

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Dick Bond at 9:06 a.m. on February 20, 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  
June Kossover, Committee Secretary  
Richard Ryan, Legislative Research Department  
Bruce Kinzie, Revisor of Statutes

Others attending: See attached list

Senator Steffes made a motion, seconded by Senator Clark, to approve the minutes of the meeting of February 15 as submitted. The motion carried.

The committee received the subcommittee report on Substitute for Senate Bill 9. Bruce Kinzie of the Revisor's Office, explained each change contained in the substitute bill. (Attachment #1)

Section 1(1)(B) provides for the rating of investments by Moody's or Standard and Poor's, whichever is higher. Senator Clark questioned why it is one or the other and Sally Thompson, State Treasurer, advised that sometimes only one rates an investment. Senator Corbin observed that there are other agencies besides these two and questioned whether we needed to add others. Senator Steffes responded that rarely would the pool be involved in anything not rated by either of these agencies since these are the industry standards, and that the language should not be changed.

Section 1(3)(c) changes the reporting requirement from "periodic" to "monthly". Bruce Kinzie presented language to include weighted average maturity in the reporting requirement. Senator Steffes made a motion to conceptually amend the bill according to the language suggested by Mr. Kinzie. Senator Clark seconded the motion. The motion carried.

Section 1(3)(e) provides clarification regarding rules and regulations for the administration and operation of the Municipal Investment Pool.

Section 1(3)(g) would change the investment performance review from "annually" to "periodically" and specify that the review is to be paid for from the MIP fee fund.

Section 1(3)(i) provides that investment policies shall be developed, approved, published and updated annually by the Pooled Money Investment Board (PMIB) and provides that the PMIB shall contract for the services of an external investment advisor concerning policies and practices of the MIP.

Section 1(3)(k) establishes that after July 1, 1996, the overall ratio of maturity to investment shall be no more than 2 to 1. Senator Clark questioned why it would not be set at 1 to 1. Senator Bond explained that the pool should be allowed this opportunity to earn larger rates while insuring greater safety and stability to the investors.

Section 1(3)(l) contains language specifying what the MIP can invest in.

Section 1(3)(m) deals with guidelines for "swaps" of state agency securities.

Section 1(3)(n) further clarifies the rules and regulations authority of the PMIB.

Section 1(3)(m) defines "derivatives" and "weighted average maturity."

Section 2(C)(i) creates a wall between the state general funds and the MIP. It was pointed out that the subcommittee agreed to this provision on a 3 to 2 vote. Senator Hensley offered an amendment (Attachment #2) which would allow the State Treasurer to transfer funds with prior approval of the PMIB and the State Finance Council, stating that this would allow for more flexibility in the future. Senator Steffes spoke against creating any opportunity to use state funds to stabilize the MIP and Senator Praeger observed that, if any transfer of funds is allowed, the board might make recommendations based on the knowledge of having access to state general funds. Following further discussion, Senator Hensley moved that his amendment be adopted. Senator Petty seconded the motion. The motion failed.

CONTINUATION SHEET

MINUTES OF THE Senate Committee on Financial Institutions & Insurance, Room 529-S Statehouse, on February 20, 1995.

Section 3(a) delineates the qualifications for membership on the PMIB . Following discussion of whether current board members would be affected, Senator Steffes made a motion to conceptually amend the bill to "grandfather" in current members. Senator Clark seconded the motion; the motion carried.

New Section 5 establishes the Advisory Committee to the MIP.

Mr. Kinzie asked for the committee's pleasure on the effective date of Substitute for SB 9. After discussion, a motion was made by Senator Praeger and seconded by Senator Steffes to make the bill effective upon publication in the Kansas Register. The motion carried.

There were no further requests for amendments. Senator Emert asked for clarification from Ms. Thompson regarding why the "periodic" performance review and the estimated cost of hiring the required investment advisor.

Senator Steffes moved to pass Substitute for SB 9 favorably as amended. Senator Praeger seconded the motion. The motion carried.

Chairman Bond thanked the subcommittee members, the State Treasurer, and staff who worked diligently to resolve the difficulties with this legislation.

The committee adjourned at 9:55 a.m. The next meeting is scheduled for February 21, 1995.

SENATE FINANCIAL INSTITUTIONS & INSURANCE  
COMMITTEE GUEST LIST

DATE: 2/20/95

NAME	REPRESENTING
Diane Gjerstad	USD 259
Tom Wilber	Kan. Dept. of Insurance

## Substitute for SENATE BILL NO. 9

By Committee on Financial Institutions and Insurance

AN ACT concerning public funds; relating to the municipal investment pool fund; establishing certain requirements; concerning the pooled money investment board; amending K.S.A. 1994 Supp. 12-1677a, 75-4209, 75-4221a and 75-4263 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

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

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

(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 enterprises which under federal law may be accepted as security for public funds, except that: (A) Not more than 10% of the moneys available for investment under this subsection may be invested in mortgage backed securities of such enterprises and of the government national mortgage association; 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;

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

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attachment #1

association, or federally chartered savings bank; or

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

(c) All interest earnings received from investments of money in the municipal investment pool fund shall be credited to the municipal investment pool fund. Interest earnings experienced by the fund on investments attributable to each participating municipality shall be prorated and applied to the individual accounts of the municipalities, maintained by the state treasurer. Deferred earnings transferred from the municipal investment pool reserve fund to the municipal investment pool fund shall be prorated and applied to the individual accounts of the municipalities, maintained by the state treasurer. A statement for each municipality participating unit account showing deposits, withdrawals, earnings and losses distributions shall be provided periodically monthly to the municipality. The state treasurer shall make comprehensive reports monthly to those municipalities participating in the municipal investment pool fund, ~~including~~ and to other interested parties requesting such reports. Such reports shall include a summary of transactions for the period month as well as the current market value of the pool investments.

(d) The state treasurer may assess reasonable charges not to exceed 1% of the interest earned against the fund for reimbursement of expenses incurred in administering the fund. The state treasurer shall certify, periodically, the amount of the assessment and the director of accounts and reports shall transfer the amount certified from the municipal investment pool

fund to the municipal investment pool fund fee fund, which is hereby created. All expenditures from the municipal investment pool fund fee fund shall be made in accordance with appropriation acts upon warrants of the director of accounts and reports issued pursuant to vouchers approved by the state treasurer or a person or persons designated by the state treasurer. Amounts of gains realized on disposition of investments of the municipal investment pool fund shall be periodically certified by the state treasurer, and the director of accounts and reports shall transfer the amount certified from the municipal investment pool fund to the municipal investment pool reserve fund which is hereby created in the state treasury. The state treasurer shall make a determination of the amount needed for a reserve for possible losses to the municipal investment pool fund and shall certify periodically such amount, and the director of accounts and reports shall transfer the amount so certified from the municipal investment pool fund fee fund to the municipal investment pool reserve fund. If the state treasurer makes a determination that significant losses or gains have occurred to the municipal investment pool fund, the state treasurer shall certify the amount thereof to the director of accounts and reports, and the director of accounts and reports shall transfer the amount so certified from the municipal investment pool reserve fund to the municipal investment pool fund.

(e) The state treasurer may adopt rules and regulations necessary ~~to--carry--out--the-provisions-of-this-section~~ for the administration and operation of the municipal investment pool fund and may enter into agreements with any municipality as to methods of deposits, withdrawals and investments.

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

(g) A comparative investment performance review shall be contracted for ~~annually~~ periodically by the ~~state-treasurer's office~~ pooled money investment board. The cost of such review shall be paid by the municipal investment pool fund from moneys

in the municipal investment pool fund fee fund.

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

(i) Moneys and investments in the municipal investment pool fund and any separate portfolio within such fund shall be managed by the pooled money investment board in accordance with investment policies provided-by-law-and-by-rules-and-regulations-of-such-board 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 not contract for management of investments by a money manager. The pooled money investment board shall contract for 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).

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

(k) On and after July 1, 1996, the weighted average maturity of all investments in the municipal investment pool fund shall

not exceed the weighted average maturity of all deposits in the municipal investment pool fund by more than 100%.

(l) The pooled money investment board shall not: (A) Invest moneys in the municipal investment pool fund in derivatives, except in direct obligations of the United States of America; (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 is 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.

{k} (o) For the purpose of this section:

(1) "Municipality" means those entities specified in subsection (a) of K.S.A. 12-1675, and amendments thereto;

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

(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 sum of the par values of all securities.

Sec. 2. K.S.A. 1994 Supp. 75-4209 is hereby amended to read as follows: 75-4209. (a) After the board determines the liquidity needs for the state, and determines the varying maturities of the investment accounts to be offered and the amount of state moneys to be invested in each of the maturities offered, in accordance



with rules and regulations adopted pursuant to K.S.A. 1994 Supp. 75-4232, and amendments thereto, the board shall make available state moneys eligible for investment accounts in the following manner:

(1) (A) The board shall offer to qualified banks, on a competitive bid basis, state moneys for deposit in investment accounts at maturities of not more than four years and such bids shall be at a rate of at least the market rate, as defined in subsection (k) of K.S.A. 75-4201, and amendments thereto.

(B) As part of the offering under subparagraph (A) the board shall offer to qualified banks, on a twelve-month average, 50% of the amount of state moneys available for investment or \$350,000,000, whichever amount is greater, at maturities of not more than four years and at the investment rate as defined in subsection (l) of K.S.A. 75-4201, and amendments thereto. Such accounts shall be apportioned by the board among the banks which propose to receive such accounts and which qualify therefor on the basis of the ratio of each bank's combined capital, undivided profits and surplus to the total capital, undivided profits and surplus of all such banks.

(C) Qualified banks shall be determined in accordance with requirements established by rules and regulations adopted pursuant to K.S.A. 1994 Supp. 75-4232, and amendments thereto.

(2) The board may invest and reinvest state moneys eligible for investment which are not invested in accordance with paragraph (1), in the following investments:

(A) 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 the United States sponsored enterprises which under federal law may be accepted as security for public funds, except that not more than 10% of the moneys available for investment under this subsection may be invested in mortgage backed securities of such enterprises and of the government national mortgage association;

(B) repurchase agreements with a Kansas bank or a primary government securities dealer which reports to the market reports

division of the federal reserve bank of New York for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof and obligations and securities of United States government sponsored enterprises which under federal law may be accepted as security for public funds; or

(C) investments in SKILL act projects and bonds pursuant to K.S.A. 1994 Supp. 74-8920, and amendments thereto, and investments in any state agency bonds or bond project.

(b) At any time moneys are available for deposits or investments for a period of time which is insufficient to permit deposit in investment accounts or to provide for the liquidity needs for the state, the board may invest such moneys in repurchase agreements as authorized in subparagraph (B) of paragraph (2) of subsection (a).

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

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

(e) Interest on investment accounts in banks is to be paid at maturity, but not less than annually.

(f) Investments made by the board under the provisions of this section shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

(g) Investments under subsection (a) shall be for a period not to exceed four years, except for investments in mortgage-backed securities.

(h) Investments in securities under subparagraph (A) of paragraph (2) of subsection (a) shall be limited to securities which do not have any more interest rate risk than do direct United States government obligations of similar maturities except for the 10% limitation on mortgage-backed securities. For purposes of this subsection, "interest rate risk" means market value changes due to changes in current interest rates.

(i) On and after July 1, 1996, the board shall not invest state moneys eligible for investment under paragraph (2) of subsection (a), in the municipal investment pool fund, created under K.S.A. 1994 Supp. 12-1677a, and amendments thereto.

Sec. 3. 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~~ All members appointed to the board shall be persons with not less than ~~five~~ 10 years of direct work experience in the management of fixed income securities as an investment or trust officer for a financial institution, association or corporation ~~or--is--currently--a certified-public-accountant-or-certified-financial-planner.~~

(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.

Sec. 4. K.S.A. 1994 Supp. 75-4263 is hereby amended to read as follows: 75-4263. (a) Except as provided in subsection (b), moneys of a state agency or public instrumentality of this state which may be invested by the pooled money investment board expressly for such agency or instrumentality, or invested directly by the agency or instrumentality, may be invested in the municipal investment pool fund established in K.S.A. 1994 Supp. 12-1677a and amendments thereto. Such agency or instrumentality shall be treated as a municipality for purposes of participation in such fund.

(b) On and after July 1, 1996, state moneys eligible for investment under paragraph (2) of subsection (a) of K.S.A. 75-4209, and amendments thereto, shall not be invested in the municipal investment pool fund.

New Sec. 5. (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 nonvoting 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 vice-chairperson. 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 committee, 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. Persons nominated and members appointed to the advisory committee shall be nominated and appointed without regard to political party affiliation. 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.

Sec. 6. K.S.A. 1994 Supp. 12-1677a, 75-4209, 75-4221a and 75-4263 are hereby repealed.

Sec. 7. This act shall take effect and be in force from and after its publication in the statute book.

K.S.A. 75-4209

(i) On and after July 1, 1996, the board shall not invest state moneys eligible for investment under paragraph (2) of subsection (a), in the municipal investment pool fund, created under K.S.A. 1994 Supp. 12-1677a, and amendments thereto, without prior approval of the board and the prior approval of the state finance council acting on this matter which is 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.

K.S.A. 1994 Supp.75-4263

(b) On and after July 1, 1996, state moneys eligible for investment under paragraph (2) of subsection (a) of K.S.A. 75-4209, and amendments thereto, shall not be invested in the municipal investment pool fund without prior approval of the pooled money investment board and the approval of the state finance council acting on this matter which is hereby characterized as a matter

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Attachment #2