

Approved: January 31, 1995  
Date

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Bill Bryant at 3:30 p.m. on January 25, 1995 in Room 527S-of the Capitol.

All members were present except: Representative Sawyer  
Representative Landwehr

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

Conferees appearing before the committee: Sally Thompson, State Treasurer

Others attending: See attached list

Sally Thompson, State Treasurer, appeared before the Committee to discuss the Municipal Investment Pool (Attachment 1). She explained that the upward spiraling interest rates and the worst recorded bond market year on record were causes for the extreme pressure on the MIP portfolio. Cities, counties, and other local governments invest their idle funds in the pool, then they invest them in securities. The pool then returns interest earnings to the local governments. There are more than 4,000 taxing units in Kansas that are eligible to participate in the Pool. The MIP has returned \$68 million to Kansas communities.

Mrs. Thompson sold \$413.2 million worth of securities held by the pool in October, November, and December at a total loss of nearly \$7.8 million. In addition, the pool swapped \$117.5 million in securities for securities in which state idle funds were invested. Mrs. Thompson offset those losses with a \$1 million reserve fund. Also she reinvested some of the money in the sale of new, more lucrative securities, and hopes to cover that loss with increased interest earnings.

The State Treasurer described the mechanical procedures involved in investing as followed by her staff. They use 35-39 brokerage firms and follow the market minute-by-minute with their extensive in-house staff. Board members of the MIP are Mike Johnson, former Secretary of KDOT and now with the Turnpike Authority; Dean Paxton, a CPA and attorney; Clayton McMurray, a CPA and manager of investments; and Bill Caton, KDFFA and owner of a bank. Mrs. Thompson did express her desire for the availability of outside risk management services.

The meeting was adjourned at 4:45 p.m. The next meeting will be held on January 30, 1995.

# HOUSE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE GUEST LIST

DATE: Jan 25, 1995

NAME	REPRESENTING
DAVID ROSS	Ks. Assn. LIFE UNDERWRITERS
NORM WILKS	KASB
<i>J. M. Lamm</i>	<i>Ks Domestic Ins Cos</i>
Burt Hinton	Post Audit
Phon Green	" "
Stana Snow	State Treasury
Susan Spelard	" "
Jama Wagon	" "
Greg Winkler	KS Credit Union Assn.
Danielle Noe	KCUA
TOM WINTERS	Sedgewick County, KS
Catherine Holdeman	City of Wichita
Roger Franke	FIC
Chuck Stones	KBA
ALAN STEPHAN	PETE MCGILL & ASSOC.
Dean Hudgens	KBA TRUST DIVISION
Greg Rosa	" " "
Wm. GRANT	OFFICE STATE BANK COMM.
<i>Greg Evans</i>	<i>Rep. Sawyer</i>

Municipal Investment Pool  
House Financial Institutions and Insurance  
Wednesday, January 25, 1995 3:30pm

Thank you for inviting me to speak with you today to discuss the Municipal Investment Pool. Let me just say I have thought of little else, but the Municipal Investment Pool, for the past several months. For those of you who do not know me, I am a CPA and a former banker with nearly two decades of money management experience. I have never seen an interest rate cycle like the one that we're in today.

Interest rates in the United States have risen sharper and faster than at any time in recent history. Experts say that we have not seen this kind of surge in interest rates since 1927. (Exhibit 1) National experts believe that this movement will wipe more wealth off balance sheets than any other market since the crash of 1929. 1994 will be remembered as the worst year on record in the bond market. (Exhibit 2). Losses could run as high as \$1.5 trillion worldwide.

While we always plan for movement in the market, it is impossible to plan for this kind of unprecedented interest rate spiral. The dramatic increase in interest rates has created extreme pressure on the Municipal Investment Pool portfolio.

For those of you who are not active investors, let me explain why this matters. For example: If you bought a 2-year CD one year ago and were earning 4% - a good rate at the time. But today you could get that same CD at 7%. You haven't lost anything but the opportunity to earn an additional 3% on your money. That's where we found ourselves in the Pool locked into lower earning securities, not keeping pace with the market and, therefore, not attracting new dollars to be invested at higher rates.

So as you can see, the past few months have been a challenge for fixed income managers worldwide--in my office where my staff has more than 80 years of combined investment experience, this has absolutely been the most difficult period in their professional careers.

It may be of some comfort to know we are not alone in this battle. All fixed income portfolios whether they're in banks or in pension funds are facing this same situation. According to a June 1994 report, 317 Kansas banks reported losses in their securities portfolios. Other states are having this same conversation (Exhibit 3).

It has not always been like this. The Kansas Municipal Investment Pool is, in reality, a very new program. In 1992, the Kansas Legislature approved the creation of the Pool. The Pool was part of an overall public funds reform effort that I spearheaded during my first term in office.

I ran for State Treasurer in 1990 because I knew Kansas needed to update its antiquated money management system. The laws that governed public fund investing had not been changed in more than 25 years. Kansas lagged far behind other states and as a result was leaving a lot of money on the table. By that I mean that Kansas wasn't earning the interest income that it prudently and safely could earn by investing wisely. Because of the change in law, the state earns \$22 million more on its annual idle fund investments. I estimate the benefit to local investors is about three times that amount.

The original goal was to only update the way the State invested its funds. But local government leaders from across Kansas asked that their laws also be changed. For years, local government

*House FID*  
*Attachment 1*  
*1-25-95*

investors had been asking for a Municipal Investment Pool. They needed another option for investing public funds.

The 1992 Legislation, SB 480, was a good first step in beginning to blow out the cobwebs in public fund investing in Kansas. (CHART).

The Municipal Investment Pool opened its doors in August of 1992. Our first participant was Reno County, it deposited the first million. The number of participants have grown to 167 and more than \$10 billion in deposits have passed through the Pool.

The Municipal Investment Pool is managed on three principles--SAFETY, LIQUIDITY AND YIELD. In that order. Local governments turn to the Pool because it is safe, professionally managed, convenient, inexpensive to use and provides economies of scale. (CHART) The MIP, by law, can only invest in U.S. Government Treasuries and Agencies which are the safest investment instruments in the world. (CHART). To date local governments across Kansas have earned more than \$68 million in interest income because of the Municipal Investment Pool. (Exhibit 4) It is \$68 million that went back into your local communities. It is \$68 million that paid for necessary services and helped the local economy. As elected officials we all know that Kansans feel overburdened by taxes--this is one program that actually provides much needed non-tax revenue for necessary services.

The most unique aspect of the Kansas Municipal Investment Pool is that banks in our state have right of first refusal on all public funds. That means the State and each local government investor must offer investable funds to Kansas banks before accessing other alternatives. This unique provision was a compromise with the Kansas Bankers Association in 1992. I estimate local governments have deposited about \$1 billion in Kansas banks since 1992.

The Municipal Investment Pool led a charmed life during its first year. It was the golden program. The number of local governments using the Pool increased steadily and deposits poured in. The Pool reached its all time high of \$1.3 billion in June of 1994.

As the MIP was flourishing, the Federal Reserve began to increase the interest rate. The interest rate has now been increased six times. These substantial and swift increases brought many short term investors to their knees.

You may be asking yourself WHY would the Fed do this? The Fed wanted to control inflation and to be sure, the actions of the Fed achieved its objective. "They brought inflation down to a 30 year low and bailed out a teetering U.S. banking system."

But what does this all mean to us, to local investors and to Kansas citizens. It means the Municipal Investment Pool faces a real challenge. The balance in the Pool has fallen from its high of \$1.3 billion to around \$700 million. While we planned for withdrawals--we did not plan for this rapid decline. It became difficult for the MIP to compete with current market rates.

I am pleased to report that we have met the challenge. We have taken several pro-active steps to manage the Pool through this very difficult period:

**SELLING & REINVESTING:** It made good financial sense to sell off a portion of the MIP portfolio before it matured, to reinvest those dollars at the higher market rate. In doing this, the MIP for the first time experienced a loss. Let me explain the loss, it's like cashing in a CD early, paying

1. Penalty and then re-investing in a higher rate CD. The goal is to make up the "penalty" and more by re-investing in the new CD.

**SHORTENED OUR MATURITIES:** The new money that comes into the Pool today is invested on a very short term basis. ONE OF THE BIGGEST MISCONCEPTIONS in this entire situation is that once, interest rates continued upward we kept investing longer, that's simply not true. (Exhibit 5).

**OVERNIGHT INVESTMENT POOL:** We created a new option for local investors. The overnight Pool is our attempt to wait out this volatile interest rate environment. It allows local investors to park their funds and still get a good rate of return.

**IDLE FUND EXCHANGE:** I exchanged securities between the State Idle Pool and the Municipal Investment Pool. This exchange provided the MIP with much needed liquidity and at the same time gave the State Idle Funds an even return.

**THE IDLE FUND AS A POOL PARTICIPANT:** The Pooled Money Investment Board, which is the oversight board for public funds investing, is seeking a legal opinion on this issue. It is my belief that investing a portion of state idle funds in the Pool is key to helping the fund.

**INPUT FROM EXPERTS:** We will be seeking input from a participant advisory committee from auditors, from NCSL-GFOA and from others. Taking what makes the best sense for Kansas and modifying our existing format is necessary.

**EDUCATION & MARKETING:** I want each of you to be comfortable with the job I am doing, I know investing is not something that most people do everyday. That is why we are inviting each of you to breakfast in the Treasurer's office to spend a little time in our shoes.

We are also beginning a full scale marketing effort. There are more than 4,000 taxing units in Kansas that are eligible to participate in the Pool. A member of my staff will be hitting the road in February to discuss the benefits of Pool use.

Certainly I don't have all the answers but I do believe the combination of these effort will bring the MIP to a complete recovery. These efforts and TIME. TIME is a very key element. In time the market will adjust. In time the MIP portfolio will adjust.

Kansas is luckier than most. And it is luck, mixed with common sense and experience, that has allowed us to survive when others are failing. Investing is not an exact science, it is more like an art. 1994 forced the good artists to rise to the top, like cream. The MIP has suffered market losses but with my talented staff, the loyalty of Pool users, the restructuring steps and with your support the Pool will succeed.

The bottom line is that the Municipal Investment Pool is a valuable program. It has returned \$68 million to Kansas communities. It is a program that local investors want and need. Ask your local financial managers.

Again, thank you for inviting me here today. I want to talk about the MIP. As you might be aware, two separate audits have just been completed on the Pool. The results of the Legislative Post Audit and the statutory audit performed by Mercer Asset Planning of Dallas will be released tomorrow.

The audits will say that the 1994 interest movement was brutal and that given what occurred, different decisions could have been made. The reports concluded that the approach adopted by the investment officers was prudent and reasonable.

Bottomline--sure with the benefit of 20/20 hindsight I would have prepared for the interest rate bloodbath--but I didn't know that it was coming and the decisions made a year ago were the right decisions for the time.

As we all know we cannot rewrite our yesterdays, but we can plan for our tomorrows.

My door is always open. I am always available to answer any question you might possibly have about the Municipal Investment Pool or anything else related to public finance.

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1. Muehring, Kevin. *How the Clinton Bond strategy backfired*. Institutional Investor, January 1995., p. 100-107.

# Six Interest Rate Increases In 1994 Second-Fastest Monetary Tightening in History

Fed Funds Rate

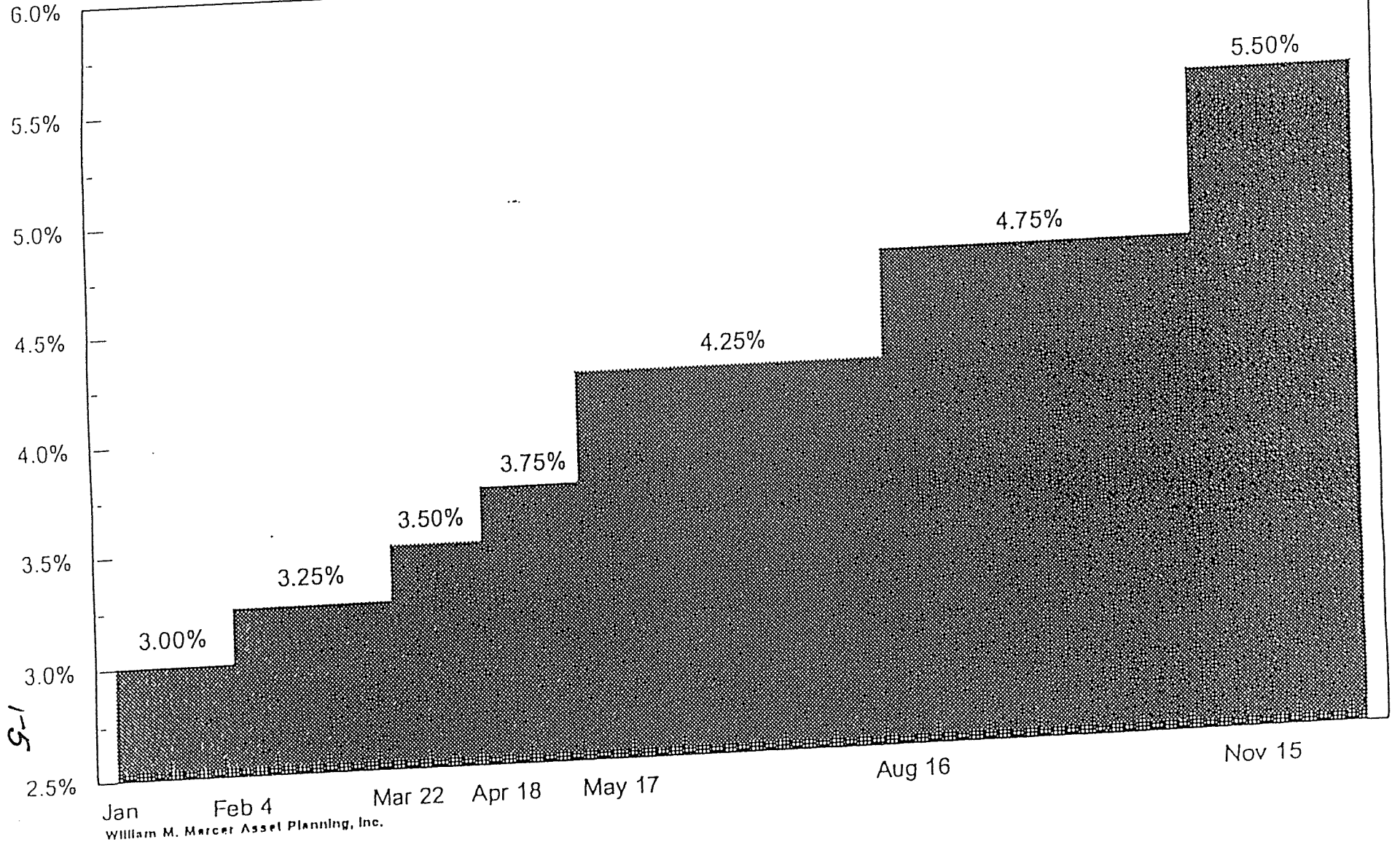


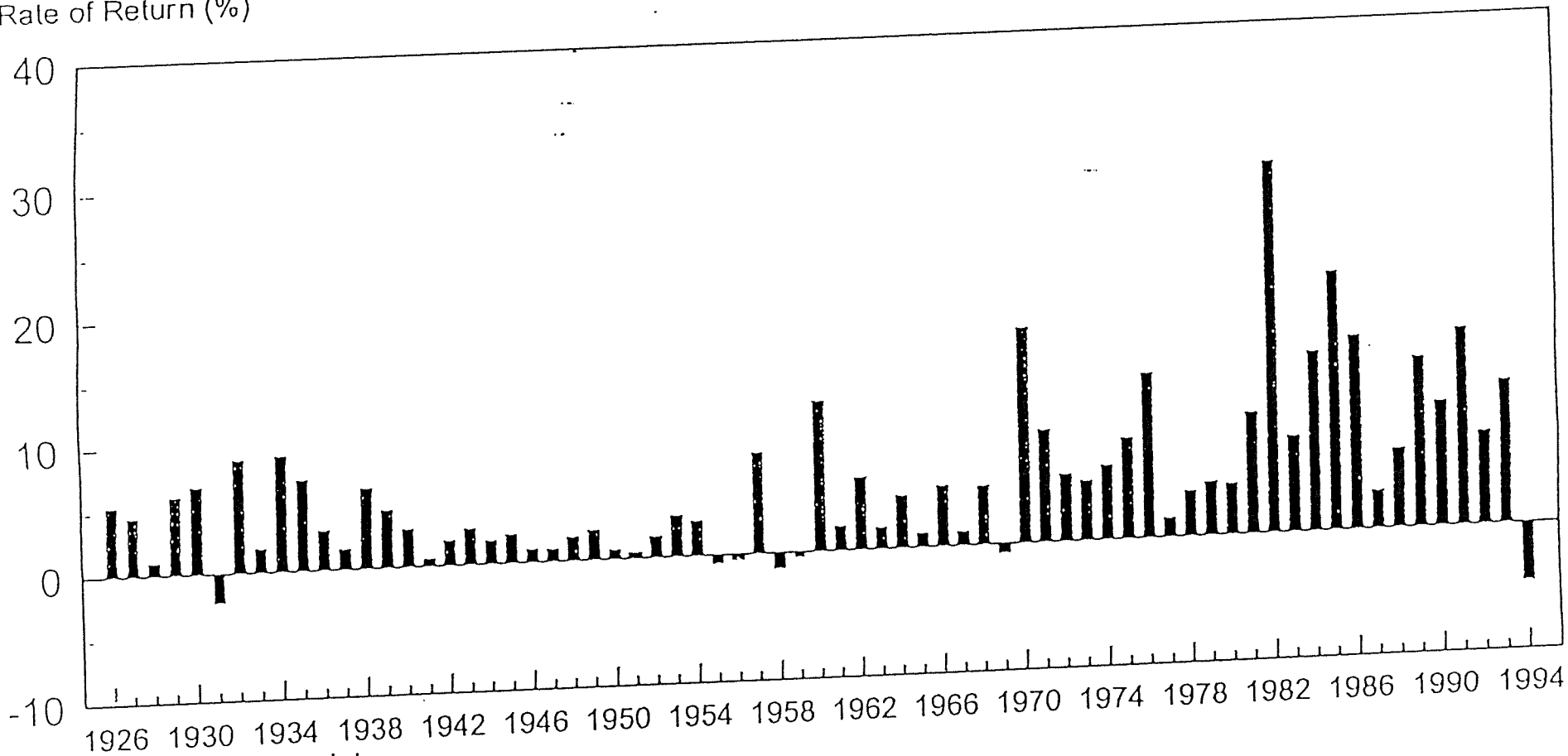
Exhibit 2

# 1994 - The Worst Year on Record

## Total Returns Back To The Great Depression

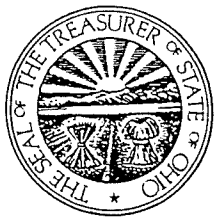
### Five-Year Treasury Total Returns

Rate of Return (%)



Source: Ibbotson Associates





# Treasury Notes

J. Kenneth Blackwell, Treasurer of State of Ohio

"Rock-Solid Safety, Entrepreneurial Liquidity, Wealth-Building Yield"

Volume I, Issue 3

Winter 1994

## Inside:

Board of Deposit to Name  
New State Depositories  
Page 3

1995 Agri-Linked Deposit  
Program Set  
Page 3

Public Finance  
Programs, Services Create  
Opportunities for Others  
Pages 4 and 5

Treasury to Issue Ohio  
College Savings Bonds  
Page 6

Treasurer Supports  
Continuing Education for  
Public Funds Managers  
Page 7

Blackwell Hosts Forums  
for Small Businesses  
Page 7

BRIDGE Ohio Investments  
Top \$76 Million  
Page 8

Treasury Increases  
Spending with Ohio  
Minority Business  
Suppliers  
Page 8.

## Treasurer Reassures Public that State Investments are Secure

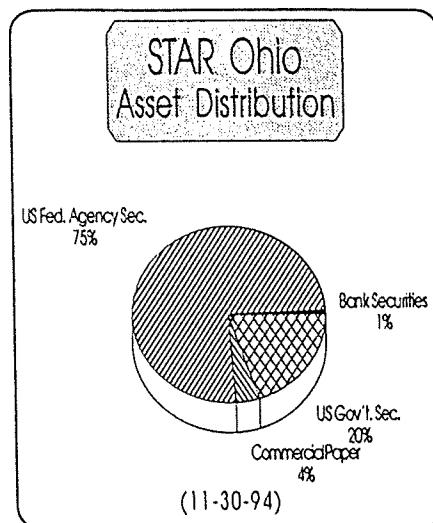
Many Americans have been alarmed to learn in recent months of major investment losses in the public funds of a small number of government organizations throughout the country. However small the number is, it appears some public officials in the U.S. are putting taxpayers' dollars at unnecessary risk.

For these reasons, Ohio Treasurer J. Kenneth Blackwell informed Governor George V. Voinovich, state budget officials, legislators and Ohio taxpayers that state funds under his management have not, and will not, be imprudently invested.

"Since March, I have worked to position the state's regular account portfolio and the STAR Ohio portfolio to be balanced, with our main objectives being safety first, then liquidity and finally, yield," Blackwell said. "Never have we, nor will we, try to predict how the market will turn and attempt to position the portfolios we manage to perform based on unsubstantiated predictions.

"It is true that we must invest in tomorrow today, and for that reason, we must have some foresight. But we must be prudent in our actions. So by maintaining a balanced portfolio, we can safely adjust to whatever the market has to offer."

As administrator and investment manager for the state's public funds investment pool, STAR Ohio, Blackwell recently initiated a review of the STAR Ohio portfolio by three independent investment advisors.



The request was made following developments with Cuyahoga County's SAFE program.

Investment professionals from The Ohio State University's Fisher College of Business, Productive Portfolios, Inc. and Bond-tech, Inc. conducted a review of STAR Ohio and concluded that STAR is both sound and secure.

In the review, the investment professionals said, "We believe the fund is structurally sound enough to withstand normal rate movements and withdrawal scenarios without producing significant exposure to investors or the State of Ohio Treasury."

The review also concluded:

- All investments are eligible under Section 135.143 of the Ohio Revised Code;

*Continued on Page 2.*

## Public Reassured

*Continued from Page 1.*

- STAR Ohio is very liquid with 80% of the securities maturing within 84 days;

- There is no evidence of leverage to inflate earning assets.

As of September 30, 1994, STAR Ohio's \$3.8 billion portfolio had a weighted average maturity of approximately 84 days, a weighted purchase yield of 4.74% and a net weighted average yield of 4.68% after administration expenses.

"I believe STAR Ohio investors will continue to have confidence both in the fund's structure and its performance," Blackwell said. "This independent review reinforces what we knew--that STAR Ohio is an extremely safe, liquid, and sound investment alternative. Our investment policy will preserve the integrity of the fund making it an attractive option for local governments."

Blackwell's new investment policy, implemented on March 11, 1994 uses numerous practices to enhance the management of the state's regular account portfolio and the STAR Ohio portfolio, as well as provide a comprehensive system of checks and balances to ensure that the highest degree of safety is maintained.

### Management Reports:

The state Treasury's senior staff receives daily and monthly management reports, which include a daily report that details the structure of the portfolio and highlights the amount of daily liquidity. The monthly investment report describes the current status of the state's portfolio and the STAR Ohio portfolio. This monthly report details the size of the portfolios, current yields, and current investment earnings.

The significance of these new reporting procedures is that all levels of management know the exact status of the portfolios managed and can verify that the investment department is complying with all policies and procedures.

### Strategy Meetings:

In addition to management reports, the investment department staff meets

regularly with Deputy Treasurer William Guy to discuss the market, how the market impacts the portfolios and to discuss specific investment strategies.

### Trade Documentation

All investment activity is monitored to ensure that all investments made are at competitive prices. Daily activity logs are prepared listing each investment considered, the prices at which they were offered, and an indication as to which investments were made.

When Blackwell took office in March, 35% of the state's regular account portfolio was invested in U.S. Treasury strips. Using the guidelines outlined above and a new investment strategy, it has been the intent of the Treasurer's investment staff to sell those investments, such as U.S. Treasury strips that do not earn current interest.

Consistent with the new policy, the Treasury has sold a portion of the U.S. Treasury strips it held, bringing the total current Treasury strip holdings to about 28% of the state's regular account portfolio. The state made slight gains on the sale of these strips and was able to invest in shorter securities at higher yields.

As dictated by the new investment policy, remaining Treasury strips will be sold and reinvested in interest-bearing securities as soon as is prudent.

It also is Blackwell's policy to not leverage funds or engage in activities considered to be revenue enhancement techniques. For example, the Treasury does not invest in reverse repurchase agreements, derivatives or structured notes.

"I believe no public official should put taxpayers' dollars at unnecessary risk," Blackwell said. "Consequently, no public official should invest in the exotic types of investments available today, including reverse repos and derivatives."

"The risk these investments create is not worth the amount of revenue that could be earned. The uncertainty should make any public funds investor shy away."

Overall, with current market conditions, including rising interest rates, the state Treasury has shortened the duration

on the state's portfolio, thus increasing liquidity to ensure that the state will be able to make timely disbursements when needed to pay bills. This action also allows the state Treasury to take advantage of the higher interest rates and the investment opportunities such interest rates present.

Currently, the securities in the state's regular account portfolio yields 5.124%, with an average weighted maturity of 2.2 years.

## Investment Update

### Statistics

11-30-94

### Total Investment Earnings

*Fiscal Year 1995 to Date:*

\$60,490,376.67

*All of Fiscal Year 1994:*

\$201,825,246.89

### Average Portfolio Size

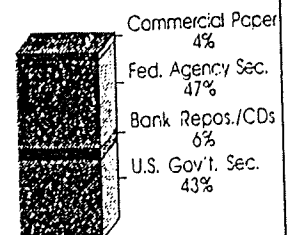
*Fiscal Year 1995 to Date:*

\$3.891 Billion

*All of Fiscal Year 1994:*

\$3.593 Billion

### State Investment Portfolio Asset Allocation



11-30-94

Less than 0.5% is invested in STAR Ohio.

## MUNICIPAL INVESTMENT POOL ACTIVITY BY SENATE DISTRICT

Municipality Name	For the Period 08/01/92 thru 12/31/94		Ending Balance
	Deposits	Interest Earned	As of 12/31/94
Atchison	70,950,000	360,259	4,210,259
Effingham USD #377	8,000,000	43,242	351,928
Highland Community College	750,000	23,799	773,799
Halton USD #336	8,618,541	109,650	228,191
Jackson County	0	0	0
Perry USD #343	4,921,000	52,188	17,188
Jefferson County RWD #12	<u>501,990</u>	<u>1,210</u>	<u>98,065</u>
Total Senate District 1	<u>93,741,531</u>	<u>590,348</u>	<u>5,679,430</u>
Douglas County	76,988,804	266,393	26,760,526
Lawrence	188,307,161	1,489,281	1,731,473
Lawrence USD #497	174,913,970	1,976,651	13,837,958
Baldwin City USD #348	<u>41,851,375</u>	<u>307,311</u>	<u>824,373</u>
Total Senate District 2	<u>482,061,310</u>	<u>4,039,636</u>	<u>43,154,330</u>
Jefferson County RWD #12	501,990	1,210	98,065
Perry USD #343	4,921,000	52,188	17,188
Leavenworth County	35,675,361	591,274	8,593,364
Leavenworth	10,500,000	183,614	3,658,614
Lansing	3,588,404	42,604	1,679,960
Leavenworth Water Dept	12,100,000	254,912	4,554,912
Leavenworth USD #453	56,658,808	234,240	3,269,326
Ft Leavenworth USD #207	0	0	0
Basehor	<u>408,340</u>	<u>8,915</u>	<u>575</u>
Total Senate District 3	<u>124,353,903</u>	<u>1,368,957</u>	<u>21,872,004</u>
Wyandotte County USD #204	6,800,000	23,475	0
Bonner Springs	0	0	0
Kansas City	0	0	0
Total Senate District 4-6	<u>6,800,000</u>	<u>23,475</u>	<u>0</u>
Consolidated Fire Dist #2	10,230,000	125,668	1,125,340
Mission	23,054,619	516,339	10,346,544
Mission Hills	6,023,263	83,091	1,133,091
Leawood	64,469,962	510,959	4,355,440
Prairie Village	22,584,505	223,248	2,639,469
Johnson County Community College	372,791,703	1,933,055	2,434,128
Johnson County Park & Rec	27,715,946	267,480	1,990,808
Public Building Commission	40,105,190	135,652	55,325
Johnson County	1,342,054,461	2,931,269	5,370,932
Olathe USD #233	350,564,380	1,635,279	12,980,665
Olathe	66,782,145	938,714	1,067,209
Blue Valley USD #229	398,572,483	1,630,310	298,967
Shawnee Mission USD #512	658,040,522	2,517,505	11,638,368
De Soto USD #232	41,930,977	581,292	1,733,751
Spring Hill USD #230	132,700,863	725,129	1,582,402
Blue Valley Recreation Comm	3,322,884	25,260	418,320
Gardner-Edgerton-Antioch USD	53,935,286	193,589	8,838,700
Bonner Springs	0	0	0

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Municipality Name	For the Period 08/01/92 thru 12/31/94		Ending Balance
	Deposits	Interest Earned	As of 12/31/94
Overland Park	471,342,175	2,874,627	2,523,249
Lenexa	170,280,887	1,632,742	15,877,460
Douglas County	76,988,804	266,393	26,760,526
Lawrence	188,307,161	1,489,281	1,731,473
Lawrence USD #497	174,913,970	1,976,651	13,837,958
Baldwin City USD #348	41,851,375	307,311	824,373
Public Wholesale Wtr Dist	14,600,300	31,292	3,750,106
Ottawa	6,200,000	62,425	201,653
Santa Fe Trail USD #434	8,148,589	69,165	660,222
<b>Total Senate District 7-11</b>	<b><u>4,767,512,450</u></b>	<b><u>23,683,726</u></b>	<b><u>134,176,479</u></b>
Iola	8,002,521	111,202	2,086,202
Iola USD #257	14,600,000	58,801	8,801
Allen County	9,160,000	79,394	1,864,394
Fort Scott	5,650,000	73,847	891,563
Neosho County	11,828,551	51,745	3,551,745
Erie	275,000	3,292	125,476
Chanute	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Senate District 12</b>	<b><u>49,516,072</u></b>	<b><u>378,281</u></b>	<b><u>8,528,181</u></b>
Galena USD #499	4,325,929	40,348	4,366,277
SE KS Education Service Ctr	300,000	3,659	303,659
Girard USD #248	15,142,525	120,006	2,420,531
Frontenac USD #249	5,140,290	94,665	125,258
<b>Total Senate District 13</b>	<b><u>24,908,744</u></b>	<b><u>258,678</u></b>	<b><u>7,215,725</u></b>
SE KS Education Service Ctr	300,000	3,659	303,659
Girard USD #248	15,142,525	120,006	2,420,531
Frontenac USD #249	5,140,290	94,665	125,258
Parsons	85,300	1,012	86,312
Labette County	4,250,000	82,171	1,832,171
Neosho County	11,828,551	51,745	3,551,745
Erie	275,000	3,292	125,476
Chanute	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Senate District 14</b>	<b><u>37,021,666</u></b>	<b><u>356,550</u></b>	<b><u>8,445,152</u></b>
Coffey County	6,500,000	36,306	0
Burlington USD #244	0	0	0
Elk County	10,809,185	65,094	1,556,233
West Elk USD #282	1,100,000	4,804	202,251
<b>Total Senate District 15</b>	<b><u>18,409,185</u></b>	<b><u>106,204</u></b>	<b><u>1,758,484</u></b>
Butler County	0	0	0
Rose Hill USD #394	15,331,540	255,272	3,201,717
Towanda	1,552,181	12,544	258,419
Augusta USD #402	90,976,408	598,174	9,141,509
Andover	8,357,366	120,002	1,819,990
Burlington USD #244	0	0	0

MUNICIPAL INVESTMENT POOL ACTIVITY BY SENATE DISTRICT

Municipality Name	For the Period 08/01/92 thru 12/31/94		Ending Balance
	Deposits	Interest Earned	As of 12/31/94
Coffey County	6,500,000	36,306	0
Eureka	0	0	0
Greenwood County	<u>22,806,555</u>	<u>89,003</u>	<u>1,909,003</u>
Total Senate District 16	<u>145,524,050</u>	<u>1,111,301</u>	<u>16,330,638</u>
Chase County	9,670,000	55,500	2,225,500
Lyon County	99,909,594	488,258	9,780,504
Emporia	48,482,448	184,843	2,585,933
Emporia USD #253	47,095,784	237,608	247,578
Hillsboro USD #410	4,000,000	3,619	0
Hillsboro	0	0	0
Morris County	0	0	0
Council Grove	31,618	78	78
Morris County RWD #1	2,285,000	15,417	0
Santa Fe Trail USD #434	<u>8,148,589</u>	<u>69,165</u>	<u>660,222</u>
Total Senate District 17	<u>219,623,033</u>	<u>1,054,488</u>	<u>15,499,815</u>
Topeka Metro Transit Authority	2,375,966	31,345	541,168
Shawnee County	270,408,317	1,804,450	67,928,686
Topeka USD #501	152,877,273	870,148	5,714,368
Silver Lake USD #372	3,835,000	42,883	0
Topeka	107,722,833	1,492,108	24,350,499
Washburn University	18,714,536	221,346	3,755,628
Metro Topeka Airport Authority	2,102,884	21,249	142,736
Soldier Township	0	0	0
Topeka Tecumseh Fire Dept	0	0	0
Seaman USD #345	16,866,000	86,242	0
Auburn	0	0	0
Shawnee Heights USD #450	<u>3,200,000</u>	<u>7,202</u>	<u>2,107,202</u>
Total Senate District 18-20	<u>578,102,809</u>	<u>4,576,973</u>	<u>104,540,287</u>
Junction City	17,083,620	219,653	1,432,358
Geary County	15,698,526	185,561	915,871
Geary County USD #475	1,000,000	10,251	10,251
Morris County	0	0	0
Council Grove	31,617	78	78
Morris County RWD #1	2,285,000	15,417	0
Kansas Rural Water Finance Authority	7,021,853	104,465	969,237
Pottawatomie County	67,310,808	270,103	12,871,911
Manhattan	60,158,316	932,539	13,332,539
Riley County	32,110,000	187,312	1,129,615
Manhattan USD #383	76,133,194	596,777	6,016,115
Riley Co- Manhattan Health Dept	<u>11,553,723</u>	<u>49,501</u>	<u>650,776</u>
Total Senate District 21	<u>290,386,657</u>	<u>2,571,657</u>	<u>37,328,751</u>
Junction City	17,083,620	219,653	1,432,358
Geary County	15,698,526	185,561	915,871
Geary County USD #475	1,000,000	10,251	10,251
Manhattan	60,158,316	932,539	13,332,539
Riley County	32,110,000	187,312	1,129,615

MUNICIPAL INVESTMENT POOL ACTIVITY BY SENATE DISTRICT

Municipality Name	For the Period 08/01/92 thru 12/31/94		Ending Balance
	Deposits	Interest Earned	As of 12/31/94
Manhattan USD #383	76,133,194	596,777	6,016,115
Riley Co- Manhattan Health Dept	11,553,723	49,501	650,776
Total Senate District 22	<u>213,737,379</u>	<u>2,181,594</u>	<u>23,487,525</u>
Concordia USD #333	1,450,000	5,561	90,561
Solomon USD #393	5,400,672	49,066	2,474,128
Total Senate District 23	<u>6,850,672</u>	<u>54,627</u>	<u>2,564,689</u>
Lincoln USD #298	8,940,758	215,957	1,478
Saline County	12,800,000	107,954	4,807
Salina	61,893,984	371,858	22,386
Total Senate District 24	<u>83,634,742</u>	<u>695,769</u>	<u>28,671</u>
Newton	20,880,000	217,870	3,906,085
Hesston	19,458,089	79,485	1,062,478
Harvey County	60,888,659	147,417	10,571,224
Newton USD #373	59,993,563	276,617	2,808,833
North Newton	706,192	11,279	390
Hillsboro	0	0	0
Hillsboro USD #410	4,000,000	3,619	0
Lindsborg	10,518,767	134,150	2,798,965
McPherson USD #418	75,343,507	244,711	1,158,171
McPherson County	86,399,127	565,683	12,835,142
McPherson	28,119,531	273,340	2,862,222
Smoky Hill USD #400	3,200,000	36,828	1,104,893
McPherson Recreation Comm	300,000	2,830	102,830
Total Senate District 25	<u>369,807,435</u>	<u>1,993,829</u>	<u>39,211,233</u>
Wichita	503,920,567	3,121,820	2,468,357
Wichita USD #259	575,600,000	4,225,538	21,325
Sedgwick County	743,741,409	4,698,251	22,522,495
Derby	13,583,426	156,673	2,504,488
Maize USD #266	33,518,716	532,066	2,384,724
Cheney USD #268	36,634,111	218,506	5,190,415
Park City	0	0	0
Mulvane USD #263	24,780,000	287,637	9,752,637
Goddard USD #265	29,477,879	90,867	2,401,443
Total Senate District 26-31	<u>1,961,256,108</u>	<u>13,331,358</u>	<u>47,245,884</u>
Cowley County	0	0	0
Udall USD #463	5,750,799	44,974	2,748,003
Wellington	40,316,934	686,693	12,102,253
Total Senate District 32	<u>46,067,733</u>	<u>731,667</u>	<u>14,850,256</u>

MUNICIPAL INVESTMENT POOL ACTIVITY BY SENATE DISTRICT

Municipality Name	For the Period 08/01/92 thru 12/31/94		Ending Balance As of 12/31/94
	Deposits	Interest Earned	
Township 12 Fire Fund	0	0	0
Reno County	340,208,385	697,094	25,804,225
Hutchinson Comm College	22,300,000	95,917	595,650
Hutchinson USD # 308	25,200,000	106,163	704,482
Hutchinson	44,896,093	488,593	16,026,678
Buhler	0	0	0
Hutchinson Recreation Comm	0	0	0
Wellington	40,316,934	686,693	12,102,253
Total Senate District 33	<u>472,921,412</u>	<u>2,074,460</u>	<u>55,233,288</u>
Reno County	340,208,385	697,094	25,804,225
Hutchinson USD # 308	25,200,000	106,163	704,482
Hutchinson	44,896,093	488,593	16,026,678
Buhler	0	0	0
Hutchinson Recreation Comm	0	0	0
Hutchinson Comm College	22,300,000	95,917	595,650
Total Senate District 34	<u>410,304,478</u>	<u>1,291,850</u>	<u>42,535,385</u>
Great Bend	12,589,316	39,754	36,666
Little River USD #444	12,328,916	45,674	789,376
Russell	5,693,995	19,265	15
Total Senate District 35	<u>30,612,227</u>	<u>104,693</u>	<u>826,057</u>
North Central Kansas Area	<u>1,100,000</u>	<u>8,491</u>	<u>108,491</u>
Total Senate District 36	<u>1,100,000</u>	<u>8,491</u>	<u>108,491</u>
Kinsley	12,146	234	557
Hays USD #489	42,757,697	277,257	325,427
Hodgeman County	0	0	0
Ellis County	8,387,341	75,933	7
Total Senate District 37	<u>42,769,843</u>	<u>277,491</u>	<u>325,984</u>
Dodge City	42,874,571	275,993	2,818,308
Dodge City USD #443	81,775,043	571,247	20,552
Dodge City Community College	0	0	0
Seward County Comm College	0	0	0
Liberal	4,700,000	94,601	2,694,601
Total Senate District 38	<u>124,649,614</u>	<u>847,240</u>	<u>2,838,860</u>
Garden City	27,411,825	59,535	2,578,676
Finney County	12,500,000	38,959	0

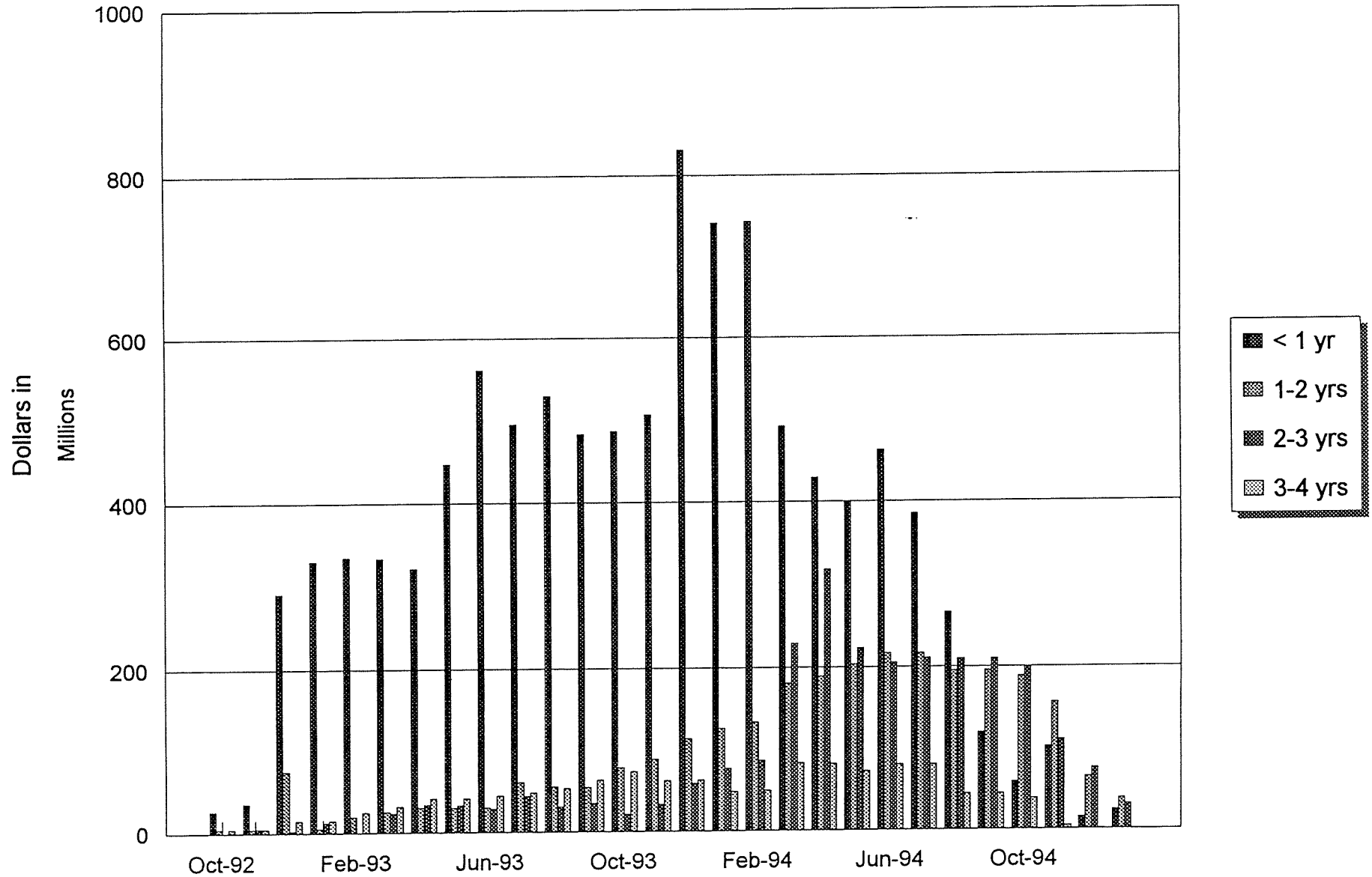


MUNICIPAL INVESTMENT POOL ACTIVITY BY SENATE DISTRICT

Municipality Name	For the Period 08/01/92 thru 12/31/94		Ending Balance
	Deposits	Interest Earned	As of 12/31/94
Garden City Recreation Co	420,000	2,023	62,023
Garden City USD #457	17,000,000	69,176	38,979
Garden City Community Coll	7,193,091	66,702	2,112,046
Winchester USD #339	9,000,745	27,484	879,373
Morton County	<u>17,200,000</u>	<u>11,491</u>	<u>411,491</u>
Total Senate District 39	<u>90,725,661</u>	<u>275,370</u>	<u>6,082,588</u>
Colby USD #315	14,409,755	227,863	3,332,740
Wallace County	<u>0</u>	<u>0</u>	<u>0</u>
Total Senate District 40	<u>14,409,755</u>	<u>227,863</u>	<u>3,332,740</u>
<u>State Agencies</u>			
Client Protection Fund Co	2,466,219	34,360	810,632
Dept of Administration	100,000	2,344	0
Emporia State University	4,753,910	89,926	821,776
Health Care Stabilization Fund	218,940,000	4,936,372	156,986,372
KDFA— Ks Water Pollution	420,458,083	3,352,490	5,458,062
KDFA Operations Fund	316,522	3,908	107,116
KDFA—KBEL Guarantee Acct	6,930,000	39,625	1,029,625
KDOT	374,654,169	4,149,262	19,368,641
University of Kansas	<u>8,814,549</u>	<u>104,293</u>	<u>1,803,883</u>
Total State Agencies	<u>1,037,433,452</u>	<u>12,712,580</u>	<u>186,386,107</u>
<b>*TOTAL MIP</b>	<u><b>10,552,134,599</b></u>	<u><b>68,451,168</b></u>	<u><b>703,703,530</b></u>

\* Detail does not add to TOTAL MIP due to inclusion of certain entities in more than one senate district, i.e. City of Lawrence is included in Districts 2 and 7 through 11.

# Investment Portfolio Structure for the Short MIP



91-1



Our society has grown in size and complexity, the demand for local government services has increased proportionately. Confronted with the rising cost of those services and a shrinking tax base, Kansas municipalities have faced either cutting services or raising taxes, both difficult and unpopular choices.

Today there is a third choice, the Municipal Investment Pool. The Pool is a voluntary investment alternative managed by the Office of the State Treasurer.


Implemented in August 1992, the Municipal Investment Pool has grown to over \$1.3 billion and has returned millions of dollars in much needed interest income to cities, counties, school boards and other Pool members across Kansas.

Local government pools, in existence since 1972, represent an increasingly popular and successful concept now available in more than half the states. Local government funds are "pooled" with other local funds to the financial benefit of all, since the larger the investment, often the better the rate.

Pooled investment funds are structured to offer investors a safe, liquid, convenient investment alternative that usually pays a higher yield than most directly purchased money market investment options.

I encourage you to seriously consider using the Pool to enhance your investment program. Our current members tell us that the Pool is bringing much needed revenue into their coffers. I like to tell people that every dollar earned through wise investments means one less dollar Kansans must pay in taxes.

The Pool has proven itself to be a truly successful investment option for Kansas.

  
Sally Thompson  
State Treasurer



# Municipal Investment Pool

Office of the State Treasurer  
900 SW Jackson, Suite 201-N  
Landon State Office Building  
Topeka, KS 66612-1235  
(913) 296-3171

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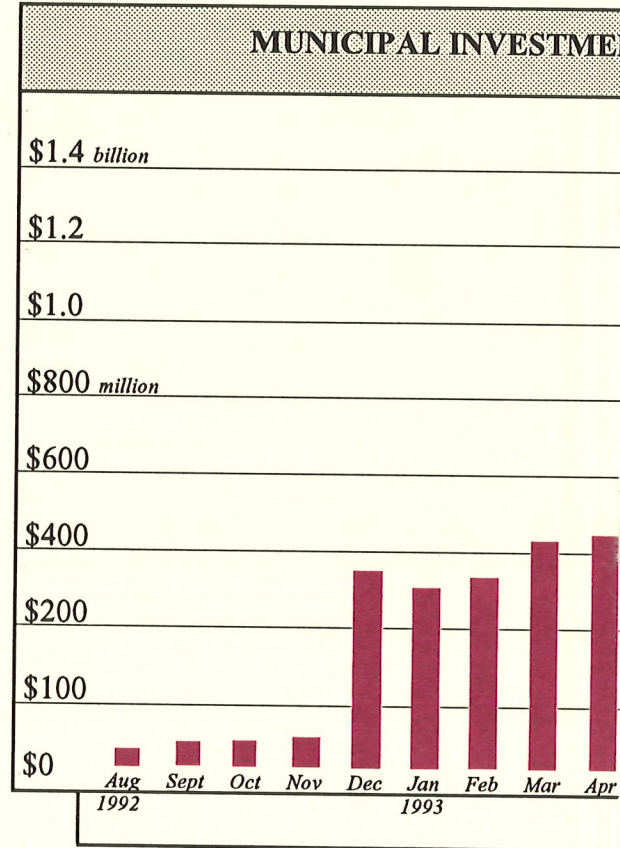
# MUNICIPAL INVESTMENT POOL

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*"Based on the calculations I've done, based on the pool, we've earned an additional \$60 thousand in interest income. It's \$60 thousand we would not have had if not for the Pool."*

*Larry Tucker  
Reno County Treasurer  
First MIP Member*

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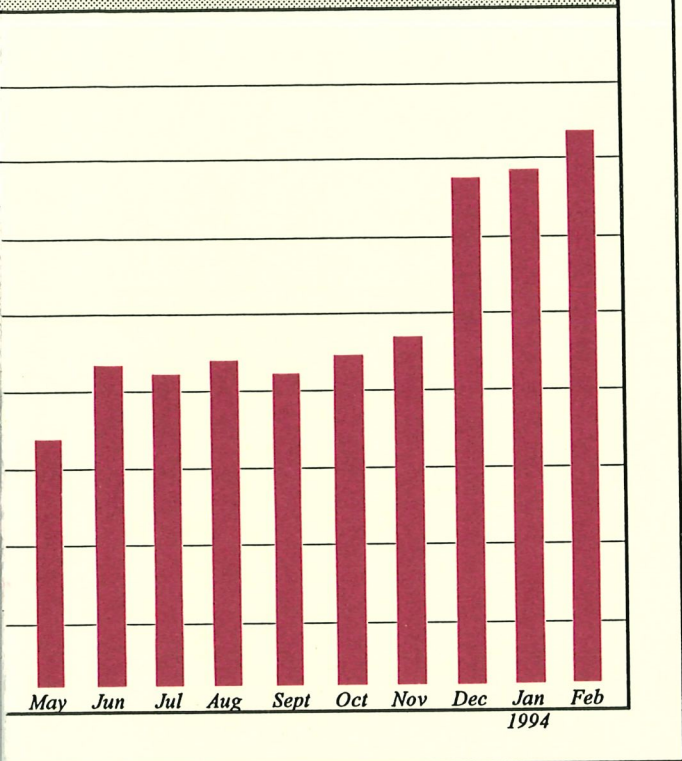


**PURPOSE:** The primary objective of the Kansas Municipal Investment Pool is to provide municipalities with an alternative investment vehicle that can earn a higher rate of return than would be achieved by independently investing public funds, while meeting the objectives of safety, liquidity and yield.

**OPTIONS:** With your Pool account, you may choose to invest in the Short (SMIP) or Intermediate (IMIP) Pool. Your Pool account can be used to make bond principal and interest payments due to the Kansas State Treasurer. You can make inter-pool transfers to and from other Pool participants, or within your own subaccounts. Local aid tax distributions, Board of Education disbursements, etc., can be directly deposited into your account. Maturity dates on draws for construction bond proceeds are flexible to accommodate weather delays, etc.

**SUCCESS:** In FY 1993, the Pool returned more than \$8 million in interest to its members. By February of 1994, the Pool had grown to well over \$1.3 billion and had returned more than \$28 million of interest income to cities, counties, school districts and other Pool members.

**NT POOL ♦ BALANCE**  
August 1992-February 1994



*"We've used the Pool for bond payments. It has been really convenient. We just fill out the transfer paperwork and the MIP staff does the rest. We save time and we don't have to send the payment so far in advance, therefore we earn more interest."*

*Elaine Schmidt  
Treasurer  
USD #418  
McPherson*

**Eligibility**

All 4,025 Kansas governmental units are eligible to participate.

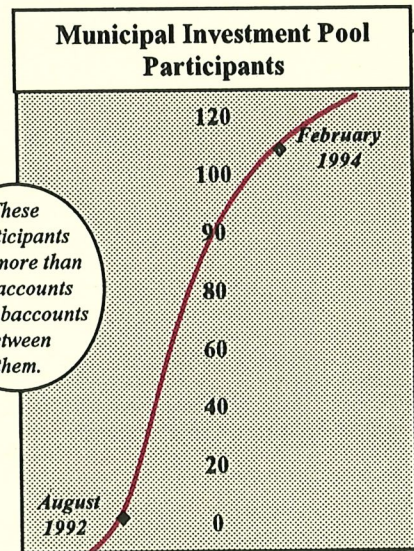
That includes:

- 627 cities
- 105 counties
- school boards
- townships
- area vocational technical schools
- community colleges
- water and fire districts
- or any other governmental entity with the authority to receive, hold and expend public monies or funds.

**B ♦ E ♦ N ♦ E ♦ F ♦ I ♦ T ♦ S**

*for Municipal Investment Pool members*

- ♦ Safety
- ♦ Increased Interest Income
- ♦ Professional Management
- ♦ Portfolio Diversity
- ♦ Convenience
- ♦ Economies of Scale
- ♦ Low Administrative Cost
- ♦ Daily Liquidity



*These participants have more than 500 accounts and subaccounts between them.*

*1-19  
+18*



Q A

**Q. What is the Municipal Investment Pool?**

A. The Pool is designed to provide an alternative for the investment of local funds, which takes advantage of professional investment expertise, portfolio diversification, economies of scale, daily liquidity and increased interest income.

**Q. What investment instruments are utilized in the Pool?**

A. The Pooled Money Investment Board may invest funds in the following instruments:

- ✓direct obligations of, or obligations that are insured as to principal and interest by, the United States Government or an agency thereof, with maturities up to four years, except that not more than 10 percent of those funds may be invested in mortgage-backed securities;
- ✓interest-bearing time deposits in Kansas financial institutions; or
- ✓repurchase agreements.

**Q. What must I do before I can use the Pool?**

A. ✓Local idle funds available for investment must FIRST be offered for deposit to all eligible banks, savings and loans and federally chartered savings banks which have home offices or branches in the investing community.

✓Municipalities may also define other terms of the offer which include maturity date and may include type of deposit (i.e., time deposit open account or certificate of deposit).

✓The statute requires that eligible financial institutions pay the investment rate calculated by the State Treasurer, printed weekly in the Kansas Register and available by calling 1-800-9-RATES-9. If a financial institution does not agree to pay the rate, the municipality may use the Pool.

✓FDIC. Under federal regulations, each institution holding time deposit funds of a local unit of government is insured for an amount not to exceed \$100,000 per depositor. For example, if a municipality has three separate time deposit accounts for \$100,000 each (total \$300,000), FDIC covers only \$100,000 of that total.

✓If the financial institution offers repurchase agreements instead of Certificates of Deposit, the municipality may reject the offer.

✓During non-peak periods, deposits must be fully collateralized. During peak periods, a financial institution and municipality may agree to allow security for the deposits to be reduced by no more than 50% of the amount of security required. A peak period cannot exceed 60 continuous days, nor 120 days in any calendar year. Collateral for deposits must be held by a third party custodian.

**Q. How do I open a Pool account?**

A. Call or write the MIP department at the Office of the State Treasurer (1-800-972-8379) and request a "Pool Packet". This "Pool Packet" contains all of the necessary documents, with instructions for completion, that you will need to open your account. Keep in mind you **MUST** have a resolution from your governing body in order to participate in the Pool (a sample form is included in the "Pool Packet").

**Q. How can I make deposits in the Municipal Investment Pool?**

A. Call 1-800-9-RATES-9 for transactions or information regarding your account. The State Treasurer's office will provide current rates and account balances and answer any questions you may have.

When deposits are made to your account, you must specify the date of deposit and maturity date. Notification of deposit must be received before 10:00 a.m. and monies must be delivered by 12:00 noon for the deposit to be credited and invested that day.

**Q. How is interest credited?**

A. Interest is calculated on the daily balance at the daily rate and is paid on the last calendar day of the month. Rates quoted and interest paid are net of management fees. The fee assessed by the State Treasurer's Office to administer the Pool is limited to one percent (1%) of the interest dollars received from investments held by the Pool.

**Q. How can I withdraw funds from the Pool?**

A. Fund withdrawals may be made by telephone, with the required password, or by fax, with the appropriate signature. Withdrawals over \$1 million require prior business day notice. Other withdrawals requested by 10 a.m. are processed the same day. After 10 a.m., withdrawal requests are processed the following business day.

**Q. Are there risks involved in using the Pool?**

A. An entity's level of risk is similar to but less than that which the entity has if it purchases its own securities outright. There is potential for loss to the Pool if a large number of entities request early withdrawals at the same time and securities must be sold. There is also potential for gains. In order to protect participants, the Office of the State Treasurer has created a reserve fund which provides protection against possible future losses. For individual participants, there is potential for a penalty for early withdrawal.

For further information, call or write:  
Peggy Hanna, Director of Cash Management  
900 SW Jackson, Suite 201-N  
Topeka, KS 66612-1235 (913) 296-3171

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~~1-19~~