

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Dick Bond at 9:07 a.m. on February 6, 1995 in Room 529-S of the Capitol.

All members were present.

Committee staff present: Dr. William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
Richard Ryan, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
June Kossover, Committee Secretary

Conferees appearing before the committee: William Caton, Pooled Money Investment Board
Chris McKenzie, League of Kansas Municipalities

Others attending: See attached list

Senator Praeger moved to approve the minutes of the meeting of February 2 and submitted. Senator Steffes seconded the motion; the motion carried.

The hearing on **SB 9** was resumed with William Caton, Member of the Pooled Money Investment Board, appearing to present his perspective as a board member. Mr. Caton explained how the short-fall within the Municipal Investment Pool (MIP) occurred and suggested five steps to prevent such problems in the future. (Attachment #1) Chairman Bond asked if Mr. Caton were suggesting statutorily limiting the length of deposits to the length of maturity and Mr. Caton responded that those in the pool should assume the market risk. Senator Bond then asked Mr. Caton to address the two issues of swapping state agency securities for municipal securities to achieve liquidity and the actual moving of funds from state general funds to the MIP. Senator Bond also asked if statutory language is necessary to insure that state idle funds have the same access to income they would have received if swaps had not occurred. Mr. Caton explained that the "swaps" should be appropriate but would have to be done at market value to solve the problem.

Senator Steffes questioned, if swaps are allowed, what will be the downside with regard to the public perception that assistance is being provided to one group of taxpayers by another group of taxpayers, and should there not be a "wall" between municipal funds and state general funds. Senator Steffes also observed that, although he feels the MIP is a good idea, pool participants have received benefits that those not in the pool have not had access to.

In response to Senator Praeger's question regarding the potential for lost opportunity to invest state general funds, Mr. Caton replied that this cannot be determined, that there will be a loss but there is no way to predict the amount.

Senator Lee observed that there was also the possibility that state general funds could receive a higher rate by being combined with MIP funds and asked who would be responsible for paying for a financial advisor. Mr. Caton advised that the MIP would pay for an advisor but the return should more than offset the expense.

Senator Hensley asked Mr. Caton why he had revised his testimony to include the disclaimer that his remarks were based on financial, not political, reasons and who had requested his testimony. Mr. Caton replied that he had requested to be allowed to testify and had revised his testimony in response to the conjecturing in the press regarding political motivations. Senator Hensley then quoted from Mr. Caton's remarks to the Post Audit Committee regarding the Bankers' Thrift situation and asked for Mr. Caton's response. Mr. Caton stated that the two situations are very similar and that the basic difference is that there was a perception that the state was guaranteeing investments for Bankers' Thrift investors. The similarity is that the state has been asked to "bail out" in situations where it should not have been involved. Mr. Caton also advised Senator Hensley that he had shared his testimony with Treasurer Sally Thompson prior to presenting it to this committee.

Senator Bond asked Mr. Caton if it was his opinion that four years' investment is too long and Mr. Caton responded that if there is money in "core funds" available for long-term deposits, four years was not too long for those investments.

CONTINUATION SHEET

MINUTES OF THE Senate Committee on Financial Institutions & Insurance, Room 529-S Statehouse, on February 6, 1995.

Chris McKenzie, League of Kansas Municipalities, presented eight suggestions to strengthen the MIP. (Attachment #2) In response to Senator Bond's request, Mr. McKenzie explained that "leveraging" is borrowing in order to have cash on hand to invest at a higher rate than the cost of borrowing. This has not happened except for reverse repos but there should be legislation preventing such action. Mr. McKenzie also presented proposed amendments to **SB 9**. (Attachment #3)

Senator Corbin asked whether local governments should not assume the risk for their investments and not expect the state general fund to bail them out and Mr. McKenzie responded that the pool should have reserves to deal with situations such as was experienced in 1994. Mr. McKenzie also agreed that a financial advisor should be retained and should be paid for by investors in the MIP

Senator Steffes asked how many municipalities are in the MIP and the answer was that of 627 cities in Kansas, around 50 (less than 10%) are involved in the MIP; in other words, there are other options besides the MIP and the municipalities who do not choose the MIP are not benefitting from the security of using state funds to back up investments.

Senator Hensley asked whether it is known how the proposed qualifications for board members would affect the makeup of the current board and the response was that all present members would qualify.

Due to time constraints, the hearing on **SB 9** was continued to February 7, 1995. The committee adjourned at 10:02 a.m.

SENATE FINANCIAL INSTITUTIONS & INSURANCE
COMMITTEE GUEST LIST

DATE: 2/6/95

NAME	REPRESENTING
Bill Caton	PM IB
NORM WILKS	KASB
W.E. Lewis	
Chuck Storm	KBA
Kathy Taylor	KBA
Martin Hauser	Hauser's Capital Report
Jim Rardon	KANSAS ASSN of Counties
Chris McKenzi	League of Ks. Municipalities
Jilly Thompson	State Treasurer -
Jama Wagner	"
Jana Dorn	✓
Les Napier	Legislative Post Audit
Sandra J. DeCoursey	KS Insurance Dept.
Smiley	KBA
John Federico	Pete McGill + Assoc
Roger Trautner	FIC

TESTIMONY
SENATE BILL 9
by Bill Caton, Member
Pooled Money Investment Board
February 6, 1995
(Revised)

Thank you for the opportunity to testify before you. I would like to share my perspective of this situation as a member of the Pooled Money Investment Board ("PMIB"). I have served on the Board since 1993 and participated in the development of the current investment policies. The investment policy adequately provided the Treasurer with proper investment guidelines to avoid market risk by requiring investment strategies to first consider safety, second consider liquidity, and third consider yield. The Treasurer invested monies of the Municipal Investment Pool ("MIP") according to State Statutes. The Legislative Post Audit did not determine that the Treasurer was negligent. An independent audit confirmed what the Legislative Post Audit found and went further to conclude that the Treasurer's investment decisions were "reasonable in view of the information available at the time". So how could we possibly have the situation we now face? I will address several factors I feel contributed to the problem. I am not here to place blame on anybody, especially the Treasurer and her staff. I am here to address the problem we now face.

When Senate Bill 480 was being contemplated by the 1992 Legislature, Governor Finney asked me to evaluate this bill and its impact on the investment of public funds. My analysis was simple and to the point: anytime there is legislative authority to invest longer than cash flow needs, you create the opportunity to assume market risk that is difficult to manage by even the most sophisticated investment managers. Our present situation attests to this point. I do consider the Treasurer's staff as sophisticated investment managers. When KDFA has purchased government securities, we have faithfully used the Treasurer's office and feel very confident in their abilities to purchase and sell securities effectively. Also, the pressure on public funds investment managers to maximize returns entices excessive risk assumption. This pressure does not come from the taxpayer; it comes from within because government at all levels cannot control its own spending and additional sources of non-tax income must be maximized to fund this uncontrolled spending. This pressure directly entices public funds investment managers to assume risk beyond their comprehension. I believe this is the underlying reason the MIP along with many other public funds investment pools are in the situation they are in now.

Statutory limits should be created to avoid gross mismatches of cash flow needs and investment maturities. I would recommend that the average weighted maturities of investments held by the MIP not exceed twice the stated average weighted maturities of the deposits with a maximum disparity of 90 days. This would limit the amount of risk caused by interest rate variations.

The independent audit performed by William M. Mercer Asset Planning Inc. for the PMIB concluded there is a basic flaw in the statutory structure of the MIP. It states the MIP needs to be managed on a market-value basis rather than the dollar-in, dollar-out basis to avoid the promotion of inequity and instability. I recommend the legislature consider requiring the future management of the MIP be based on market-value basis as soon as it is feasible to implement.

Another concern I have is the co-mingling of State idle funds into the MIP. Although I voted against this, PMIB investment policy was amended to allow the lesser of 20% or \$250 million of State idle funds be invested in the MIP. This co-mingling of funds appears to be necessary to provide new money to the MIP so it may invest these new monies at higher, short-term rates to

Senate 7141 2/6/95 Attachment #1

offset, over time, more than \$17 million in losses already realized plus potential future liquidity problems that could force the Treasurer to realize additional losses. This co-mingling has created an inequitable, non-appropriated subsidy for the pool participants because the State will probably earn lower-than-market rates in the MIP while these losses are being recouped over the next several months. I believe this co-mingling is necessary to minimize losses, but I also believe it is not appropriate for the State to assume risk for the municipalities or subsidize the losses realized by the MIP. I recommend the Legislature consider sunsetting the PMIB's authority to permit this co-mingling no later than May 1, 1996. This gives the Treasurer 15 months to work out this current problem plus gives the 1996 Legislature an opportunity to modify this sunset if necessary.

A twelve member advisory board is contemplated for MIP, with the majority being probable MIP participants. I am concerned about the effectiveness of this board and its motives to advise on investment strategies. In defending her investment strategies, the Treasurer has stated several times to the PMIB that many participants have encouraged her to invest in even longer term securities to achieve higher yields. To me, this confirms my contention that the necessity to stretch revenues beyond taxing capabilities encourages the assumption of investment risk beyond reasonable limits. The Orange County fiasco demonstrates this point to the greatest extreme, but by no means am I comparing Kansas to Orange County. Unless the MIP advisory board understands and assumes the market risk, I would consider input from this board potentially counter-productive and contributory to excessive risk assumption. As a possible alternative, a paid expert financial advisor like Mercer reporting to the PMIB on a monthly or quarterly basis could provide the necessary risk analysis and investment strategy review.

A final concern I would like to address is the tremendous market risk created by the purchase of derivatives and leveraging funds. Although many of these derivative products have the backing of the "full faith and credit of the United States Government", their market value is very, very volatile. One case in point is Escambi County, Florida which has a derivative laden portfolio that has a face value of 44.7 million dollars and has a market value of only 21.5 million dollars. As long as they hold these securities to maturity, they will get their 44.7 million dollars back plus interest. So, as you can see, liquidity is just as important as quality. To the Treasurer's credit, she has not participated in these practices except for short-term reverse-repos which are appropriate for very short-term cash flow needs. A prohibitions on such activities (except short-term reverse-repos) should be contemplated by the Legislature to avoid the serious pitfalls of these practices.

To conclude my testimony, I would like to itemize potential legislative considerations that would strengthen the regulation on the investment of public funds and limit potential risk assumption by public funds investors.

- Limit the investment maturity to deposit maturity disparity
- Require market-value management of MIP
- Require segregation of State idle funds and MIP funds (at a later date)
- Require periodic expert private financial advice
- Prohibit the purchase of derivatives and leveraging (except for reverse-repos for less than 30 or 60 days)

I do believe the lessons we have learned this past year need to be reflected in our statues for when we have forgotten 1994. And believe me, the financial market is counting on us to forget so se can have yet another business cycle.

Based on the information I have presented, I see this strictly as a financial issue and not a political issue. Any actions and decision as a PMIB member have been based solely on financial matters.

I sincerely hope the perspective I have presented is helpful and informative. I stand for questions.



**League
of Kansas
Municipalities**

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 S.W. 7TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

LEGISLATIVE TESTIMONY

TO: Senate Financial Institutions and Insurance Committee
FROM: Chris McKenzie, Executive Director *~~~~~*
DATE: February 6, 1995
RE: SB 9; Proposed Amendments

Thank you for this opportunity to appear today on behalf of the 543 member cities of the League to support SB 9 and request your consideration of some related amendments. At the outset I want to acknowledge the debt of gratitude which the cities of Kansas owe to the legislature for the creation of the Municipal Investment Pool (MIP) in 1992. The availability of the MIP has many times meant having a safe place to deposit a city's money when no local institutions could accept it. For other cities it has meant the opportunity for realizing a reasonable rate of return on the city's investments of its tax dollars when similar arrangements were simply not available locally, decreasing the pressure on the property tax. The MIP has served a valuable and important public purpose, and it is an excellent example of state-local and public-private sector cooperation to achieve important public goals. The League supported the creation of the MIP in 1992, and we support its continued operation.

I also want to express appreciation for the tireless commitment of our state treasurer, Sally Thompson, in the implementation of the MIP. Without her efforts many cities would have continued to experience frustration investing local funds--a frustration which I believe has been shared by local financial institutions that have been unable to accept deposits of public funds from time to time. Ms. Thompson has worked closely with the League and other local government groups to explain the investment opportunities through the MIP and to provide general investment advice to our member cities at League conventions and other meetings.

Since the Municipal Investment Pool is still a very new program and the market forces of the last year have put such great pressure on this and similar pooled investment programs, we respectfully submit it is appropriate for the legislature to consider certain proposed changes to the MIP statutes to provide even further assurance that the MIP will continue to provide an important investment alternative for local governments.

The League supports SB 9, and we further request the Committee to study certain amendments to the MIP statutes which may further strengthen this excellent program. These changes tend to fall into two categories. The first category includes additions to the MIP statute which already have been adopted by the state treasurer as her policies for management of the MIP. If embodied in statute, these changes would simply codify the following policies and practices:

- ① **Derivatives**--prohibiting the purchase of derivative securities;

*Senate 71 + 1
2/6/95
Attachment #2*

- ② **Leveraging**--prohibiting borrowing (or leveraging) to finance the purchase of securities for the MIP portfolio;
- ③ **AAA Ratings**--requiring that all indirect federal obligations purchased for the MIP portfolio be AAA rated securities; and
- ④ **Monthly Reports**--providing monthly reports to MIP participants, including the market value of the pool investments.

The **second category** of suggested changes have not been implemented administratively and, in most cases, require statutory revision to implement. I would describe them generally as "process-oriented changes", designed to increase the number of individuals involved in developing and advising on MIP investment policy and procedures. One of the items is extremely substantive, however, and it vital that it be part of the dialogue that we recommend begin in this committee and continue throughout the session. A brief description of these recommendations is as follows:

- ⑤ **Investment/Deposit Duration Ratio.** One of the issues raised in the two recent audits of the MIP is the relationship between the weighted average maturity (WAM) of investments by the MIP and the weighted average maturity of local government deposits in the MIP. As a starting point for discussion, we recommend that the Committee study the possibility of inserting a statutory ceiling on this ratio of 2-to-1. That would mean the WAM of the investments could be no more than twice as long as the WAM of the deposits. While making this recommendation I am quick to say that it is extremely important that this ratio be adopted only after very careful study. The Municipal Investment Advisory Committee, which held its first meeting last Thursday, as well as the PMIB should be asked to look at this question immediately and offer their advice. Like representatives of the state treasurer's office, I plan on attending a conference on state administered municipal investment pools later this month, sponsored by the National Conference of State Legislators (NCSL) and the Government Finance Officers Association (GFOA), at which this question and related MIP issues will be discussed. In other words, in just a few weeks we will be able to learn about alternatives that have been used to address this concern in other states. I hope we will be allowed to share that experience with you and the House committee.
- ⑥ **Advisory Committee.** The League has already worked with the state treasurer, the KAC and the KASB to help form an advisory committee of some of our most talented finance experts to review investment policy and strategy questions with the treasurer. We recommend that you consider making this Committee statutory, with the Board members being appointed by the Governor and advisory to the state treasurer. We are pleased that Ms. Thompson has taken the steps to appoint the on an interim basis, a more formal statutory arrangement will ensure its long term existence. Further, the Governor's involvement in the appointment process will involve the chief elected official of our state in the process at the outset.
- ⑦ **PMIB Role and Qualifications.** In order to underscore the importance of the role of the

PMIB in oversight of the MIP, we recommend:

- increasing the qualification requirements for PMIB membership to require that three of the board members have not less than five years of work experience as an investment or trust officer and be a certified public accountant, a certified financial analyst or a certified cash manager. Current law is expressed in the alternative, and the latter two classifications are missing. This recommendation also removes the "certified financial planner" from the listing of eligible certified professions that are eligible;
 - provide for approval by the PMIB of the state treasurer's rules and regulations for operation of the MIP;
 - provide for PMIB selection of the firm to perform the annual performance audit rather than the state treasurer alone; and
 - provide for PMIB development and updating on an annual basis of policies for the MIP and its separate accounts. You may recall that the Legislative Post Audit report recommended separate policies for the different accounts.
- ⑧ **Investment Exchanges or Swaps.** As you know, in November, 1994 certain shorter term securities were transferred from both the State portfolio and the IMIP (the intermediate MIP portfolio) into the SMIP account of the MIP in exchange for longer term maturities in order to provide more liquidity to the SMIP. While I believe this step was prudent and in the public interest, understandable questions have arisen about the relative value of the securities that were exchanged. In order to put in place a process through which such issues can be discussed and resolved, we suggest that all such decisions require the affirmative approval of the state treasurer, the PMIB and State Finance Council. In any case, we believe it is desirable to consider whether more individuals should be involved in this decision making process in order to ensure an open debate on whether the interests of the state of Kansas are adequately protected when and if such exchanges are considered in the future. You also may wish to consider a similar process for the investment of "idle" state funds in the MIP.

Conclusion

This is a serious and extremely important matter to this Committee, the state legislature in general, our state treasurer, and the member cities of the League. What I have tried to offer today is a starting point for discussion of possible statutory changes which could contribute to an even stronger MIP. I look forward to working with you, our state treasurer, and the MIP Advisory Committee on these issues over the next few weeks. Thank you.

SENATE BILL No. 9

By Senator Moran

1-3

9 AN ACT concerning the municipal investment pool fund; relating to cer-
10 tain requirements; amending K.S.A. 1994 Supp. 12-1677a and repeal-
11 ing the existing section.

12
13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. K.S.A. 1994 Supp. 12-1677a is hereby amended to read
15 as follows: 12-1677a. (a) Moneys deposited by any municipality with the
16 state treasurer for investment authorized in paragraph (6) of subsection
17 (b) of K.S.A. 12-1675, and amendments thereto, shall be deposited in the
18 municipal investment pool fund which is hereby created in the state treas-
19 ury.

20 (b) The pooled money investment board may invest and reinvest
21 moneys in the municipal investment pool fund in the following invest-
22 ments:

23 (1) Direct obligations of, or obligations that are insured as to principal
24 and interest by, the United States of America or any agency thereof and
25 obligations and securities of United States sponsored enterprises which
26 under federal law may be accepted as security for public funds, except
27 that not more than 10% of the moneys available for investment under
28 this subsection may be invested in mortgage-backed securities of such
29 enterprises and of the government national mortgage association;

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

34 (3) repurchase agreements with a Kansas bank, Kansas savings and
35 loan association, a federally chartered savings bank having an office or
36 offices in the state of Kansas or with a primary government securities
37 dealer which reports to the market reports division of the federal reserve
38 bank of New York for direct obligations of, or obligations that are insured
39 as to principal and interest by, the United States government or any
40 agency thereof and obligations and securities of United States govern-
41 ment sponsored enterprises which under federal law may be accepted as
42 security for public funds.

43 (c) All interest earnings received from investments of money in the

public funds; relating to the municipal
investment pool fund; pooled money investment
board

75-4221a and

sections

: (A)

and (B) investments in other than direct
obligations under this paragraph shall be rated
at the time of investment, in the highest
rating category by Moody's investors service or
Standard and Poor's corporation;

Senator 7/2/1
2/6/95
Attachment # 3

3-2

1 municipal investment pool fund shall be credited to the municipal in-
 2 vestment pool fund. Interest earnings experienced by the fund on in-
 3 vestments attributable to each participating municipality shall be prorated
 4 and applied to the individual accounts of the municipalities, maintained
 5 by the state treasurer. Deferred earnings transferred from the municipal
 6 investment pool reserve fund to the municipal investment pool fund shall
 7 be prorated and applied to the individual accounts of the municipalities,
 8 maintained by the state treasurer. A statement for each municipality par-
 9 ticipating unit account showing deposits, withdrawals, earnings and losses
 10 distributions shall be provided ~~periodically~~ to the municipality. The state
 11 treasurer shall make comprehensive reports to those municipalities par-
 12 ticipating in the municipal investment pool fund; ~~including and to other~~
 13 ~~interested parties requesting such reports. Such reports shall include a~~
 14 summary of transactions for the ~~period~~ as well as the current market value
 15 of the pool investments.

monthly

month

16 (d) The state treasurer may assess reasonable charges not to exceed
 17 1% of the interest earned against the fund for reimbursement of expenses
 18 incurred in administering the fund. The state treasurer shall certify, ~~pe-~~
 19 ~~riodically~~ *monthly*, the amount of the assessment and the director of ac-
 20 counts and reports shall transfer the amount certified from the municipal
 21 investment pool fund to the municipal investment pool fund fee fund,
 22 which is hereby created. All expenditures from the municipal investment
 23 pool fund fee fund shall be made in accordance with appropriation acts
 24 upon warrants of the director of accounts and reports issued pursuant to
 25 vouchers approved by the state treasurer or a person or persons desig-
 26 nated by the state treasurer. Amounts of gains realized on disposition of
 27 investments of the municipal investment pool fund shall be ~~periodically~~
 28 certified *monthly* by the state treasurer, and the director of accounts and
 29 reports shall transfer the amount certified from the municipal investment
 30 pool fund to the municipal investment pool reserve fund which is hereby
 31 created in the state treasury. The state treasurer shall make a determi-
 32 nation of the amount needed for a reserve for possible losses to the mu-
 33 nicipal investment pool fund and shall certify ~~periodically~~ *monthly* such
 34 amount, and the director of accounts and reports shall transfer the
 35 amount so certified from the municipal investment pool fund fee fund to
 36 the municipal investment pool reserve fund. If the state treasurer makes
 37 a determination that significant losses or gains have occurred to the mu-
 38 nicipal investment pool fund, the state treasurer shall certify the amount
 39 thereof to the director of accounts and reports, and the director of ac-
 40 counts and reports shall transfer the amount so certified from the mu-
 41 nicipal investment pool reserve fund to the municipal investment pool
 42 fund.

Subject to approval of the pooled money investment board,

43 (e) The state treasurer may adopt rules and regulations necessary to

The state treasurer

pooled money investment board

and any separate account within such fund

3-3

1 out the provisions of this section and may enter into agreements
2 with any municipality as to methods of deposits, withdrawals and invest-
3 ments.

4 (f) Investments under subsection (b) shall be for a period of not to
5 exceed four years, except for mortgage backed securities.

6 (g) A comparative investment performance review shall be contracted
7 for annually by the state treasurer's office.

8 (h) Deposits in the municipal investment pool fund may only be made
9 for the same maturity as the maturity which is offered under paragraphs
10 (2) and (3) of subsection (b) of K.S.A. 12-1675 and amendments thereto.

11 (i) Moneys and investments in the municipal investment pool fund
12 shall be managed by the pooled money investment board in accordance
13 with investment policies provided by law and by rules and regulations of
14 such board. The pooled money investment board shall not contract for
15 management of investments by a money manager.

16 (j) Investments in securities under paragraph (1) of subsection (b)
17 shall be limited to securities which do not have any more interest rate
18 risk than do direct United States government obligations of similar ma-
19 turities, except for the 10% limitation on mortgage-backed securities. For
20 purposes of this subsection, "interest rate risk" means market value
21 changes due to changes in current interest rates.

22 (k) For the purpose of this section, "municipality" means those en-
23 tities specified in subsection (a) of K.S.A. 12-1675, and amendments
24 thereto.

25 Sec. 2³ K.S.A. 1994 Supp. 12-1677a is hereby repealed.

26 Sec. 3⁴ This act shall take effect and be in force from and after its
27 publication in the Kansas register.

developed, approved, published and updated on
an annual basis by such board. Such investment
policies shall include at a minimum guidelines
which identify credit standards, eligible
instruments, allowable maturity ranges, methods
for valuing the portfolio, calculating earnings
and yields and limits on portfolio
concentration for each type of investment. Any
changes in such investment policies shall be
approved by the pooled money investment board.
A copy of such published policies shall be
distributed to all municipalities participating
in the municipal investment pool fund and to
other interested persons requesting a copy of
such policies

The pooled money investment board shall retain
the services of an external investment advisor
to provide advisory services concerning the
investment policies and practices for the
municipal investment pool fund. Such
investment advisor shall be different from the
person or firm contracted with under subsection
(g).

See new subsections (k), (l), (m) and (n)
attached.

(o)

: (1)

i
(2) "derivatives" means a financial
contract whose value depends on the value of an
underlying asset or index of asset values; or

(3) "weighted average maturity" means the
sum of the total number of days to maturity for
each individual security multiplied by the par
value of each individual security divided by
the par value of all securities.

See Sec. 2. K.S.A. 75-4221a attached.

and 75-4221a are

(k) On and after July 1, 1996, the weighted average maturity of all investments in the municipal investment pool fund and in accounts within such fund shall not exceed the weighted average maturity of all deposits in the municipal investment pool fund and in accounts within such fund, by more than 200%.

(l) The pooled money investment board shall not: (A) Invest moneys in the municipal investment pool fund in derivatives; (B) enter into reverse repurchase agreements, except for the purposes authorized under subsection (b) of K.S.A. 1994 Supp. 12-1677c, and amendments thereto.

(m) On and after January 1, 1996, investments made under paragraph (2) of subsection (a) of K.S.A. 75-4209, and amendments thereto, shall not be exchanged with investments of the municipal investment pool fund without prior approval of the pooled money investment board and the prior approval of the state finance council acting on this matter which hereby characterized as a matter of legislative delegation and subject to the guidelines prescribed in subsection (c) of K.S.A. 75-3711c, and amendments thereto.

(n) The pooled money investment board may adopt such rules and regulations for the management of such moneys and investments in the municipal investment pool fund as the board deems necessary.

Sec. 2. K.S.A. 1994 Supp. 75-4221a is hereby amended to read as follows: 75-4221a. (a) There is hereby established the pooled money investment board which shall consist of five members, four of whom shall be appointed by the governor, subject to confirmation by the senate as provided in K.S.A. 75-4315b and amendments thereto. The fifth member shall be the state treasurer. Not more than three members of the board shall be of the same political party. At least three members appointed to the board shall be persons with not less than five years of work experience as an investment or trust officer for a financial institution, association or corporation ~~or~~ and is currently a certified public accountant ~~or--certified--financial--planner,~~ certified financial analyst or certified cash manager.

(b) On July 1, 1992, the two appointive board members serving on the board immediately prior to such date shall cease to be members of the board and on such date, or as soon thereafter as possible, the governor shall appoint four members to the board to serve for terms as specified by this subsection. The two appointive members serving on the board immediately prior to July 1, 1992, may be reappointed to the board on or after such date under this subsection. Of the members first appointed on or after July 1, 1992, two members shall be appointed for a term commencing on July 1, 1992, and ending on June 30, 1994, and two members shall be appointed for a term commencing on July 1, 1992, and ending on June 30, 1996. The governor shall designate the term for each member so appointed. Thereafter, members appointed to the board shall serve for four-year terms and until their successors are appointed and qualified. Whenever a vacancy

occurs in the membership of the board prior to the expiration of a term of office, the governor shall appoint a qualified successor to fill the unexpired term.

(c) Members of the pooled money investment board attending meetings of such board, or attending a subcommittee meeting thereof authorized by such board, shall be paid compensation, subsistence allowances, mileage and other expenses as provided in K.S.A. 75-3223 and amendments thereto.

New Sec. 3. (a) There is hereby established the municipal investment pool advisory committee which shall have nine voting members. Initially, the league of Kansas municipalities shall nominate six persons of whom the governor shall appoint three to be members of the advisory committee. Initially, the association of counties shall nominate six persons of whom the governor shall appoint three to be members of the advisory committee. Initially, the Kansas association of school boards shall nominate six persons of whom the governor shall appoint three to be members of the advisory committee. Of the persons initially appointed to the advisory committee, one from each of the three members nominated by each nominating body and appointed by the governor to be members shall have a term of four years. Of the persons initially appointed to the advisory committee, one from each of the three members nominated by each nominating body and appointed by the governor to be members of the advisory committee shall have terms of two years. Of the persons initially appointed to the advisory committee, one from each of the three members nominated by each nominating body and appointed by the governor to be members of the advisory committee shall have terms of one year. Of the persons so appointed the governor shall designate the term of each in accordance with the above. The governor shall also appoint two non-voting ex officio members of the advisory committee to serve for terms of three years. One of such ex officio members shall be selected by the governor from three persons nominated by the Kansas bankers association.

(b) Upon the expiration of the terms of each member initially appointed to the advisory committee, the nominating body specified in subsection (a) which nominated the member whose term has expired shall nominate three persons to fill such vacancy, and the governor shall appoint one of such persons to fill such vacancy for a term of four years. In like manner persons shall be nominated and appointed to fill all vacancies which occur upon the expiration of a member's term and each person so appointed shall serve for a term of four years. When a vacancy occurs before the term of the member expires, the vacancy shall be filled for the balance of the unexpired term in the same manner as for vacancies occurring when terms expire.

(c) The municipal investment pool advisory committee shall organize annually by electing from its members a chairperson and vicechairperson. The advisory committee shall meet on call of the chairperson or any four voting members, or upon call of the state treasurer. Members of the advisory committee shall receive such compensation and expense reimbursement as is provided by the governing body of the city, county or board of education which nominated such member.

(d) Persons nominated under subsection (a), and members appointed to the advisory board, except ex officio members, shall be from a city, county or school district that is an active participant in the municipal investment pool fund. Nominees and members appointed to the advisory committee shall be from geographically diverse areas and communities of the state.

Nominees and members appointed to the advisory committee shall be educated in, and have substantial work experience in, matters of money management and investments. Such education and work experience may be as an investment manager, municipal investment officer or trust officer for a financial institution, association or corporation or be a currently certified public accountant, certified financial analyst or certified cash manager. In lieu of such education and work experience, nominees and members appointed to the advisory board may have substantial experience as a local government money manager.

(e) The municipal government investment pool advisory committee shall advise the state treasurer on matters of investment strategies, policies and operational procedures for the municipal investment pool fund.