of Kansas adjacent to the county or counties in which all  
 27 or part of such investing governmental unit is located;

28 (3) in time certificates of deposit: (A) With state or federally  
 29 chartered savings and loan associations or federally chartered savings  
 30 banks which have offices located in such investing governmental unit;  
 31 or (B) if the office of no state or federally chartered savings and loan  
 32 association or federally chartered savings bank is located in such  
 33 governmental unit, then with state or federally chartered savings  
 34 and loan associations or federally chartered savings banks which have  
 35 offices in the county or counties in which all or part of such investing  
 36 governmental unit is located; or (C) if such appropriate eligible state  
 37 or federally chartered savings and loan associations or federally char-  
 38 tered savings banks cannot or will not make such deposits available  
 39 to the investing governmental unit at interest rates equal to or greater  
 40 than the average yield before taxes received on ninety-one day  
 41 United States treasury bills as determined by the federal re-  
 42 serve banks, as fiscal agents of the United States, at its most  
 43 recent public offering of such bills prior to the inception of such deposit contract market rate, as defined in subsection (k) of K.S.A. 75-4201, and amendments thereto, then in commercial banks which have offices in the county or counties of the state of Kansas adjacent to the county or counties in which all or part of such investing governmental unit is located;

1 such deposit contract market rate, as defined in subsection (k) of  
2 K.S.A. 75-4201, and amendments thereto, then with state or federally  
3 chartered savings and loan associations or federally chartered savings  
4 banks which have offices in the county or counties of the state of  
5 Kansas adjacent to the county or counties in which all or part of  
6 such investing governmental unit is located;

7 (4) in repurchase agreements with: (A) Commercial banks, state  
8 or federally chartered savings and loan associations or federally char-  
9 tered savings banks which have offices located in such investing  
10 governmental unit, for direct obligations of, or obligations that are  
11 insured as to principal and interest by, the United States government  
12 or any agency thereof; or (B) (i) if the office of no commercial bank,  
13 state or federally chartered savings and loan association or federally  
14 chartered savings bank is located in such investing governmental  
15 unit; or (ii) if no commercial bank, state or federally chartered savings  
16 and loan association or federally chartered savings bank has an office  
17 located in such investing governmental unit is willing to enter into  
18 such an agreement with the investing governmental unit at an inter-  
19 est rate equal to or higher than a rate equal to two percentage  
20 points below the average yield before taxes received on ninety-  
21 one day United States treasury bills as determined by the fed-  
22 eral reserve banks, as fiscal agents of the United States, at its  
23 most recent offering of such bills prior to the inception of such  
24 contract greater than the market rate, as defined in subsection (k)  
25 of K.S.A. 75-4201, and amendments thereto, then such repurchase  
26 agreements may be entered into with commercial banks, state or  
27 federally chartered savings and loan associations or federally char-  
28 tered savings banks which have offices in the county or counties in  
29 which all or part of such investing governmental unit is located; or  
30 (C) if no bank, state or federally chartered savings and loan association  
31 or federally chartered savings bank which has its office in such county  
32 or counties is willing to enter into such an agreement with the  
33 investing governmental unit at an interest rate equal to or higher  
34 than a rate equal to two percentage points below the average  
35 yield before taxes received on ninety-one day United States  
36 treasury bills as determined by the federal reserve banks, as  
37 fiscal agents of the United States, at its most recent offering of  
38 such bills prior to the inception of such contract greater than  
39 the market rate, as defined in subsection (k) of 75-4201, and amend-  
40 ments thereto, then such repurchase agreements may be entered  
41 into with commercial banks, state or federally chartered savings and  
42 loan associations or federally chartered savings banks which have

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1 (5) in United States treasury bills or notes with maturities as the  
2 governing body shall determine, but not exceeding six months;

3 (6) in the municipal investment pool fund established in section  
4 1 of this act;

5 (7) in the investments authorized in section 2 of this act; or

6 (8) with the trust departments of commercial banks which have  
7 offices located in such investing governmental unit or with the trust  
8 department of banks which have contracted to provide trust services

and in accordance with the conditions  
prescribed

9 under the provisions of K.S.A. 9-2107, and amendments thereto,  
10 with commercial banks which have offices located in such investing  
11 governmental unit. Public moneys invested under this paragraph  
12 shall be secured in the same manner as provided for under K.S.A.  
13 9-1402, and amendments thereto. Investments of public moneys un-  
14 der this paragraph shall be limited to those investments authorized  
15 under subsection (b) of section 1 of this act.

companies

16 (c) The investment investments authorized in paragraph (5) par-  
17 agraphs (5), (6), (7) or (8) of subsection (b) shall be utilized only if  
18 the appropriate eligible commercial banks, which have offices located  
19 in the investing governmental unit or in the county or counties in  
20 which all or a part of such investing governmental unit is located if  
21 no such bank has an office which is located within such governmental  
22 unit, or the appropriate eligible state or federally chartered savings  
23 and loan associations or federally chartered savings banks, which  
24 have offices located in the investing governmental unit or in the  
25 county or counties in which all or a part of such investing govern-  
26 mental unit is located if no such state or federally chartered savings  
27 and loan association or federally chartered savings bank has an office  
28 which is located within such governmental unit, cannot or will not  
29 make the investments authorized in paragraph (2) or (3) of subsection  
30 (b) available to the investing governmental unit at interest rates equal  
31 to or greater than the average yield before taxes received on  
32 ninety-one day United States treasury bills as determined by  
33 the federal reserve banks as fiscal agents of the United States  
34 at its most recent public offering of such bills prior to the  
35 inception of such deposit contract market rate, as defined in  
36 subsection (k) of K.S.A. 75-4201, and amendments thereto.

37 (d) In selecting a depository pursuant to paragraph (2) or (3) of  
38 subsection (b), if a commercial bank, state or federally chartered  
39 savings and loan association or federally chartered savings bank has  
40 an office located in the investing governmental unit and such financial  
41 institution will make such deposits available to the investing gov-  
42 ernmental unit at interest rates equal to or greater than the average  
43 yield before taxes received on ninety-one day United States



1 treasury bills as determined by the federal reserve banks as  
2 fiscal agents of the United States, at its most recent public  
3 offering of such bills prior to the inception of such deposit  
4 contract market rate, as defined in subsection (k) of K.S.A. 75-4201,  
5 and amendments thereto, and such financial institution otherwise  
6 qualifies for such deposit, the investing governmental unit shall select  
7 one or more of such financial institutions for deposit of funds pursuant  
8 to this section. If no such financial institution qualifies for such  
9 deposits, the investing governmental unit shall select for such de-  
10 posits one or more commercial banks, state or federally chartered  
11 savings and loan associations or federally chartered savings banks  
12 which have offices in the county or counties in which all or a part  
13 of such investing governmental unit is located which will make such  
14 deposits available to the investing governmental unit at interest rates  
15 equal to or greater than the average yield before taxes received  
16 on ninety-one day United States treasury bills as determined  
17 by the federal reserve banks as fiscal agents of the United  
18 States, at its most recent public offering of such bills prior to  
19 the inception of such deposit contract market rate, as defined in  
20 subsection (k) of K.S.A. 75-4201, and amendments thereto, and which  
21 otherwise qualify for such deposits. If no such financial institution  
22 qualifies for such deposits, the investing governmental unit may  
23 select for such deposits one or more commercial banks, state or  
24 federally chartered savings and loan associations or federally char-  
25 tered savings banks which have offices in the county or counties of  
26 the state of Kansas adjacent to the county or counties in which all  
27 or a part of the investing governmental unit is located.

28 Sec. 4. K.S.A. 1991 Supp. 68-415 is hereby amended to read as  
29 follows: 68-415. (a) Whenever any person, firm or any corporation  
30 created for the purpose of constructing and maintaining magnetic  
31 telegraph or telephone lines or other telecommunication facilities or  
32 for the purpose of constructing and maintaining lines for the trans-  
33 mission of electric current or for the purpose of transporting oil or  
34 gas or water by pipelines, or municipal corporations, shall construct  
35 or maintain poles, piers, abutments, pipelines or other fixtures along,  
36 upon or across any state highway, such poles, wires, piers, abut-  
37 ments, pipelines and other fixtures shall be located upon that part  
38 of the right-of-way of the state highway designated by the secretary  
39 of transportation. The secretary of transportation may require the  
40 removal of such poles, piers, abutments, wires and pipelines and  
41 other fixtures upon state highways from any location on the state  
42 highways to such part of the right-of-way of the state highways as  
43 the secretary of transportation shall determine.

1 firm or corporation, upon receiving notice of the requirement of the  
 2 secretary of transportation that such poles, piers, abutments, wires,  
 3 pipelines or other fixtures be moved, fails to comply with any such  
 4 requirement, the secretary of transportation may remove such poles,  
 5 piers, abutments, wires, pipelines and other fixtures to such place  
 6 on the right-of-way of the state highways as may be designated by  
 7 the secretary of transportation, and the cost of such removal shall  
 8 be paid to the secretary of transportation by such person, firm or  
 9 corporation upon a statement of cost being furnished to such person,  
 10 firm or corporation.

11 If such person, firm or corporation refuses to pay the charges, the  
 12 secretary of transportation shall notify the attorney general, who shall  
 13 bring suit against such person, firm or corporation in the name of  
 14 the state to recover the amount. Any amounts received from such  
 15 persons, firms or corporations shall be deposited in the state treasury  
 16 and credited to the fund from which the cost of such removal was  
 17 paid.

18 (b) In addition to the powers provided in subsection (a), the  
 19 secretary may advance moneys to a public utility or entity when the  
 20 utilities, structures or facilities of such public utility or entity are  
 21 being moved, modified or relocated and in the secretary's opinion  
 22 the expeditious movement, modification or relocation of such utili-  
 23 ties, structures or facilities, from current or proposed highway right-  
 24 of-way, is necessitated by a current or proposed highway project.  
 25 The secretary shall not advance moneys to a public utility or entity,  
 26 unless such public utility or entity can demonstrate a financial need  
 27 for the advancement of such moneys.

28 The secretary shall not advance moneys in excess of \$20,000, per  
 29 project, to any one public utility or entity. Such public utility or  
 30 entity advanced money by the secretary shall pay interest upon such  
 31 money at the rate of interest equal to the rate proscribed by K.S.A.  
 32 75-4210, and amendments thereto, for inactive accounts of the  
 33 state average yield before taxes received on 91-day United States  
 34 treasury bills as determined by the federal reserve banks as fiscal  
 35 agents of the United States at its most recent public offering of such  
 36 bills [in effect on] the date of the advancement of such money. The  
 37 term for the repayment of such money by such public utility or  
 38 entity shall not exceed 60 months.

prior to

39 Nothing in this subsection shall give any public utility or entity  
 40 any standing on rights of compensation not currently available under  
 41 law, and all such payments are deemed a matter of legislative policy  
 42 to rest solely within the discretion of the secretary of transportation  
 43 for the purpose of expediting the construction of highways.

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1 maintenance of the state highway system.

2 The secretary of transportation shall adopt rules and regulations  
3 establishing the procedure and criteria for the advancement of mon-  
4 eys under the provisions of this subsection.

5 Sec. 5. K.S.A. 68-2060 is hereby amended to read as follows:  
6 68-2060. All moneys received pursuant to the authority of this act,  
7 whether as proceeds from the sale of bonds or as revenues or oth-  
8 erwise, shall be deemed to be trust funds to be held and applied  
9 solely as provided in this act. Any officer with whom, or any bank  
10 or trust company with which, such moneys shall be deposited shall  
11 act as trustee of such moneys and shall hold and apply the same for  
12 the purposes hereof, subject to such regulations as this act and the  
13 resolution authorizing the bonds or the trust agreement securing  
14 such bonds may provide. Trust funds received pursuant to this act  
15 may be invested as determined by the authority with banks au-  
16 thorized to do business in Kansas at rates of interest not less than  
17 that paid on state ~~inactive investment~~ accounts *at comparable ma-*  
18 *turities* or in direct obligations of the United States or in obligations  
19 that are fully guaranteed as to principal and interest by the United  
20 States.

21 Sec. 6. K.S.A. 75-3676 is hereby amended to read as follows:  
22 75-3676. (a) To provide for the payment of the costs of constructing  
23 the facility described in K.S.A. 75-3675, *and amendments thereto*,  
24 and expenses related thereto, the pooled money investment board  
25 is authorized and directed to loan to the secretary of administration  
26 sufficient funds therefor in amounts which in the aggregate do not  
27 exceed \$3,856,900. The pooled money investment board is author-  
28 ized and directed to use any moneys in the ~~active accounts, in-~~  
29 ~~active accounts or time deposits, open accounts operating~~  
30 *accounts, investment accounts or other investments*, of the state of  
31 Kansas to provide the funds for such loan. Commencing on January  
32 1, 1986, such loan shall bear interest at a rate of 8.8% for calendar  
33 year 1986; each year thereafter the rate of interest shall be fixed on  
34 January 1 of such year at a rate equal to the rate prescribed by  
35 ~~K.S.A. 75-4210, and amendments thereto, for inactive accounts~~  
36 *of the state effective average yield before taxes received on 91-day*  
37 *United States treasury bills as determined by the federal reserve*  
38 *banks as fiscal agents of the United States at its most recent public*  
39 *offering of such bills in effect* on such date. The loan principal and  
40 interest thereon shall be payable solely from revenues derived from  
41 charges imposed for services performed by the division of printing  
42 and credited to the intragovernmental printing service fund, or as  
43 otherwise provided by law. Such loan shall not be deemed to be

1 an indebtedness or debt of the state of Kansas within the meaning  
2 of section 6 of article 11 of the constitution of the state of Kansas.

3 (b) There is hereby created in the state treasury the state printing  
4 plant construction fund. From and after the effective date of this  
5 act, the secretary of administration may periodically certify to the  
6 pooled money investment board amounts to be transferred pursuant  
7 to this subsection. Upon certification to the pooled money investment  
8 board by the secretary of administration of the amounts of the loan  
9 authorized by subsection (a), the pooled money investment board  
10 shall transfer amounts certified by the secretary of administration  
11 from the state bank accounts described in subsection (a) to the state  
12 printing plant construction fund which in the aggregate do not exceed  
13 the amount specified in subsection (a).

14 Sec. 7. K.S.A. 75-3679 is hereby amended to read as follows:  
15 75-3679. (a) To provide for the payment of the costs of making  
16 renovations to the state-owned Santa Fe building and expenses re-  
17 lated thereto, the pooled money investment board is authorized and  
18 directed to loan to the secretary of administration sufficient funds  
19 therefor in amounts which in the aggregate do not exceed \$4,530,000.  
20 The pooled money investment board is authorized and directed to  
21 use any moneys in the active accounts, ~~inactive accounts or time~~  
22 ~~deposits, open accounts operating accounts, investment accounts~~  
23 ~~or other investments~~, of the state of Kansas to provide funds for such  
24 loan. Commencing on January 1, 1988, such loan shall bear interest  
25 and the rate of interest shall be fixed each January 1 at a rate equal  
26 to the rate prescribed by K.S.A. 75-4210 and amendments  
27 thereto for ~~inactive accounts of the state effective average yield~~  
28 ~~before taxes received on 91-day United States treasury bills as de-~~  
29 ~~termined by the federal reserve banks as fiscal agents of the United~~  
30 ~~States at its most recent public offering of such bills in effect~~ on  
31 such date. The loan principal and interest thereon shall be payable  
32 solely from revenues derived from charges imposed pursuant to  
33 K.S.A. 75-3651, and amendments thereto, or as otherwise provided  
34 by law. Such loan shall not be deemed to be an indebtedness or  
35 debt of the state of Kansas within the meaning of section 6 of article  
36 11 of the constitution of the state of Kansas.

37 (b) There is hereby created in the state treasury the Santa Fe  
38 office building renovation fund. The secretary of administration may  
39 periodically certify to the pooled money investment board amounts  
40 to be transferred pursuant to this subsection. Upon certification to  
41 the pooled money investment board by the secretary of administra-  
42 tion of each portion of the loan amount to be transferred, the pooled  
43 money investment board shall transfer the amount certified by the

1 secretary of administration from the state bank accounts described  
 2 in subsection (a) to the Santa Fe office building renovation fund,  
 3 except that the total of the amounts so certified shall not exceed the  
 4 loan amount specified in subsection (a).

5 New Sec. 8. In administering the functions of the pooled money  
 6 investment board, the board shall adopt rules and regulations es-  
 7 tablishing investment policies and procedures. Such policies and  
 8 procedures shall address liquidity, diversification, safety of principal,  
 9 yield, maturity and quality and capability of investment management,  
 10 with primary emphasis on safety and liquidity. Such investment  
 11 policies and procedures shall be reviewed annually by the pooled  
 12 money investment board.

13 New Sec. 9. The state treasurer shall provide for an annual in-  
 14 dependent audit of the office of the state treasurer. Such audit may  
 15 be coordinated with any financial-compliance audit or other financial-  
 16 compliance audit work conducted under the legislative post audit  
 17 act. Such audit shall be conducted in accordance with generally  
 18 accepted accounting principles. The resulting written audit report  
 19 shall be issued as soon after the end of the fiscal year as is practicable.  
 20 Copies of this report shall be furnished to the governor, director of  
 21 accounts and reports, director of the budget and the legislative post  
 22 audit committee. A copy of the report shall be filed with the chief  
 23 clerk of the house of representatives and with the secretary of the  
 24 senate no later than the 10th calendar day of each regular session  
 25 of the legislature.

26 Sec. 10. K.S.A. 1991 Supp. 75-4201 is hereby amended to read  
 27 as follows: 75-4201. As used in this act, unless the context otherwise  
 28 requires:

29 (a) "Treasurer" means state treasurer.  
 30 (b) "Controller" means director of accounts and reports.  
 31 (c) "Board" means the pooled money investment board.  
 32 (d) "Bank" means a state or national bank doing business within  
 33 the state of Kansas.

34 (e) "State moneys" means all moneys in the treasury of the state  
 35 or coming lawfully into the possession of the treasurer.

36 (f) "Custodial moneys" means state moneys deposited with the  
 37 treasurer which, in the written opinion of the attorney general, are  
 38 required by contract, bequest or law to be segregated from other  
 39 bank accounts.

40 (g) "Special moneys" means moneys which are required to be or  
 41 are deposited in a custodial bank account or a fee agency account  
 42 by the state or any agency thereof.

43 (h) "State bank" means

1 deposited in accordance with the provisions of this act.

2 (i) "Active Operating account" means a state bank account which  
3 (1) is payable or withdrawable, in whole or in part, on demand,  
4 and (2) is in a bank not having an inactive account.

5 (j) "Inactive Investment account" means a state bank account  
6 which is not payable on demand but shall not include custodial  
7 accounts.

8 (k) "Time deposit, open account" means a state bank ac-  
9 count which is a deposit, other than a time certificate of deposit,  
10 with respect to which there is in force a written contract which  
11 provides that neither the whole nor any part of such deposit  
12 may be withdrawn, by check or otherwise, prior to the date of  
13 maturity or the expiration of the period of notice which must  
14 be given by the board in writing.

15 ~~(k) "Market rate" means the average of the average equivalent~~  
16 ~~yield, with equivalent maturities, of: (1) United States government~~  
17 ~~securities; and (2) debt obligations of the following United States~~  
18 ~~government agencies, federal home loan banks, federal national~~  
19 ~~mortgage association and federal farm credit bank.~~

(k) "Investment rate" means the equivalent yield for United States government securities with a maturity date nearest the published maturity date for equivalent maturities as appears in the Wall Street Journal.

20 (l) "Custodial account" means a state bank account of custodial  
21 moneys.

22 (m) "Fee agency account" means a state bank account of any  
23 state agency consisting of fees, tuition or charges authorized by law  
24 prior to remittance to the state treasurer.

25 (n) "Disbursement" means a payment of any kind whatsoever  
26 made from the state treasury or from any active operating account,  
27 except transfer of state or special moneys between or among active  
28 operating accounts and inactive investment accounts or either or  
29 both of them.

30 (o) "Interest period" means three months commencing on  
31 the date an inactive account is initially deposited, and each  
32 three months thereafter, and in the case of time deposit, open  
33 accounts means the period of the deposit but not exceeding  
34 three months.

35 (p) (o) "Securities" means, for the purposes of K.S.A. 75-4218,  
36 and amendments thereto, any one or more of the following:

37 (1) Direct obligations of, or obligations that are insured as to  
38 principal and interest by, the United States government or any  
39 agency thereof and obligations and securities of United States spon-  
40 sored corporations enterprises which under federal law may be  
41 accepted as security for public funds.

42 (2) means non-pled bonds which are general obligations of the

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1 (3) Revenue bonds of any agency or arm of the state of Kansas.

2 (4) Revenue bonds of any municipality, as defined by K.S.A. 10-  
3 101, and amendments thereto, within the state of Kansas or bonds  
4 issued by a public building commission as authorized by K.S.A. 12-  
5 1761, and amendments thereto, if approved by the state bank com-  
6 missioner, except (A) bonds issued under the provisions of K.S.A.  
7 12-1740 *et seq.*, and amendments thereto, unless such bonds are  
8 rated at least MIG-1 or Aa by Moody's Investors Service or AA by  
9 Standard & Poor's Corp. and (B) bonds secured by revenues of a  
10 utility which has been in operation for less than three years. Any  
11 expense incurred in connection with granting approval of revenue  
12 bonds shall be paid by the applicant for approval.

13 (5) Temporary notes of any municipal corporation or quasi-mu-  
14 nicipal corporation within the state of Kansas which are general  
15 obligations of the municipal corporation or quasi-municipal corpo-  
16 ration issuing the same.

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

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

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

31 (10) Whenever a bond is authorized to be pledged as a security  
32 under this section, such bond shall be accepted as a security if: (i)  
33 In the case of a certificated bond, it is assigned, delivered or pledged  
34 to the holder of the deposit for security; (ii) in the case of an un-  
35 certificated bond, registration of a pledge of the bond is authorized  
36 by the system and the pledge of the uncertificated bond is registered;  
37 or (iii) in a form approved by the attorney general, which assures  
38 the availability of the bond proceeds pledged as a security for public  
39 deposits.

40 (q) "Savings bank" means a federally chartered savings bank  
41 insured by the federal deposit insurance corporation and doing busi-  
42 ness within the state of Kansas.

(8) Negotiable promissory notes secured by first lien mortgages on real estate as provide in K.S.A. 9-1402 as amended.

1 chartered savings and loan association insured by the federal deposit  
2 insurance corporation and doing business within the state of Kansas.

3 Sec. 11. K.S.A. 75-4202 is hereby amended to read as follows:  
4 75-4202. All state moneys and credits received by the treasurer shall  
5 be deposited daily in one or more active accounts or time deposit,  
6 open accounts *operating accounts*, except custodial moneys which  
7 shall be so deposited in custodial accounts. All disbursements shall  
8 be drawn from active *operating* accounts. All banks having a state  
9 bank account shall service all warrants, drafts or checks of the state  
10 or its agencies without charge. *The board shall determine the com-*  
11 *penetration that banks may receive on state bank accounts. Such com-*  
12 *penetration may be either compensating balances or fees.*

for services rendered

13 Sec. 12. K.S.A. 75-4205 is hereby amended to read as follows:  
14 75-4205. (a) The board shall designate one or more banks to receive  
15 active *operating* accounts. The capital and surplus of any bank  
16 having an active account shall be not less than \$2,000,000. In  
17 determining the amount of the award of an active *operating* account  
18 to any bank designated under this subsection *section* therefor, the  
19 board shall give consideration to the amount of service to be required  
20 of it. Active *Operating* accounts shall bear no interest.

21 (b) The aggregate moneys in all active accounts shall not  
22 exceed \$40,000,000 at any time, except that in periods of an-  
23 ticipated peak disbursements, the board, in its discretion, may  
24 cause the aggregate moneys in the active accounts to exceed  
25 such amount for the duration of such periods of peak disburse-  
26 ments, not to exceed 10 days. At any time moneys in active  
27 accounts exceed 50% of the award of such accounts, additional  
28 moneys may be deposited in time deposit, open accounts.

29 (c) If the aggregate of all active accounts exceeds the limit  
30 prescribed in subsection (b), the board shall direct the treasurer  
31 to make withdrawals within 60 days of sufficient moneys to  
32 reduce the amount in the active accounts below such limit,  
33 and such withdrawals shall be made in accordance with the  
34 formula prescribed for the initial award of such moneys. The  
35 moneys so withdrawn shall be transferred to and deposited in  
36 inactive accounts in accordance with the formula prescribed in  
37 K.S.A. 75-4207 and 75-4209, and amendments thereto, for initial  
38 deposits in inactive accounts except that any bank which was  
39 entitled to an inactive account award of \$100,000 or more under  
40 the provisions of K.S.A. 75-4209, and amendments thereto, but  
41 which contracted for a lesser amount shall not be entitled to  
42 receive such additional deposits.

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1 60 days in time deposit, open accounts, the board shall deposit  
 2 such moneys in time deposit, open accounts in the banks and  
 3 in the proportion prescribed by K.S.A. 75-4206, and amend-  
 4 ments thereto, for the making of such deposits of moneys or  
 5 if the board determines that it is impossible to deposit such  
 6 moneys in time deposit, open accounts, it shall invest the same  
 7 in repurchase agreements of less than 30 days' duration with  
 8 a Kansas bank or with a primary government securities dealer  
 9 which reports to the market reports division of the federal  
 10 reserve bank of New York for direct obligations of, or obliga-  
 11 tions that are insured as to principal and interest by, the United  
 12 States government or any agency thereof.

13 (e) At any time moneys are available for deposits or in-  
 14 vestment for a period of time which is insufficient to permit  
 15 deposit in time deposit, open accounts the board may invest  
 16 the same in repurchase agreements of less than 30 days' du-  
 17 ration with Kansas banks for direct obligations of, or obligations  
 18 that are insured as to principal and interest by, the United  
 19 States government or any agency thereof.

20 (f) When moneys are available for deposits or investments  
 21 under the provisions of subsections (d) and (e), the board, in  
 22 lieu of such deposits or investments, may invest in preferred  
 23 stock of Kansas Venture Capital, Inc. under terms and condi-  
 24 tions prescribed by K.S.A. 1986 Supp. 74-8203, and amend-  
 25 ments thereto, but such investments shall not in the aggregate  
 26 exceed a total amount of \$10,000,000.

27 Sec. 13. K.S.A. 75-4208 is hereby amended to read as follows:  
 28 75-4208. (a) The board shall follow the procedure prescribed in this  
 29 section preliminary to rules and regulations adopted under the  
 30 provisions of section 8 of this act, in designating banks to receive  
 31 deposit of state moneys in active operating accounts and inactive  
 32 investment accounts. Such board shall meet on the first Monday  
 33 in July of each year at such hour and place as is specified by  
 34 the board. Except in any year in which such board is only  
 35 exercising its option specified in subsection (e) of this section,  
 36 at such meeting the board shall prepare and cause to be pub-  
 37 lished in the Kansas register on or before July 15 of such year  
 38 a notice as prescribed in this section. Such notice shall state  
 39 that on a day specified in such notice, which shall be not later  
 40 than September 1 of such year, sealed proposals will be re-  
 41 ceived by the board for the deposit of state moneys and special

42 investment in active and inactive accounts. Such notice shall specify  
 43 the provisions of this act relating to the deposit of state moneys and special

1 shall specify the hour and place that the proposals herein pro-  
 2 vided for will be received and opened. Such notice shall spec-  
 3 ify that proposals may be made by any eligible bank on forms  
 4 which shall be prepared by the board and approved by the  
 5 attorney general.

6 (b) At the time and place specified in such notice, all pro-  
 7 posals which have been submitted shall be publicly opened  
 8 and tabulated.

9 (c) Within two weeks after the meeting date specified in  
 10 such notice the board shall determine which banks shall receive  
 11 state active *operating* and inactive *investment* accounts for the  
 12 following 12 months, with the option of such board to extend  
 13 such period for an additional 12 months, and shall designate the  
 14 types of accounts to be awarded each such bank and the initial  
 15 amount of each award. Such initial awards which are active *operating*  
 16 accounts shall be made as provided in K.S.A. 75-4205, and amend-  
 17 ments thereto. Such initial awards which are inactive *investment*  
 18 accounts shall be apportioned as is provided in K.S.A. 75-4209, and  
 19 amendments thereto. Upon making the awards provided for above,  
 20 the board shall notify each bank of its award, and that the same is  
 21 subject to approval of securities to be pledged as prescribed in this  
 22 act.

23 Sec. 14. K.S.A. 75-4209 is hereby amended to read as follows:  
 24 75-4209. (a) Inactive accounts shall be apportioned by the board  
 25 among the banks which propose to receive such accounts and  
 26 which qualify therefor in the proportion that each such bank's  
 27 combined capital, undivided profits and surplus bears to the  
 28 total capital, undivided profits and surplus of all such banks.  
 29 The board may award additional inactive accounts or make  
 30 additional deposits to existing inactive accounts at any time.  
 31 Awards of additional inactive accounts, additional deposits to  
 32 existing inactive accounts and withdrawals from inactive ac-  
 33 counts shall be made by the same method of apportionment,  
 34 except that any bank which was entitled to an inactive account  
 35 of \$100,000 or more, but which contracted for a lesser amount  
 36 shall not be entitled to receive any such additional award or  
 37 deposit. One hundred percent of all inactive accounts shall bear  
 38 interest in the amounts provided in K.S.A. 75-4210.

39 (b) If any bank does not accept the full amount of inactive  
 40 accounts for which it legally qualifies, the balance thereof shall  
 41 be apportioned in the manner prescribed in subsection (a) of  
 42 this section among all other banks willing to receive additional

1 (e) In the event the board is unable to deposit all state and  
 2 special moneys which are available for inactive accounts, the  
 3 board shall deposit such moneys in time deposit, open accounts  
 4 in such bank or banks as it shall determine to be in the best  
 5 interest of the state or shall invest the same in repurchase  
 6 agreements as authorized and provided in K.S.A. 75-4205. (a)  
 7 ~~After the board determines the liquidity needs for the state, the~~  
 8 ~~board shall make available state moneys eligible for investment ac-~~  
 9 ~~counts in the following manner:~~

10 (1) ~~The board shall offer to all banks, at one or two-year ma-~~  
 11 ~~turities and at market rate, state moneys for deposit in investment~~  
 12 ~~accounts. Such accounts shall be apportioned by the board among~~  
 13 ~~the banks which propose to receive such accounts and which qualify~~  
 14 ~~therefor on the basis of the ratio of each bank's combined capital,~~  
 15 ~~undivided profits and surplus to the total capital, undivided profits~~  
 16 ~~and surplus of all such banks. Of the total amount determined~~  
 17 ~~available for investment accounts, there shall be apportioned 100%~~  
 18 ~~for the period August 1, 1992, through June 30, 1993; 75% for fiscal~~  
 19 ~~year 1994; 50% for fiscal year 1995; and, 25% for fiscal year 1996.~~  
 20 ~~For fiscal year 1997, and thereafter, the board shall apportion mon-~~  
 21 ~~ey available for investment accounts in accordance with paragraph~~

22 (2).  
 23 (1)(2) State moneys eligible for investment accounts remaining after  
 24 such moneys are offered to banks under the provisions of paragraph  
 25 (a)(1) shall be offered by the board to all banks at maturities of not  
 26 more than five years at or above market rate.

27 (2)(3) The board may invest and reinvest state moneys eligible for  
 28 investment which are not invested in accordance with paragraphs  
 29 (a)(1) or (2), in the following manner:

30 (A) Direct obligations of the United States government or any  
 31 agency thereof;

32 ~~(B) obligations of federal agencies or government sponsored en-~~  
 33 ~~terprises, except that not more than 10% of the state moneys available~~  
 34 ~~for investment under this subsection shall be invested in mortgage~~  
 35 ~~backed securities; or~~

36 (3)(C) repurchase agreements for securities described in subpara-  
 37 graph (A) or (B) of this subsection.

38 ~~Investments under this paragraph shall be for a period not to~~  
 39 ~~exceed five years, except for investments in mortgage backed~~  
 40 ~~securities.~~

41 (b) At any time moneys are available for deposits or investments  
 42 for a period of time which is insufficient to permit deposit in in-  
 43 vestment accounts and to provide for the liquidity needs for the

(a) Investment accounts shall be apportioned by the board among the banks which propose to receive such accounts and which qualify therefor in the proportion that each such bank's combined capital, undivided profits and surplus bears to the total capital, undivided profits and surplus of all such banks. The board may award additional investment accounts at any time. Awards of additional investment accounts, additional deposits to existing investment accounts and withdrawals from investment accounts shall be made by the same method of apportionment, except that any bank which was entitled to an investment account of \$100,000 or more, but which contracted for a lesser amount shall not be entitled to receive any such additional award or deposit. One hundred percent of all investment accounts shall bear interest in the amounts provided in K.S.A. 75-4210.

1 state, the board may invest such moneys in repurchase agreements  
2 for direct obligations of the United States government or any agency  
3 thereof.

4 (c) When moneys are available for deposits or investments, the  
5 board may invest in preferred stock of Kansas venture capital, inc.,  
6 under terms and conditions prescribed by K.S.A. 1991 Supp. 74-  
7 8203, and amendments thereto, but such investments shall not in  
8 the aggregate exceed a total amount of \$10,000,000.

9 (d) When moneys are available for deposits or investments, the  
10 board may invest in loans ~~for legislative mandates~~ except that not  
11 more than the lesser of 10% or \$80,000,000 of the state moneys shall  
12 be invested.

pursuant to

13 (e) Interest on investment accounts in banks is to be paid at  
14 maturity, but not less than annually, except that interest on such  
15 investment accounts awarded between August 1, 1992, and June 30,  
16 1993, is to be paid no later than June 30, 1993.

17 (f) Investments made by the board under the provisions of this  
18 section shall be made with judgment and care, under circumstances  
19 then prevailing, which persons of prudence, discretion and intelli-  
20 gence exercise in the management of their own affairs, not for spec-  
21 ulation, but for investment, considering the probable safety of their  
22 capital as well as the probable income to be derived.

23 Sec. 15. K.S.A. 75-4210 is hereby amended to read as follows:  
24 75-4210. Interest shall be paid by banks having inactive ac-  
25 counts in amounts which shall be determined as follows:

26 (a) Every month the board shall meet and determine the  
27 average yield before taxes of ninety-one day United States  
28 treasury bills for the three (3) months next preceding such  
29 meeting. The first such determination shall be made in the  
30 month this act takes effect. Each such determination shall be  
31 computed to five (5) significant places by using a formula ap-  
32 proved by the board and the attorney general, and such de-  
33 termination shall be based upon information published in the  
34 monthly issues of the federal reserve bulletin or other author-  
35 itative sources of the federal government. Such determination  
36 shall be recorded and shall be available for inspection by any  
37 person at all reasonable times in the office of the treasurer.

38 (b) Commencing on the first day of each interest period,  
39 interest shall be earned on inactive accounts at a rate equal to  
40 one hundred percent (100%) of the average market yield before  
41 taxes of ninety-one day United States treasury bills as deter-  
42 mined by the board in the most recent such determination prior  
43 to the interest period. Interest earned in any interest period

20  
21

41  
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1 shall be paid on the last day of such interest period at the  
2 interest rate determined to be effective at the beginning of  
3 such interest period.

4 (c) Interest on additions to any inactive account shall be  
5 earned at the rate applicable to the balance in such inactive  
6 account at the time the addition is made and shall continue at  
7 such rate until the end of the interest period then current. ~~The~~  
8 ~~treasurer shall calculate the market rate, and publish such rate weekly~~  
9 ~~in the Kansas register.~~

10 Sec. 16. K.S.A. 75-4212a is hereby amended to read as follows:  
11 75-4212a. Whenever the balance in active operating accounts is  
12 insufficient to meet the state's obligations, and there are state moneys  
13 in time deposit, open accounts or inactive investment accounts,  
14 the treasurer, with approval of the board, may borrow (upon the  
15 security of any one or more time deposit, open accounts or in-  
16 active investment accounts) an amount sufficient to meet the state's  
17 obligations. Any such loan shall be repaid in full within sixty (60)  
18 60 days or prior to July 1, whichever occurs first. Interest payment  
19 by the state for any loan under this section shall be made only by  
20 way of setoff from interest obligations to the state from the bank  
21 making such loan. The amount borrowed under this section from  
22 any bank, shall never exceed an amount equal to the amount of state  
23 moneys on deposit in such bank.

24 Sec. 17. K.S.A. 75-4213 is hereby amended to read as follows:  
25 75-4213. Custodial accounts shall be arranged for by the board, but  
26 the aggregate of custodial accounts in any bank shall not exceed 10%  
27 of the deposits of such bank's statement of last official call. Whenever  
28 it appears to the board that certain moneys may be required to be  
29 deposited in custodial accounts, the chairperson shall request the  
30 opinion of the attorney general, who shall render an opinion thereon  
31 within two weeks. No commitment shall be made to maintain all or  
32 any portion of any custodial account for a period of more than 12  
33 months. Custodial moneys shall not be considered in determining  
34 limitations imposed by this act on other types of bank accounts.  
35 Custodial accounts may be demand deposits or interest bearing de-  
36 posits, as determined by the board, and if the custodial accounts  
37 are interest bearing the rate thereof shall be the same as the rate  
38 applicable to inactive investment accounts at comparable maturities.  
39 The board may invest custodial moneys in repurchase agreements  
40 of less than 30 days' duration with a Kansas bank or with a primary  
41 government securities dealer which reports to the market reports  
42 division of the federal reserve bank of New York for direct obligations

, as defined in subsection (k) of K.S.A.  
75-4201, and amendments thereto,

1 the United States government or any agency thereof.

2 Sec. 18. K.S.A. 1991 Supp. 75-4218 is hereby amended to read  
3 as follows: 75-4218. (a) All state bank accounts shall be secured by  
4 pledge of securities as provided in this section.

5 (b) The bank, savings bank or savings and loan association re-  
6 ceiving or having a state bank account shall deposit or cause its  
7 agent, trustee or an affiliate bank having identical ownership as the  
8 bank receiving or having such account to deposit, securities owned  
9 by it, or by its agent or trustee holding securities on its behalf, or  
10 by such affiliate bank, in one of the following ways:

11 (1) Deposit with the treasurer.

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

21 (3) Deposit with the federal reserve bank of Kansas City,  
22 Missouri.

23 (4) Deposit with the federal home loan bank of Topeka, Kansas.

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

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

37 (d) Securities deposited to comply with this section may be with-  
38 drawn on application of the bank, savings bank or savings and loan  
39 association depositing the securities, if such application is approved  
40 by the treasurer or the treasurer's duly authorized deputy and the  
41 director of accounts and reports or the director's duly author-  
42 ized assistant for the reason that such deposit of securities is no  
43 longer needed to comply with this section or are required for col-

1 lection by virtue of their maturity or for exchange. Securities with-  
2 drawn for collection by virtue of their maturity or for exchange shall  
3 be replaced within 15 calendar days, but until replaced the state  
4 shall retain a first lien on the withdrawn security or the proceeds  
5 therefrom.

6 (e) ~~Active Operating~~ accounts, ~~time deposit~~, ~~open accounts~~,  
7 ~~inactive investment~~ accounts, fee agency accounts and custodial ac-  
8 counts shall be secured by pledge of securities the market value of  
9 which is equal to 100% of the amount of the account, less so much  
10 of any such account as is protected by the federal deposit insurance  
11 corporation. Any agency responsible for a fee agency account shall  
12 transfer immediately all moneys not so secured to the state treasurer  
13 for deposit in the state treasury.

14 Sec. 19. K.S.A. 75-4226 is hereby amended to read as follows:  
15 75-4226. The interest requirements on ~~inactive investment~~ accounts  
16 ~~and time deposit~~, ~~open accounts~~ as provided in this act shall not  
17 at any time be in violation of any act of the congress of the United  
18 States, or of any rule or regulation of the federal reserve system or  
19 the federal deposit insurance corporation, or any other fiscal agency  
20 of the United States or created by it. Should the United States or  
21 any of its agencies at any time fix the maximum rate of interest  
22 which may be paid on ~~inactive investment~~ accounts ~~or time deposit~~,  
23 ~~open accounts~~ at an amount lower than the rate at which interest  
24 is required to be paid under the provisions of this act, such maximum  
25 rates fixed by the United States or its agencies shall become the  
26 rate at which interest shall be paid on such accounts.

27 Sec. 20. K.S.A. 75-52,120 is hereby amended to read as follows:  
28 75-52,120. (a) To provide for the costs of the acquisition of real estate  
29 authorized by K.S.A. 1986 Supp. 75-52,119, ~~and amendments~~  
30 ~~thereto~~, and expenses related thereto, the pooled money investment  
31 board is authorized and directed to loan to the secretary of correc-  
32 tions sufficient funds therefor in amounts which in the aggregate do  
33 not exceed \$175,000. The pooled money investment board is au-  
34 thorized and directed to use any moneys in the ~~active accounts~~,  
35 ~~inactive accounts~~ ~~or time deposits~~, ~~open accounts~~ ~~operating ac-~~  
36 ~~counts~~, ~~investment accounts~~ ~~or other investments~~, of the state of  
37 Kansas to provide the funds for such loan. The loan shall bear interest  
38 at an initial rate equal to the rate prescribed in K.S.A. 75-4210  
39 ~~and amendments thereto~~ for ~~inactive accounts~~ of the state and  
40 ~~average yield before taxes received on 91-day United States treasury~~  
41 ~~bills as determined by the federal reserve banks as fiscal agents of~~  
42 ~~the United States at its most recent public offering of such bills in~~  
43 effect on the date the pooled money investment board provides the

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1 loan amount. The rate of such interest shall be adjusted annually  
2 on the anniversary of the date the loan was made at a rate equal  
3 to the rate prescribed in K.S.A. 75-4210 and amendments  
4 thereto for inactive of the state average yield before taxes received  
5 on 91-day United States treasury bills as determined by the federal  
6 reserve banks as fiscal agents of the United States at its most recent  
7 public offering of such bills in effect on such date. The loan principal  
8 and interest thereon shall be payable solely from revenues credited  
9 to the correctional industries fund or as otherwise provided by law.  
10 The loan shall not be deemed to be an indebtedness or debt of the  
11 state of Kansas within the meaning of section 6 of article 11 of the  
12 constitution of the state of Kansas.

13 (b) Upon certification to the pooled money investment board by  
14 the secretary of corrections of the amount of the loan authorized by  
15 this section that is required, the pooled money investment board  
16 shall transfer the amount certified by the secretary of corrections  
17 from the state bank accounts described in this section to the cor-  
18 rectional industries fund. The amount so transferred shall not exceed  
19 \$175,000.

20 Sec. 21. K.S.A. 1991 Supp. 75-52,130 is hereby amended to read  
21 as follows: 75-52,130. (a) To provide for any amounts required to be  
22 paid for all or part of the cost of the capital improvement projects  
23 for a new correctional facility and a mental health facility or facilities  
24 authorized by this act and expenses related thereto, the pooled  
25 money investment board is authorized and directed to loan to the  
26 secretary of corrections sufficient funds therefor in amounts which  
27 in the aggregate do not exceed \$26,850,000. All such amounts of  
28 such loan shall be credited to the new correctional facility and mental  
29 health facility or facilities — construction fund which is hereby cre-  
30 ated in the state treasury. The pooled money investment board is  
31 authorized and directed to use any moneys in the active accounts,  
32 inactive accounts or time deposits, open accounts operating ac-  
33 counts, investment accounts and other investments, of the state of  
34 Kansas to provide the funds for such loan.

35 (b) Such loan shall bear interest from the date of the loan transfer  
36 or transfers under this section at an annual rate of interest which  
37 shall be at a rate equal to the rate prescribed by K.S.A. 75-4210,  
38 and amendments thereto, for inactive accounts of the state ef-  
39 fective average yield before taxes received on 91-day United States  
40 treasury bills as determined by the federal reserve banks as fiscal  
41 agents of the United States at its most recent public offering of such  
42 bills in effect on January 1 of such year. Such loan shall not be  
43 deemed to be an indebtedness or debt of the state of Kansas within



1 the meaning of section 6 of article 11 of the constitution of the state  
2 of Kansas.

3 (c) The secretary of corrections may periodically certify to the  
4 pooled money investment board amounts to be transferred pursuant  
5 to this subsection. Upon certification to the pooled money investment  
6 board by the secretary of corrections of the amounts of the loan  
7 authorized by subsection (a), the pooled money investment board  
8 shall transfer amounts certified by the secretary of corrections from  
9 the state bank accounts described in subsection (a) to the new cor-  
10 rectional facility and mental health facility or facilities — construction  
11 fund which in the aggregate do not exceed the amount specified in  
12 subsection (a).

13 (d) Subject to the limitations of this section, the secretary of  
14 corrections shall determine and certify to the pooled money invest-  
15 ment board, on or before the date of the first certification pursuant  
16 to subsection (c), the terms and conditions of repayment of the  
17 principal and interest of such loan amounts. Commencing in calendar  
18 year 1990, the principal and interest of such loan amounts shall be  
19 repaid in payments payable at least annually for a period of not more  
20 than 25 years. The repayment amounts shall be recomputed each  
21 year to reflect the interest rate prescribed and shall be calculated  
22 each year on a substantially level payment basis based on a total  
23 original amortization period of 25 years.

24 Sec. 22. K.S.A. 76-829 is hereby amended to read as follows:  
25 76-829. (a) To provide for the payment of the costs of the capital  
26 improvement project to construct and equip a facility for the care  
27 of and clinical research on animals at the university of Kansas medical  
28 center, and expenses related thereto, the pooled money investment  
29 board is authorized and directed to loan to the state board of regents  
30 sufficient funds therefor in an amount which shall not exceed  
31 \$4,300,000. The pooled money investment board is authorized and  
32 directed to use any moneys in the active accounts, inactive ac-  
33 counts or time deposits, open accounts operating accounts, in-  
34 vestment accounts or other investments, of the state of Kansas to  
35 provide funds for such loan. Commencing on the loan date, such  
36 loan shall bear interest at the rate equal to the rate prescribed  
37 by K.S.A. 75-4210 and amendments thereto for inactive ac-  
38 counts of the state as of January 1, 1986. Each year thereafter,  
39 The rate of interest shall be fixed on January 1 of such each year  
40 at a rate equal to the rate prescribed by K.S.A. 75-4210 and  
41 amendments thereto for inactive accounts of the state effective  
42 average yield before taxes received on 91-day United States treasury  
43 bills as determined by the federal reserve banks as fiscal agents of

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1 *the United States at its most recent public offering of such bills in*  
2 *effect on such date. The loan principal and interest thereon shall be*  
3 *payable solely from moneys credited to and available in the animal*  
4 *research facility debt service fund or as otherwise provided by law.*  
5 *Such loan shall not be deemed to be an indebtedness or debt of*  
6 *the state of Kansas within the meaning of section 6 of article 11 of*  
7 *the constitution of the state of Kansas.*

8 (b) There is hereby created in the state treasury the animal re-  
9 search facility project fund. On the loan date, the pooled money  
10 investment board shall transfer the loan amount from the state bank  
11 accounts described in subsection (a) to the animal research facility  
12 project fund. All expenditures from the animal research facility pro-  
13 ject fund shall be for payment of the costs of the capital improvement  
14 project to construct and equip a facility for the care of and clinical  
15 research on animals at the university of Kansas medical center and  
16 expenses related thereto, in accordance with the provisions of ap-  
17 propriations acts.

18 (c) On the effective date of this act, the director of accounts and  
19 reports shall transfer all moneys in the hospital construction revenue  
20 bonds refinancing proceeds fund to the animal research facility pro-  
21 ject fund.

22 (d) After completion of the capital improvement project to con-  
23 struct and equip a facility for the care of and clinical research on  
24 animals at the university of Kansas medical center and the payment  
25 of the costs thereof and expenses related thereto, the chancellor of  
26 the university of Kansas shall certify the same to the director of  
27 accounts and reports. Upon receipt of such certification, the director  
28 of accounts and reports shall transfer any remaining moneys in the  
29 animal research facility project fund to the animal research facility  
30 debt service fund.

31 Sec. 23. K.S.A. 82a-1369 is hereby amended to read as follows:  
32 82a-1369. (a) To provide earnest money required as part of a mem-  
33 orandum of understanding between the state of Kansas and the  
34 United States department of the army concerning the purchase of  
35 municipal and industrial water supply storage, the pooled money  
36 investment board is authorized and directed to loan to the director  
37 of the Kansas water office sufficient funds therefor in the amount of  
38 \$4,000,000. The pooled money investment board is authorized and  
39 directed to use any moneys in the ~~active accounts, inactive ac-~~  
40 ~~counts or time deposits, open accounts operating accounts, in-~~  
41 ~~vestment accounts or other investments~~, of the state of Kansas to  
42 provide funds for such loan. On the loan date of such loan, the  
43 pooled money investment board shall transfer the loan amount from

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1 the state bank accounts described in this subsection to the director  
2 of the Kansas water office by depositing the same in the state treasury  
3 to the credit of the water supply storage assurance fund.

4 (b) Commencing on the loan date, such loan shall bear interest  
5 equal to the amount of interest earned on moneys in the water  
6 supply storage assurance fund. The loan principal and interest  
7 thereon shall be payable solely from moneys credited to and available  
8 in the water supply storage assurance fund or as otherwise provided  
9 by law. Commencing on the first day of the 12th month commencing  
10 after the loan date, and annually thereafter until the repayment date  
11 of such loan, interest on such loan, as specified under this section,  
12 shall be paid to the pooled money investment board. The loan prin-  
13 cipal and any interest remaining on such loan shall be paid in full  
14 on July 1, 1996. Such loan shall not be deemed to be an indebtedness  
15 or debt of the state of Kansas within the meaning of section 6 of  
16 article 11 of the constitution of the state of Kansas.

17 (c) There is hereby created in the state treasury the water supply  
18 storage assurance fund. The pooled money investment board may  
19 invest and reinvest moneys credited to the water supply storage  
20 assurance fund in obligations of the United States of America or  
21 obligations the principal and interest of which are guaranteed by the  
22 United States of America, in interest-bearing time deposits in any  
23 commercial bank located in Kansas or in repurchase agreements of  
24 less than 30 days' duration with a Kansas bank or with a primary  
25 government securities dealer which reports to the market reports  
26 division of the federal reserve bank of New York for direct obligations  
27 of, or obligations that are insured as to principal and interest by,  
28 the United States government or any agency thereof. Any moneys  
29 not so invested shall earn interest monthly based upon the average  
30 interest rate each month on repurchase agreements entered into  
31 pursuant to K.S.A. 75-4205 75-4209, and amendments thereto, and  
32 the average daily balance in the water supply storage assurance fund.  
33 Any income or interest earned by the investments shall be credited  
34 monthly to the water supply storage assurance fund.

35 (d) All expenditures from the water supply storage assurance fund  
36 shall be made for the purpose of complying with the memorandum  
37 of understanding between the state of Kansas and the United States  
38 department of the army concerning the purchase of municipal and  
39 industrial water supply storage and for the purpose of paying the  
40 principal and interest on the loan received under this section in  
41 accordance with appropriation acts upon warrants of the director of  
42 accounts and reports issued pursuant to vouchers approved by the  
43 director of the Kansas water office or by a person designated by the

director. <sup>25</sup>

2 Sec. ~~24~~ K.S.A. 12-1675, 68-2060, 75-3676, 75-3679, 75-4202, 75-  
3 4205, 75-4206, 75-4207, 75-4208, 75-4209, 75-4210, 75-4211, 75-4212,  
4 75-4212a, 75-4213, 75-4226, 75-52,120, 75-5341, 75-5342, 76-829 and  
5 82a-1369 and K.S.A. 1991 Supp. 68-415, 75-4201, 75-4218 and 75-  
6 52,130 are hereby repealed.

7 Sec. ~~25~~ <sup>26</sup> This act shall take effect and be in force from and after  
8 its publication in the statute book.

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Sec. 1402. Securities not accepted; expenses. (a) Before any deposit of public moneys or funds shall be received by any municipal corporation or quasi-municipal corporation of the state of Kansas with any state or national bank, state or federally chartered savings and loan association or federally chartered savings bank, such municipal or quasi-municipal corporation shall obtain security for such deposit in one of the following manners prescribed by this section.

(b) Such bank, state or federally chartered savings and loan association or federally chartered savings bank may give to the municipal corporation or quasi-municipal corporation a personal bond in double the amount which may be on deposit at any given time.

(c) Such bank, state or federally chartered savings and loan association or federally chartered savings bank may give a corporate surety bond of some surety corporation authorized to do business in this state, which bond shall be in an amount equal to the public moneys or funds on deposit at any given time and such bond shall be conditioned that such deposit shall be paid promptly on the order of the municipal corporation or quasi-municipal corporation making such deposits.

(d) Any state or national bank, state or federally chartered savings and loan association or federally chartered savings bank may deposit, maintain, pledge and assign, or cause its agent, trustee or an affiliate bank having identical ownership as the bank receiving the deposit of public moneys or funds to deposit, maintain, pledge and assign, for the benefit of the governing body of the municipal corporation or quasi-municipal corporation in the manner provided in this act, securities owned by it directly or indirectly through its agent or trustee holding securities on its behalf, or owned by such affiliate bank, the market value of which is equal to 100% of the total deposits at any given time, and such securities shall consist of:

(1) Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America or any agency thereof and obligations and securities of United States sponsored corporations which under federal law may be accepted as security for public funds;

(2) bonds of any municipal corporation or quasi-municipal corporation of the state of Kansas which have been refunded in advance of their maturity and are fully secured as to payment of principal and interest thereon by deposit in trust, under escrow agreement with a bank, of direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America;

(3) bonds of the state of Kansas;

(4) general obligation bonds of any municipal corporation or quasi-municipal corporation of the state of Kansas;

(5) revenue bonds of any municipal corporation or quasi-municipal corporation of the state of Kansas if approved by the state bank commissioner in the case of banks and by the savings and loan commissioner in the case of savings and loan associations or federally chartered savings banks.

(6) temporary notes of any municipal corporation or quasi-municipal corporation of the state of Kansas which are general obligations of the municipal or quasi-municipal corporation issuing the same;

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

(8) bonds of either a Kansas not-for-profit corporation or of a local housing authority that are rated at least Aa by Moody's Investors Service or AA by Standard & Poor's Corp.;

(9) bonds issued pursuant to K.S.A. 12-1740 *et seq.*, and amendments thereto, that are rated at least MIG-1 or Aa by Moody's Investors Service or AA by Standard & Poor's Corp.;

(10) notes of a Kansas not-for-profit corporation that are issued to provide only the interim funds for a mortgage loan that is insured by the federal housing administration;

(11) bonds issued pursuant to K.S.A. 1988 Supp. 74-8901 through 74-8916, and amendments thereto; or

(12) bonds issued pursuant to K.S.A. 1989 Supp. 68-2319 through 68-2330.

(e) No state or national bank, state or federally chartered savings and loan association or federally chartered savings bank may deposit and maintain for the benefit of the governing body of a municipal or quasi-municipal corporation of the state of Kansas, any securities which consist of:

(1) Bonds secured by revenues of a utility which has been in operation for less than three years; or

(2) bonds issued under K.S.A. 12-1740 *et seq.*, and amendments thereto, unless such bonds have been refunded in advance of their maturity as provided in subsection (d) or such bonds are rated at least Aa by Moody's Investors Service or AA by Standard & Poor's Corp.

(f) Whenever a bond is authorized to be pledged as a security under this section, such bond shall be accepted as a security if (1) in the case of a certificated bond, it is assigned, delivered or pledged to the holder of the deposit for security; (2) in the case of an uncertificated bond, registration of a pledge of the bond is authorized by the system and the pledge of the uncertificated bond is registered; or (3) in a form approved by the attorney general, which assures the availability of the bond proceeds pledged as a security for public deposits.

(g) Any expense incurred in connection with granting approval of revenue bonds shall be paid by the applicant for approval.

(13) negotiable promissory notes which are not in default together with first lien real estate mortgages on real estate located within the state of Kansas securing payment of such notes.

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(h) All negotiable promissory notes secured by first lien mortgages on real estate pledged and assigned as security shall be valued pursuant to rules and regulations which have been adopted by both the state bank commissioner and the savings and loan commissioner after having first being submitted to and approved by both the state banking board under K.S.A. 9-1713 and amendments thereto and the savings and loan board. Such rules and regulations shall be published in only one place in the Kansas administrative regulations as directed by the state rules and regulations board. All such notes shall be approved by the governing body of such municipal corporation or quasi-municipal corporation before the same shall be accepted as security. Negotiable promissory notes secured by first lien mortgages on real estate shall be taken at their value for not more than 75% of the security required under the provisions of this act.