

Approved: 3-27-96  
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Robin Jennison at 1:30 p.m. on March 14, 1996 in Room 514-S of the Capitol.

All members were present except: Representative Gross, excused  
Representative Goossen, excused  
Representative Bradley, excused  
Representative Kejr, excused

Committee staff present: Alan Conroy, Russell Mills, Susan Wieggers, Legislative Research Department  
Jim Wilson, Revisor of Statutes; Mike Corrigan, Revisor  
Tim Kukula, Appropriations Secretary; Todd Fertig, Administrative Aide

Conferees appearing before the committee: Bill Lewis, PMIB  
Sally Thompson, State Treasure  
Chris McKenzie, League of Municipalities  
Larry Tucker, Reno Co. Treasurer  
Marcia Cosgrove, Leavenworth Water District  
Norman Wilks, KS Association of School Boards  
Bill Caton, PMIB  
Bob Hayes, Healthcare Stabilization Fund  
David Schlosser, Federated Funds

Others attending: See attached list

Chairman Jennison called the meeting to order by opening hearings on **SB 475** and **SB 476**. Testimony was as follows: 1) Bill Lewis (Attachment 1); 2) Sally Thompson (Attachments 2 & 3); 3) David Schlosser (Attachment 4); 4) Chris McKenzie (Attachment 5); 5) Larry Tucker (Attachment 6); 6) Marcia Cosgrove; 7) Norman Wilks (Attachment 7); 8) Bill Caton (Attachments 8 & 9); 9) Bob Hayes (Attachment 10).

Several of these conferees also offered amendments to **SB 476** along with their testimony.

There was lengthy discussion and questioning concerning the bills and differences in **SB 476** from the original version introduced in the Senate and the version that is before the committee.

Chairman Jennison closed the hearings on **SB 475** and **SB 476**.

It was discussed that a possible subcommittee may be formed to deal specifically with the issues contained in **SB 475** and **SB 476**.

The meeting adjourned at 5:15 p.m.

The next meeting is scheduled for March 15, 1996.



# HOUSE APPROPRIATIONS COMMITTEE

GUEST LIST

DATE: 3-14-96

HOUSE OF  
REPRESENTATIVES

NAME	ADDRESS	REPRESENTING
Kirsten Drickey	Norton	
Diana Joo	Norton	
Jennifer Burns	Norton	
Emily Levin	Kensington	
Courtney Wipull	Kensington	
Mike Lang	Norton	
Sarah Windholz	Wakeeney	
Cara McEwen	Norton	
Joel Goertz	Wichita	
Aaron Hale	Norton	
Stephen Howell	Norton	
Kyle Jones	Norton	
Jim Kallard	Manhattan	
Erik Keltner	Manhattan	
Rachael Diener	Lyons	
Aundrea Siders	Lyons	Farm Bureau
Godi Ward	Norton	

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Treasurer's Office



March 13, 1996

TESTIMONY - STATE OF KANSAS PUBLIC FUNDS INVESTMENT LEGISLATION  
HOUSE APPROPRIATIONS COMMITTEE

WILLIAM E. LEWIS, MEMBER  
POOLED MONEY INVESTMENT BOARD

On January 16, 1996, on behalf of the Pooled Money Investment Board (PMIB), I outlined a request for legislation for the Senate Financial Institutions and Insurance Committee that would improve the efficiency and the effectiveness of the investment of State funds. That presentation outlined changes in the organization and the operation of the Pooled Money Investment Board which, by statute, manages the investment policies for State funds. My testimony today addresses that request for legislation.

Over the past year, the Pooled Money Investment Board has spent considerable time analyzing policies and operations of the PMIB. In addressing the strengths and weaknesses of the operations, we have looked ahead to develop an operational system that is efficient and effective. The board is recommending legislation that will address the restructuring of the investment function of the State. This restructuring is comprised of:

- Combined investment pool
  - Reduces liquidity risk
  - Results in more efficient operations
  - Simpler
- Expanded investment powers with ability to invest in:
  - Commercial Paper (P1 rated) - Since 1972 no loss to investors has incurred
  - Risk of default as projected by Moody's on 180 day paper is 0.00%
  - Bankers Acceptances
  - Negotiable Certificates of Deposit
- Restructuring of organizational responsibilities:
  - Chairman of the PMIB appointed by Governor
  - Responsibilities of operations to be assumed by the Board
- A fee of up to .25%, as determined by the PMIB, will be assessed on assets within the pool.
  - This fee will be utilized to pay down the \$20 million loss amount.

The above recommendations would contribute to the development of a professional efficient and effective investment group.

3-14-96

House Appropriations

Attachment

1



In addition to the above improvements, I recommend two additional changes. They are:

- Deletion of Investment Advisory Board  
Redundant and not germane with a combined pool
- Board member qualifications  
College degree with five years management experience in the areas of accounting or finance.

The above recommendation for legislation is based upon observations by the Board. The recommendation for administrative changes is also substantiated in findings of the independent auditor and Legislative Post Audit.

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**TESTIMONY**  
**SB 476**

**House Appropriations Committee**  
**Robin Jennison, Chairman**

**March 14, 1996**

**Sally Thompson**  
**Kansas State Treasurer**

3-14-96

House Appropriations

Attachment

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**Testimony of Sally Thompson, State Treasurer**  
**Senate Bill No. 476**  
**House Appropriations Committee**  
**Thursday, March 14, 1996**

Mr. Chairman, members of the committee,

Thank you very much for the opportunity to appear before this committee in regard to Senate Bill No. 476. I strongly support this bill in its current form. As it now stands SB 476 represents a product of bi-partisan compromise reached after input from all interested parties, including representatives of municipal investment pool participants as well as members of the pooled money investment board (PMIB). Several key points of SB 476, as amended, are as follows:

- Continuation of the MIP as an investment alternative for municipalities and certain state agencies (sections 1 and 4)
- Ability to pass future gains and losses through to pool participants (authority does not exist in current law) (section 1)
- Combining of portfolios for investment purposes and to prevent future problems with liquidity (section 1)
- Amortization over five to 10 years of undistributed loss from future earnings (as opposed to closing the pool at a current cost of \$19.3 million) (sections 1 and 2)
- Clear delineation of responsibilities between the State Treasurer and the PMIB (avoiding creation of a stand-alone agency with additional FTE's and significant SGF funding; elimination of investment staff answering to multiple "masters") (sections 22 and 23, and throughout the bill)
- Governor will appoint the PMIB chairperson (section 21)



In its current form the bill represents good public policy. The technical part of the bill addresses problems which exist in current law (inability to pass through losses; potential liquidity concerns), while the structural part of SB 476 provides for clear delineation of the roles of the State Treasurer and the PMIB: the PMIB sets investment policy and provides oversight; the State Treasurer invests and reinvests in accordance with PMIB policy.

### **Combined Portfolio**

As originally introduced, I supported certain provisions of this bill while opposing others. My support was very strong for the technical part of this bill which addresses the undistributed loss of the municipal investment pool and provides for combining the municipal investment pool and the state idle funds pool for investment purposes, while maintaining separate fund accounting between the state and local moneys. All five members of the PMIB worked hard in a bi-partisan way on the technical part of SB 476. This part of the bill represents the board's plan for addressing the loss, as requested by the legislature last summer and fall.

The combined portfolio will allow for amortization of the undistributed \$19.3 million loss within an estimated five to 10 years. (See attached Ex. A, "Time to Amortize the \$20 Million.") Up to this point in FY 96 there has already been a recovery in excess of \$794,000. Amortize the loss or force Kansas taxpayers to realize the loss. Clearly, the best option for the future is to amortize the loss, thus paying it off over a period of time.

### **Authority Over the Investment Function**

I strongly opposed - and will continue to oppose - any effort to remove authority of the investment function from the office of the State Treasurer. In regard to the structural component of SB 476, as originally introduced, this part of the bill was nothing short of an effort to strip away authority from a statewide elected official who is accountable to the people of Kansas, and to give that power to a group of political appointees seeking to create a new state bureaucracy. This is, of course, where the PMIB's bi-partisan efforts went by the wayside.

In regard to anticipated proposals to remove my authority to oversee investment of the public's funds, the members of this committee should be aware of what they are being asked to create. Transfer of administrative authority over the investment staff does not merely entail a change in who provides day-to-day direction. Transfer of this authority will require replacement of the personnel and payroll functions; replacement of accounting and budgeting functions, as well as purchasing responsibilities; provision for new office space and

equipment; and, importantly, replacement of technical support. All of the foregoing is now provided by my staff and will have to be replaced. In my opinion, the new agency will require at least four additional FTE's.

Even the proponents of this new bureaucracy admit that it will result in increased cost to Kansas taxpayers. As Mr. Lewis of the board stated in the summary to his January 16 written comments to the Senate committee, "[n]o projected cost savings with an increase envisioned . . . ."

The price tag to the taxpayers of Kansas for this new bureaucracy is conservatively estimated at approximately \$1 million per year, a 50% increase over the cost of my administration to perform the exact same function. (See attached Ex. B, "Fiscal Note on SB 476.") In contrast, rather than increasing spending the overall spending of my office has **decreased** by 4% since I took office in 1991. (See attached Ex. C, "Reduction in State Treasurer's Operating Expense.")

A new bureaucracy will cost Kansas taxpayers additional tax dollars to perform the investment function now performed by the office of State Treasurer, **but there will be no offsetting increase in yield or safety of investments**. Kansas taxpayers will pay significantly more but get nothing more in return. This proposal is contrary to the Governor's mandate for less government. It is contrary to my ongoing effort to create a more efficient state government. It is contrary to the practice of the overwhelming majority of states. (See attached Ex. D, "State Treasurer's with State Investment Authority.")

### **Review of accomplishments by State Treasurer**

The following is a quick review of what I have done with the bi-partisan help of the legislature for the people of Kansas during my tenure as State Treasurer and PMIB chair:

- In 1992 I worked with the legislature for the passage of SB 480, a major piece of legislation which brought much needed reform to laws governing the investment of both local and state dollars.
- As a result of SB 480, in only three years under my leadership as PMIB chair the state has earned an **additional \$30 million** over and above what would have been earned. (See attached Ex. E, "Interest Earnings.") This figure significantly underestimates the overall positive fiscal impact to Kansas taxpayers as it does not include the additional interest earned when funds were withdrawn and reinvested, or even the additional earnings of local units of government who have not used the pool but who have

nonetheless received increased earnings from local banks due to the pool's existence.

- During the last three years under my leadership as chair of the PMIB the state and its cities, counties and school districts in the pool have received over **\$544 million in interest earnings** - more than one-half billion dollars in three years. (See attached Ex. F, "Audited Net Investment Income of Office of State Treasurer.") It is because of increased interest earnings on public funds that the people of this state have not had to suffer tax increases or diminished public services during the past few years. I have already taken responsibility for the loss, now it is time to give me credit for the \$544 million gain.
- During the last three years under my leadership as PMIB chair the municipal investment pool has earned in excess of **\$110 million** for, primarily, our cities, counties and school districts. (See attached Ex. G "MIP Trial Balance" (1st page).) I am certain that most of you have heard from local officials expressing their support for the municipal investment pool and my administration of the pool. (See attached Ex. H, letters of support.)
- During fiscal year 1995 - when the municipal investment pool suffered the loss - the municipal investment pool actually grossed \$41 million, with net earnings for the year of \$21 million.
- Under my leadership as PMIB chair the municipal investment pool has provided an investment alternative for local communities that was not available before 1992. Even those who do not use the pool will tell you that they now receive a market rate for the public's money because they now have an alternative for deposit of taxpayer funds. (Letters of support.)
- Under my leadership the PMIB provided a liquidity facility for the final bond issue of the KDOT Comprehensive Highway Program. This creative financing arrangement has saved Kansas taxpayers millions of dollars in taxes and fees. The program created an initial savings of 2.825% on the rate of the bonds and saved an estimated \$6 million to \$12 million in fees to New York banks.

In brief, the office of State Treasurer has performed very well on behalf of the citizens of Kansas, and is quite capable of continuing to handle the investment function in a safe, efficient, and cost-effective manner.

## **Conclusion**

In summary, I stand before you in support of SB 476, as amended. This bill will improve our ability to invest taxpayer dollars into the future and to insure that an investment alternative exists for our local units of government. I strongly oppose any effort to restore to this bill provisions for stripping investment authority from the office of the State Treasurer. I strongly oppose any effort to create a new bureaucracy. Kansans want someone who is accountable to them. Further, I believe that as elected officials we share a common goal. That goal is to create good public policy that makes sense, is cost-effective and addresses the future wants and needs of all Kansans. In its current form SB 476 meets this goal.

Thank you.



## Time to Amortize \$20 million in Combined Investment Pool

Average Combined Fund Balance	Years to Retire at 0.25%
\$1,200,000,000	7.8
1,400,000,000	6.5
1,600,000,000	5.6
1,800,000,000	4.8
2,000,000,000	4.3

### Assumptions:

- 1) Gross Yield on Combined Portfolio will always exceed .25%, so that interest rate projections are unnecessary
- 2) All Investment Operating Expenses (as per FY97 recommended budget) are paid from .25% fee
- 3) Amortization Starts July 1, 1996
- 4) Local Fund Balances are Combined with Idle Funds Portfolio
- 5) Idle Balances Calculated at Average Forecasted Balance of \$1.1 billion
- 6) Remainder of Combined Fund Balance from Local Deposits

OFFICE OF THE TREASURER  
STATE OF KANSAS

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I N T E R O F F I C E     M E M O R A N D U M

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DATE:            January 25, 1996

TO:              Gloria M. Timmer, Director of the Budget

FROM:            JoLana R. Pinon, Assistant State Treasurer

SUBJECT:        Fiscal Note on SB 476

1)    BRIEF ANALYSIS OF PROPOSED LEGISLATION

The changes proposed by SB 476 are threefold:

- A.    A systematic and non-obtrusive recovery of trading losses from the Municipal Investment Pool which, by statute, could not be allocated to participants. This will be accomplished by the combining of the Municipal Investment Pool (approximately \$500 million) and the State's Idle Funds Pool (approximately \$1.0 billion). A small fee, .25%, will be assessed against the new portfolio which will be given expanded investment powers which should allow for a small increase in income with relatively little change in risk, thus negating any impact of the fee. This plan is expected to provide amortization of the \$20 million trading loss from FY 95 in five to ten years at the most.
- B.    The restructuring of the administration of the Pooled Money Investment Board by relieving the State Treasurer of those responsibilities and the creation of a new state agency. The Municipal Investment Pool administration would also be transferred to the new agency.
- C.    The clarification of certain terms in the state monies law and other statutes regarding special or custodial monies. There is no fiscal impact in regard to this issue and consequently it will not be addressed in the following portions of this fiscal note.

2) HOW TREASURER'S OPERATION WOULD BE AFFECTED

- A. The Treasurer's operation would not be noticeably affected by this change. Some clerical issues where items are tracked separately for the two portfolios would now be combined. The additional investment options would not require substantive changes to the current operation.
- B. Under this part of the proposal, it appears (the words "may provide" are used) that the Pooled Money Investment Board program of the State Treasurer's Office would be segregated from the rest of operations to create a new standalone agency which would also have the administrative responsibilities associated with the Municipal Investment Pool. Efficiency would be negatively impacted by the physical separation of staff. Communications which are so critical to the movement and investment of monies would be hampered since the staff of the PMIB and MIP would not be in close proximity to the Treasurer's staff which handles the movement of all cash and the collateralization of deposits.

3) DOLLAR EFFECT ON TREASURER'S BUDGET

- A. The impact of these changes on the Treasurer's budget is limited to the elimination of the charge of 1% of MIP interest earned to cover administrative expenses associated with the MIP including salaries and benefits, office space, communications and other contractual issues as well as commodities. Since the fee based on income and the fee fund have been eliminated in the bill, these costs would be borne by the state general fund. The new administrative fee provided in Section 1 will be utilized solely to recover trading losses of the MIP until full recovery. At that time the entire fee is to be credited to the state general fund. This amount is approximately \$300,000 but can fluctuate depending on the size of the portfolio and the amount of trading done. Certain costs can be expected to increase, namely, the required investment advisor and investment performance review contracts could be expected to increase since the amounts under review will have increased by the amount of the state idle funds portfolio. In FY 95 the MIP paid \$26,000 for an investment performance review. In FY 96 PMIB has contracted with an investment advisor for an annual fee of \$30,000. These amounts could easily double with the combined portfolio.



- B. The impact to the Treasurer's budget under this part of the bill would remove the programs associated with PMIB and MIP from the Treasurer's administration. This amount, at Level C for FY 97, is estimated to be \$657,494--\$297,125 which is SGF. Upon creation of a new agency this budget could be transferred to the new agency.

However, additional staff would be required to provide various functions which are provided by the Treasurer's staff including:

- ▶ Administration
- ▶ Budgeting
- ▶ Purchasing
- ▶ Accounting
- ▶ Auditing
- ▶ Payroll
- ▶ Personnel
- ▶ Data processing
- ▶ Communications
- ▶ Technical Support

- In addition to salary costs, testimony of a Pooled Money Investment Board member indicates that an increase in budget could be envisioned for:

- ▶ Proper training of personnel
- ▶ Implementation of adequate operating systems
- ▶ Improved Board communications and development

I have no estimate for the first and third items; however information from the Treasurer's data processing support staff indicates an estimated cost of \$30,000 to recreate the Treasurer's in house system for the tracking of daily investments and bank deposit limitations, etc. This is only one of several systems currently in use by the PMIB staff.

In addition, no amounts have been estimated for additional office equipment for new staff, associated operating expenditures or moving costs for equipment and communications.



Fiscal Note on SB 476  
 January 25, 1996

	Estimated Costs	Comments
Current budget:	<u>\$657,494</u>	
Additional Personnel:		
Executive Secretary	100,000	
Office Specialist	23,348	
Micro Systems Tech III	34,500	
Accountant IV	<u>39,936</u>	
	197,784	
Benefits	<u>33,932</u>	
Add'l Personnel	<u>231,716</u>	
Training		Not able to be estimated
Operating systems		
Bank CD's	30,000	
Other		Not able to be estimated
Communications		Not able to be estimated
Board development		Not able to be estimated
<b>Total in excess of:</b>	<b>\$919,210</b>	

In the opinion of the State Treasurer, creation of a new agency is not an efficient or effective use of taxpayer dollars.

4) ASSUMPTIONS

- A. An assumption is made here that the combined portfolio, the pooled money investment portfolio, would remain similarly sized to the current combination of the two pools.
- B. An assumption is made that a separate agency would be created physically outside of the Treasurer's office.

5) EFFECT ON STAFFING AND OPERATIONAL EXPENDITURES

- A. This part of the bill could be accomplished with no impact on staffing or operational expenditures.
- B. There are currently eight FTE's associated with the two programs, two unclassified and six classified. The remaining administrative staff of the Treasurer's office would not be affected due to the continuing support required for the remaining programs in the agency.

Operational expenditures are addressed above.

6) LONG RANGE FISCAL EFFECT

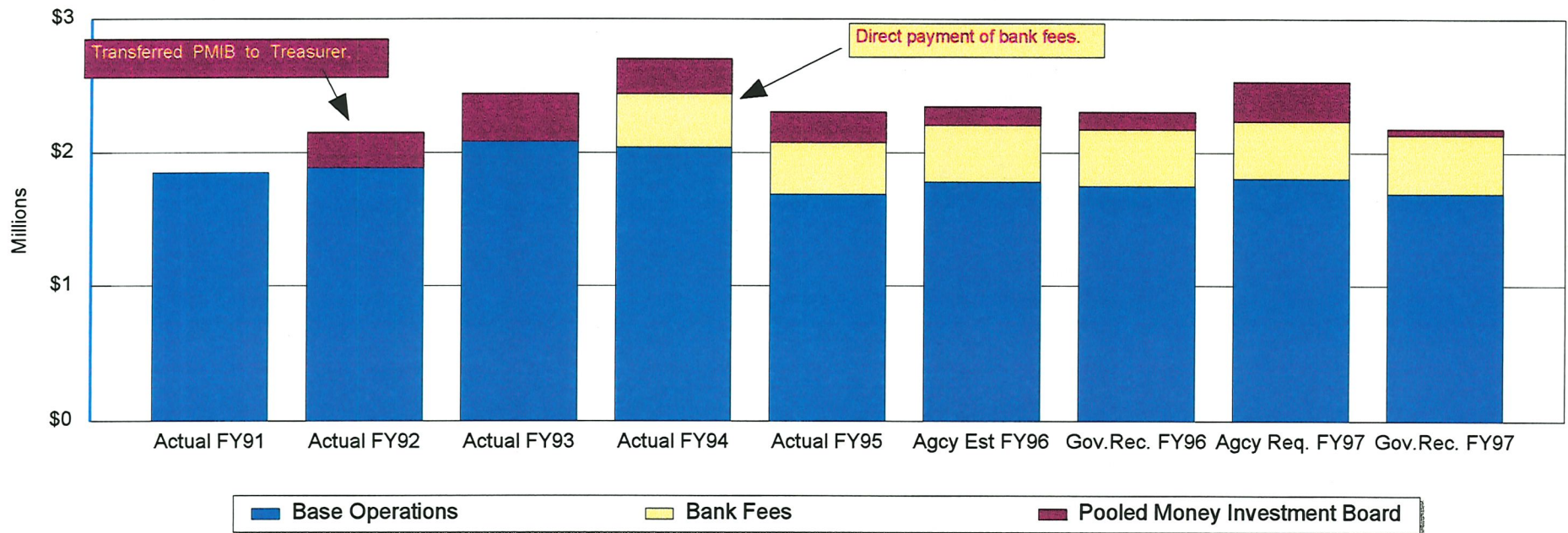
- A. The long range effect (covering five to ten years) is the systematic recovery of the trading losses experienced in 1994 and 1995. This will prevent the state or the local entities from absorbing the cost at one time or in a very short period, a situation that would be critical in a challenging budget year. After full recovery the fee is proposed to go to state general fund. Based on the current size of the portfolios, that fee is estimated at \$3,800,000 per year.

2-14  
C

## Kansas State Treasurer -- SGF Budget Overview

The Treasurer has cut SGF spending by 4%, spending \$70,000 less in FY96 than in FY91, excluding PMIB and bank fees that were previously budgeted elsewhere in the state budget. SGF spending for all state agencies increased by 15% over this same period.

### State General Fund



SGF Expenditures	Actual FY91	Actual FY92	Actual FY93	Actual FY94	Actual FY95	Agcy Est FY96	Gov. Rec. FY96	Agcy Req. FY97	Gov. Rec. FY97
Administration	\$807,901	\$929,792	\$1,078,517	\$1,096,610	\$856,581	\$883,482	\$871,211	\$874,797	\$840,180
Municipal Bond Services	494,418	445,917	455,023	449,716	449,868	447,850	441,577	460,200	424,662
Cash Management Services	411,759	371,752	402,444	390,254	384,239	451,206	435,986	470,737	429,322
Unclaimed Property	137,142	137,723	150,987	104,900	0	0	0	0	0
Subtotal	1,851,220	1,885,184	2,086,971	2,041,480	1,690,688	1,782,538	1,748,774	1,805,734	1,694,164
Operating Bank Fees	0	0	0	399,767	384,309	425,000	425,000	430,000	439,500
Pooled Money Investment Bd.	0	270,658	357,977	261,516	234,089	138,366	135,811	297,126	48,720
<b>Total</b>	<b>\$1,851,220</b>	<b>\$2,155,842</b>	<b>\$2,444,948</b>	<b>\$2,702,763</b>	<b>\$2,309,086</b>	<b>\$2,345,904</b>	<b>\$2,309,585</b>	<b>\$2,532,860</b>	<b>\$2,182,384</b>

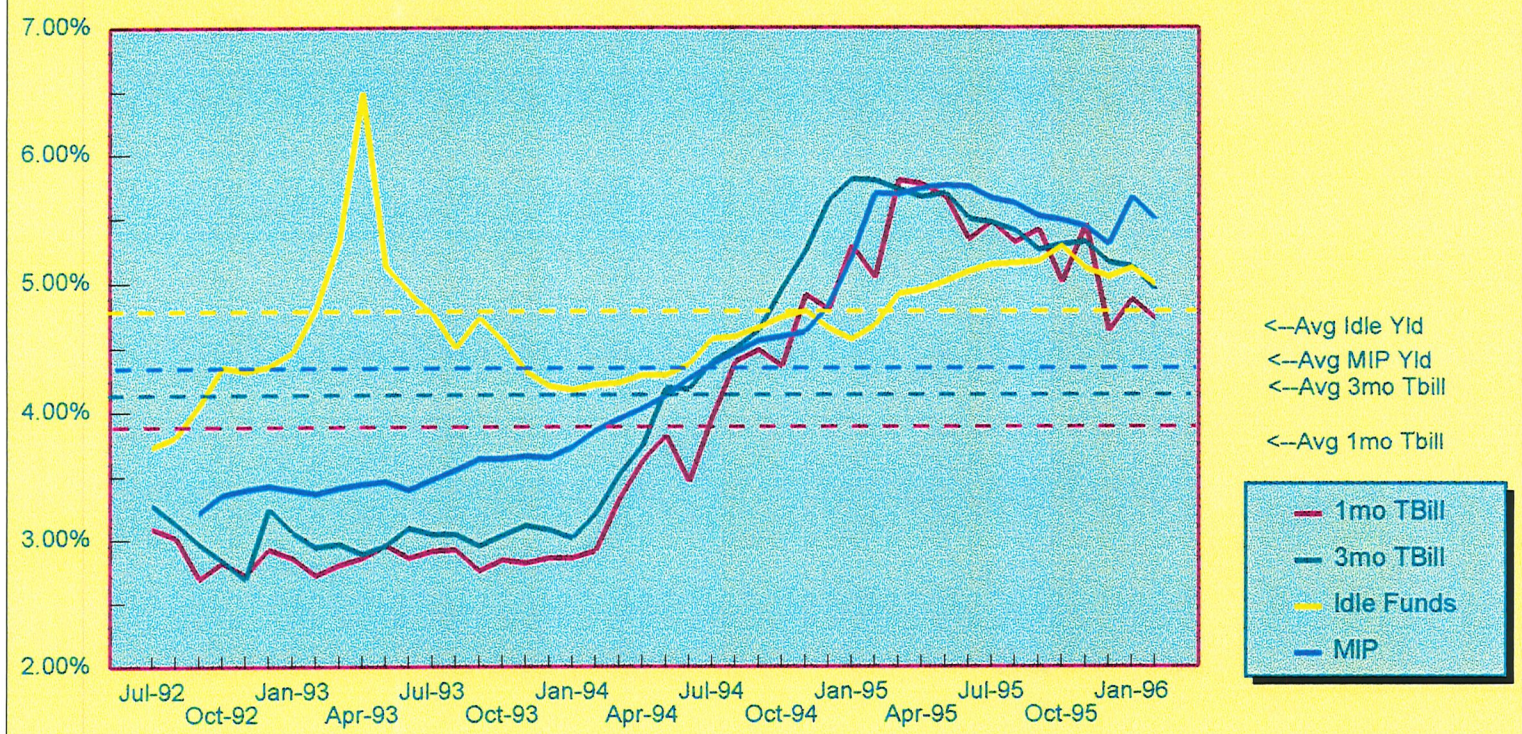






2-16 E

### Interest Rate Earnings Comparison



2-17 F

OFFICE OF THE STATE TREASURER  
 AUDITED NET INVESTMENT INCOME REVIEW (000'S)  
 SINCE STATE MONIES LAW CHANGE

	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>	<u>Total</u>
Interest income	\$141,162	\$193,429	\$222,585 (1)	\$557,176
Net gains (losses)	<u>5,929</u>	<u>2,974</u>	<u>(21,283) (1)</u>	<u>(12,380) (2)</u>
Interest expense	<u>147,091</u> (180)	<u>196,403</u> (146)	<u>201,302</u> (107)	<u>544,796</u> (433)
Net investment income	<u><u>\$146,911</u></u>	<u><u>\$196,257</u></u>	<u><u>\$201,195</u></u>	<u><u>\$544,363</u></u> (2)

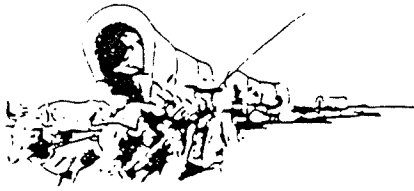
- (1) 1994 loss of \$21.0 million represents 9% of the \$222.0 million of interest income
- (2) Net losses of \$12 million represent 2% of total interest income of \$544.0 million

# MUNICIPAL INVESTMENT POOL TRIAL BALANCE

Combined Pool  
08/01/92 - 02/29/96

TOTAL INTEREST EARNED: J  
\$ 110,282,493.18  
2-18

Account No.	Beginning Balance	Deposits	Withdrawals	Interest Activity	Interest Earned	Ending Balance	
<b>Account ID Unknown</b>							
34	The University of Kansas	0.00	9,939,549.30	9,939,549.30	( 113,493.08 )	113,493.08	0.00
64	KDFA--KS Water Pollution	0.00	420,458,082.56	420,458,082.56	( 3,370,510.44 )	3,370,510.44	0.00
91	Emporia State University	0.00	4,849,683.22	4,589,521.87	( 77,908.84 )	111,612.84	293,865.30
101	Department of Administrat	0.00	100,000.00	100,000.00	( 2,343.58 )	2,343.58	0.00
104	Health Care Stabilization	0.00	392,465,000.00	269,990,000.00	( 13,800,000.00 )	16,149,125.74	124,824,125.70
105	Client Protection Fund Co	0.00	2,774,505.16	2,774,505.16	( 65,603.11 )	65,603.11	0.00
126	KDFA - KBEL Guarantee Acc	0.00	6,930,000.00	6,930,000.00	( 50,360.90 )	50,360.90	0.00
128	Secretary of the Kansas D	0.00	374,893,758.69	374,893,758.69	( 4,279,532.95 )	4,279,532.95	0.00
135	KDFA Operations Fund	0.00	316,771.54	316,771.54	( 3,994.19 )	3,994.19	0.00
169	Pooled Money Investment B	0.00	2,956,166,000.00	2,711,166,000.00	( 10,737,147.82 )	11,622,195.04	245,885,047.20
177	K T E C	0.00	3,000,000.00	0.00	0.00	6,577.01	3,006,577.00
<b>Account ID Unknown Total</b>		0.00	4,171,893,350.47	3,801,158,189.12	( 32,500,894.91 )	35,775,348.88	374,009,615.30
<b>AL-Allen</b>							
41	Allen County	0.00	10,885,000.00	10,885,000.00	( 89,664.07 )	110,303.72	20,639.60
63	City of Iola	0.00	8,002,521.41	5,925,000.00	( 102,521.41 )	242,966.93	2,217,966.90
124	Iola USD #257	0.00	14,600,000.00	14,600,000.00	( 58,956.86 )	58,956.86	0.00
<b>AL-Allen Total</b>		0.00	33,487,521.41	31,410,000.00	( 251,142.34 )	412,227.51	2,238,606.50
<b>AT-Atchison</b>							
29	Effingham USD #377	0.00	9,075,248.03	9,075,248.03	( 49,533.31 )	50,171.31	638.00
87	City of Atchison	0.00	72,616,654.66	72,616,654.66	( 431,895.21 )	431,895.21	0.00
<b>AT-Atchison Total</b>		0.00	81,691,902.69	81,691,902.69	( 481,428.52 )	482,066.52	638.00
<b>BB-Bourbon</b>							
30	City of Fort Scott	0.00	5,650,000.00	5,650,000.00	( 102,600.78 )	102,600.78	0.00
<b>BB-Bourbon Total</b>		0.00	5,650,000.00	5,650,000.00	( 102,600.78 )	102,600.78	0.00
<b>BR-Brown</b>							
	City of Horton	0.00	833,000.00	629,289.38	0.00	13,621.85	217,332.40



# City of MISSION

City Hall - 6090 Woodson Road - Mission, Kansas 66202

Administrative Offices 722-3685

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March 11, 1996

Rep. Timothy Carmody  
Capitol Building  
Room 175 W  
Topeka, Kansas 66612-1504

Dear Rep. Carmody,

I am writing this letter in support of SB 476.

The Kansas State Investment Pool has been a great help to small cities. We here in the City of Mission hope that House Appropriations committee will vote favorable on SB 476. We applaud Sally Thompson and the staff at the State Treasurer's Office for their dedication.

It is my belief that the State Treasurer should keep the investment authority and continue to answer to the electorate.

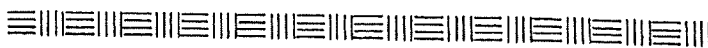
Sincerely,

Sue A. Grosdidier, CMC/AAE  
City Clerk/Finance Director

2-19

H-1

# SUE WILLIAMS



GREENWOOD COUNTY TREASURER • 311 N MAIN • EUREKA KS 67045 • Telephone 316-583-8146 • Fax 316-583-8124

March 12, 1996

Rep. Robin Jennison  
Capitol Building  
Room 514-S  
Topeka KS 66612-1504

RE: Senate Bill 476

Dear Rep. Jennison,

As Treasurer of Greenwood County, I have used the Municipal Investment Pool (when the local banks did not want the funds) many times since it was established. The State Treasurer and her office staff have been available to municipalities not only for investing but also for information concerning investments, securities and etc.

I would encourage you to leave the investment function with the State Treasurer. Elected officials must answer to the electorate and it is my belief that they feel more responsibility to the people who elect them. I would hope that the Pool survives and that it will continue to be an investment option to the municipalities who need to use it, and that the investment authority remain with the State Treasurer.

Thank you for your consideration.

Very truly yours,

Sue Williams  
Greenwood County Treasurer

Copies to:  
Speaker of the House: Rep. Tim Shallenburger  
Vice-chairperson: Timothy Carmody  
Ranking Minority Member: Henry Helgerson  
Members of Committee:

- |                   |                   |                   |
|-------------------|-------------------|-------------------|
| Tom Bradley       | Duane Goossen     | Gayle Mollenkamp  |
| Darlene Cornfield | Delbert Gross     | Melvin Neufeld    |
| George Dean       | Sheila Hochhauser | Rocky Nichols     |
| Richard Edlund    | Joe Kejr          | Richard Reinhardt |
| John Edmonds      | Phil Kline        | Kenneth Wilk      |
| Michael Farmer    | James Lowther     | Dennis Wilson     |
| Fred Gatlin       | Melvin Minor      |                   |

# ELLIS COUNTY TREASURY

Mike "Mickey" Billinger  
Treasurer

Jerry Schmidtberger  
Administrative Assistant

1204 Fort • Box 520 • Hays, Kansas 67601-0520

Phone 913-628-9463

January 25, 1996

Statehouse  
Room 301 South  
300 SW Tenth  
Topeka, KS. 66612

RE: Senate Bill #476

Dear Senator,

I am writing to both support and oppose the aforementioned bill. I support the section of the bill allowing, for investment purposes only, the combination of the municipal investment pool and the state idle funds pool, while maintaining separate fund accounting between the state and local monies. The maintenance of separate funds is a simple fund accounting procedure accomplished by book entries. It is understood that the combined portfolio would allow for the municipal investment pool to continue and for amortization of the undistributed twenty million dollar loss within an estimated five to ten years. I also support the expansion of the investment authority to include bankers' acceptances, commercial paper and negotiable CDs. I feel the combination of the two large pools and the additional authority would generate substantial interest earnings, since one large pool would allow the investment manager to research more attractive higher yielding investments. Since its inception the MIP has generated millions of dollars of interest earnings that have been shared by many governmental entities. Alone, most of these entities would not have generated the interest they did by exercising the use of the MIP. The MIP in turn has educated the more aggressive local financial institutions to fine tune their investment policies when dealing with public funds. And the investment rate has raised a traditionally low interest rate paid by local financial institutions and has made these local institutions aware that public entities do have other options.

My opposition to HB No. 476, is to the portion of the bill allowing the Governor to appoint a stand alone agency to manage both pools. The public has repeatedly opposed the implementation of more bureaucracy. And my experience with appointed agencies is that they generally are not sympathetic to the needs of its users whereas the State Treasurer has continually tried to meet

2-21

H-3



the needs of the users of the MIP. The current system has proven itself, and with the cooperation of all involved it should enjoy additional success. Concerning the undistributed \$20 million dollar loss, no financial agency, treasurer or bank has a financial crystal ball which could predict the fluctuation of the market place. Most financial pools were surprised by the market rates of the last two years and responded similarly to the State Treasurer.

In summation I ask your support of HB No. 476 with the deletion of the creation of a stand alone agency to administer both the Pooled Money Investment Board and the Municipal Investment Pool and continue to allow the State Treasurer to administer both. Thank you for your time and considerations.

Sincerely yours,

Mike Billinger  
Ellis County Treasurer

cc:	Sen. Dick Bond, Chairperson	Sen. Anthony Hensley
	Sen. Don Steffes, Vice-Chairperson	Sen. Janis Lee
	Sen. Stan Clark	Sen. Marge Petty
	Sen. David Corbin	Sen. Sandy Praeger
	Sen. Tim Emert	
	Sally Thompson, State Treasurer	

**Douglas County Treasurer**

DOUGLAS COUNTY COURTHOUSE

1100 Massachusetts, P.O. Box 884

Lawrence, Kansas 66044

January 26, 1996

TO: Members of the Senate Financial Institutions  
and Insurance committee.

FROM: Nancy L. Hempen, Douglas County Treasurer

RE: Senate Bill 476

As a participating member of the Municipal Investment Pool,  
I have concerns with portions of this bill.

Although procedures to address the undistributed loss in the  
Municipal Investment Pool are identified, the administration  
of the MIP as proposed is eliminated from the State  
Treasurer's responsibilities. As a "governmental officer  
charged with receiving, keeping and disbursing public  
revenues" as defined in Websters Collegiate Dictionary, the  
State Treasurer is the appropriate position to administer  
the pool. It is possible to implement policies and  
procedures to address many of the concerns within the  
current structure and not create duplication of government  
functions.

The message to "downsize government" is still heard and  
continues to be felt by all government entities; however,  
this appears to be in direct conflict with the proposed  
language.

The effectiveness of our government is measured through the  
ability to be efficient. The current system is efficient  
and benefits local entities through ACH and EFT transactions  
as well as assisting with investment needs. Adding another  
link to the government process is not efficient or cost  
effective.

As you discuss the merits of the proposed legislation,  
please consider the advantage or disadvantage of creating  
more government at the cost to taxpayers vs the need to be a  
more effective government.

Thank you for your consideration,

Nancy L. Hempen, County Treasurer  
Courthouse

2-23

H-5



# LEAVENWORTH WATER DEPARTMENT

P.O. Box 876 • 801 Cherokee Street  
Leavenworth, Kansas 66048-0578  
Ph: (913) 882-1313 • Fax: (913) 882-0627

January 25, 1996

Senator Carolyn Tillotson  
Statehouse, Room 301 South  
300 SW Tenth  
Topeka, KS 66612

Re: Hearing on SB 476 concerning Municipal Investment Pool  
Senate Financial Institutions and Insurance Committee  
January 30, 1996, 9:00 A.M.

Dear Senator Tillotson:

It has been brought to my attention that an obscure bill (Senate Bill No. 476) is scheduled to be heard by the Senate Financial Institutions and Insurance Committee on Tuesday, January 30, 1996 at 9:00 A.M., proposing major changes to the structure and management of the Municipal Investment Pool.

I strongly oppose the part of this bill which would remove administration of the pool and the Pooled Municipal Investment Board from the State Treasurer and give it to a board that's appointed by the governor.

I believe that this would be a grave injustice to the State Treasurer, the Municipal Investment Pool staff and the Kansas taxpayers. Treasurer Thompson and her staff have proven themselves to be highly competent professionals who do an excellent job of administering the pool.

It is my opinion that the management of the Municipal Investment Pool should not be used as a political trophy to be awarded to whichever party is in power at the moment. Instead it should remain permanently established in a stable nonpartisan environment where it can continue to provide financial security and benefits to the many cities and agencies in Kansas who depends upon it.

I will sincerely appreciate anything you can do to prevent this portion of Senate Bill No. 476 from being passed.

Sincerely yours,



Marcia Cosgrove  
Manager of Accounts and Collections

2-24

H-6

TO : HONORABLE SENATOR DICK BOND, CHAIRPERSON  
MEMBERS OF THE SENATE FINANCIAL INSTITUTIONS &  
INSURANCE COMMITTEE

FROM : LARRY TUCKER, RENO COUNTY TREASURER  
HUTCHINSON, KANSAS

TESTIMONY REGARDING S.B. 476

As Reno County Treasurer, past chairman of the MIP advisory committee and treasurer of the Kansas County Treasurer's Association, I wish to thank you for the opportunity to present testimony regarding senate bill no. 476, in particular as it pertains to the proposed changes in the structure and management of the Municipal Investment Pool (MIP).

Since its creation, the state municipal investment pool has benefited the taxpayers and citizens of all counties across the state of Kansas. With competitive rates, safe investment opportunities and providing local municipalities the flexibility to improve their cash management techniques, the MIP has provided the taxpayers of Kansas an invaluable public service.

As a pilot participant, I have seen first hand the evolution and growth of the municipal investment pool. Through my office alone, the MIP, since 1992, has paid out over \$ 1.1 million, earning Reno County taxpayers an additional \$ 300,000, which would not have been available if the pool had not been in existence.

With this bill, I applaud the committee's efforts in continuing to work with the State Treasurer's office to fine tune the mechanics of the MIP. Such things as to set aside a fee for unrealized gains and losses, combining state and local pool portfolios and expanding investments to include discount bankers acceptances and other safe securities are positive steps in making the MIP an even stronger option for local governments.

However, as an elected local official, I must oppose the language in this bill which would take the management of the municipal investment pool away from the control of the office of the State Treasurer. Let me state several reasons why I believe this would be a mistake.

1. The deposits that go into the MIP come from taxpayers. The citizens of Kansas have placed the trust and accountability of taxpayer deposits into various elected treasurer positions, separate from the Governor, the legislature and local government officials.

To now suggest, that such tax dollars deposited at the state level be removed from the responsibility of the elected State Treasurer, without a state wide vote of the people, would be a violation of this special trust put in place by the citizens of Kansas.

2. Placing the responsibility of taxpayer deposits into the hands of another state or private agency does not guarantee more efficient government. Private agencies must operate at a profit, while state agencies, under a bureaucratic process layer, are slow to respond to the needs of those being served. Consequently, the costs and delivery to provide such service is in fact more costly to taxpayers.

As a participant in the MIP, I can testify that the state treasurer's office, has not only the ability to respond quickly to the needs of municipalities, but due to the nature of being an elected office, is closer to the concerns of Kansas citizens. With the creation of the MIP and the demands of more efficient government, electors are now seeking more, not less qualified candidates to serve as State Treasurer.

3. Finally, if the management of public tax dollars invested in the MIP is removed from the office of the State Treasurer, and in effect away from the people of Kansas, this will create a division between other local government officials across the state. Already being tested at the local level, this will provide new cause for county officials to follow suit to remove various duties from not only from the office of the county treasurer, but from the office of county clerk, register of deeds and county sheriff.

May I remind the committee, that Kansas law has already taken this into account, by refusing to allow this process to occur, without a vote of the people at the local level. The same should be true at the state level as well. The rights of the people of Kansas should not be abridged by a handful of legislators in Topeka.

The municipal investment pool has served taxpayers well. Do not pass legislation that in effect would remove trust and accountability demanded by the people of Kansas. For these reasons, I ask that the committee remove the language from S.B. 476, which would take the control of managing the municipal investment pool away from the office of the state treasurer.

Respectfully submitted,

Larry R. Tucker  
Reno County Treasurer



# Smoky Valley Public Schools

126 S. Main, Lindsborg, Kansas 67456  
U.S.D. No. 400 913-227-2981

COPY

Dr. Martin Berry, Superintendent  
Keith A. Kandt, Dir. of Business Affairs  
Norma J. Oborg, Clerk of the Board

January 25, 1996

Sen. Janis Lee  
Statehouse, Room 301 South  
300 SW Tenth  
Topeka, KS 66612

Copy sent to  
each committee  
member. *[Signature]*

Dear Senator:

I am writing to express my beliefs on S.B. 476. I believe the Municipal Investment Pool must be maintained for the benefit of the people of Kansas. We should not be obligated to support the banking industry. We appreciate the banking industry, but as it has been said and demonstrated many times, "Competition is good for business". Why should the banking business not be given good competition?

I do not believe we have lost any money through the MIP, we have gained. It is true that the fund lost money during the unusual rate change in 1994. If bank records were required to be made public, I am sure you would find that they lost as much or more money. Banks have methods to recover those losses that the MIP does not. For instance, why did I receive two letters the same day from my bank indicating interest rate changes. The rate they were paying me on my savings account went down about 1/2 % and the rate on my bank equity loan went up 1.6 %.

If we could compare apples to apples, I am sure the MIP would come out as a winner.

I have real reservations about removing the state treasurer as head of the investment committee. Making the chairperson a political appointment will again remove control from the electorate. Maybe the chairperson should be the president of the Kansas Bankers Association. I definitely believe that would be a mistake but I also believe making it a political appointment would be a mistake. I don't believe we should fix something that is not broken. In the long run, we will lose more by the increased costs of changing the program than we lost in the unexpected change in interest rates in 1994.

Please consider these beliefs and leave the Kansas State Treasurer's Office in charge of a continued Municipal Investment Pool. We need it.

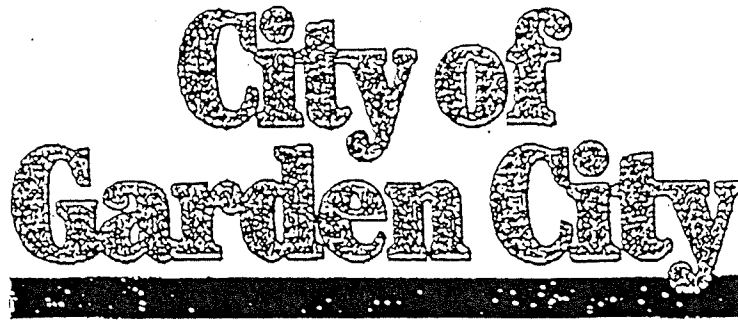
Sincerely,

Keith A. Kandt

2-27

H-9

CITY COMMISSION  
George A. Hopkins  
Mayor  
Tim Cruz  
Steven K. Frost  
Dennis L. Meza  
Bonnie Talley



Robert M. Hailoran,  
City Manager  
William M. Keeter,  
Asst. City Manager  
Melinda A. Hitz,  
Finance Director  
Randell D. Grisell,  
City Counselor

CITY ADMINISTRATIVE CENTER  
301 North 8th • P.O. Box 499 • Garden City, Kansas 67846-0499  
316 • 276 • 1160  
FAX 316 • 276 • 1169

January 26, 1996

Senator Sandy Praeger  
Statehouse  
Room 301 South  
300 SW 10th St.  
Topeka, Kansas 66612

Dear Senator Praeger:

It is my understanding that Senate Bill 476 will be heard in the Senate Financial Institutions and Insurance Committee on Tuesday, January 30th, 1996 at 9:00 a.m. I would have liked to have been in attendance for these hearings, but my schedule during this week would not allow me to be in Topeka.

I was a member of the Municipal Pool Advisory Committee last year. The time spent on this Committee enabled me to further understand the workings of the Municipal Pool, the Pooled Money Investment Board and the responsibilities of the Staff and the Board. This Committee stayed in formation long enough to see that the legislation that was passed during the 1995 Session was implemented. We also took a look at the reporting that is provided to the participants and made several changes so that this information could be interpreted more easily by the readers of the reports. For your information, this Committee is no longer in existence. It was created in the Statute that the Municipal Pool Advisory

2-28  
H-10

# City of Garden City

Committee be appointed by the Governor; and at this date, that has not yet taken place. I still have a great interest in the Municipal Pool and regularly contact the Staff members for information that I need on an inquiry basis.

As far as Senate Bill 476 is concerned, it is comforting for me to know that this Bill addresses the undistributed loss that happened during the last quarter of 1994. This was a highly publicized issue and I am pleased to know that this issue has been looked at and is being addressed in Senate Bill 476. This Bill also provides for expanding investment authority to include Banker's Acceptances, Commercial Paper, and negotiable CDs. Allowing for this additional expanded authority will enable the Pooled Money Investment Board to implement a plan for addressing the undistributed loss.

There is, however, a concern with the part of Senate Bill 476 which would remove from the State Treasurer's Office the administration of both the Pooled Money Investment Board and the Municipal Investment Pool by creating a stand alone agency. The performance track record generated thus far by the Municipal Investment Pool would be lost. This new agency would have to begin the process all over again with the current Municipal Pool participants in both gaining their trust and proving that they are capable of managing their deposits. Therein lies the concern that current deposits would be withdrawn thus creating serious problems in addressing the undistributed loss.

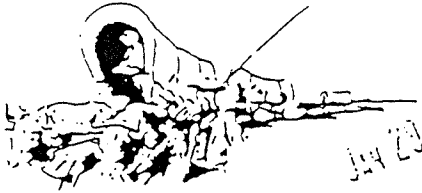
# City of Garden City

If the administration of the Municipal Investment Pool and the Pooled Money Investment Board is moved out of the State Treasurer's Office, this new administrative body will be faced with a tremendous amount of public relations work to prove to the participants that they are qualified and capable of managing their deposits.

Sincerely,

*Melinda Hitz*

Melinda Hitz, CPA  
Finance Director  
City of Garden City



# City of MISSION

City Hall - 6090 Woodson Road - Mission, Kansas 66202

Administrative Offices 722-3685

JAN 29

JAN 32 1996

RECEIVED  
STATE TREASURER

January 26, 1996

Senator Dick Bond  
Room 301 South  
300 SW Tenth  
Topeka, Kansas 66612

Dear Senator Bond:

We are writing to you concerning legislation (Senate Bill No. 476) proposing major changes to the structure and management of the municipal investment pool.

We have participated in the pool since its inception and feel it has provided a valuable alternative investment option. The local financial institutions have not bid on our surplus funds in the last two years and without the pool we would have few options. Also the accounting functions performed by the MIP staff greatly help a small city staff such as ours.

In summary we support the MIP and its current operations and are opposed to any major changes.

Sincerely,

Donald Chamblin *DC.*  
Treasurer

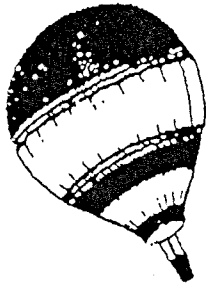
*[Signature]*  
Sue A. Grosdidier, CMC/AE  
City Clerk/Finance Director

CC: Sally Thompson: FYI

2-31

H-13





"Uplifting Education"

Robert Shannon  
Superintendent

Randall Watson  
Asst. Superintendent  
for Instruction

Perry McCabe  
Asst. Superintendent  
for Business

John Black  
Director of  
Special Education

# McPherson Unified School District 418

514 North Main  
McPherson, Kansas 67460  
(316) 241-9400

January 29, 1996

Sally Thompson  
Kansas State Treasurer  
900 SW Jackson, Suite 201  
Topeka, KS 66612-1235

Dear Sally:

I have been using the MIP since 1992 and have found it to be most beneficial.

The ease of movement between account types within the MIP as well as the convenience of inter bank transfers have been most appreciative.

I felt most comfortable with the security and appreciated the extra interest earnings generated for the district. I didn't have to spend nearly as much time watching district money for pledging purposes.

In addition the staff at the treasurer's office have been most helpful, professional and congenial.

I would like to thank everyone involved in the MIP for all their fine support.

Sincerely,

Elaine Schmidt  
USD #418 Treasurer



313 WEST MAIN, COUNCIL GROVE, KANSAS 66843  
TELEPHONE (316) 767-6417  
FAX NUMBER (316) 767-8749

February 7, 1995

Dear Senator Karr and Representative Weber:

I would like to share with you my thoughts on the Kansas Municipal Investment Pool (MIP).

Our City is a member of the MIP. As a matter of practice however all of our city's investments go into our local banks. Our City still however receives two major benefits from the pool.

1. All bond payments are due at the treasurer's office 20 days prior to their due date. In the past, interest on these large sums would be lost, often for over a month. Now we are able to earn interest on these bond payments by putting them in the MIP and having them transferred the day before the bonds are due. This clearly represents earnings we did not have before.

2. Our City bids out all of our investments to local banks. On our bid sheet is a listing of the STATE BENCHMARK for that week. Banks look at this figure, our interest rates have gone up accordingly.

I believe that the MIP is an important option for local units of government. The MIP invests in the same things that our banks do but they return a higher interest rate to Cities. I think it is important that you protect this Pool.

Sincerely,

Mark Abeles-Allison  
City Administrator



# City of Park City

6110 N. Hydraulic • Park City, KS 67219-2499 • (316) 744-2026

January 31, 1995

RECEIVED  
STATE TREASURER  
FEB 6 9 40 AM '95

Sally Thompson, Treasurer  
Kansas State Treasury Office  
900 S.W. Jackson, Suite 201  
Topeka, KS 66612-1235

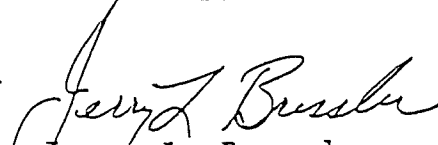
RE: Letter of support - Municipal Investment Pool

Dear Ms. Thompson:

While Park City is a member of the Municipal Investment Pool, we have not yet invested. In order to compete with the rate of the Municipal Investment Pool, our local bank met the Pool's interest rate so our money is still invested locally. This resulted in a \$20,000 savings to Park City in 1994.

Your efforts and integrity are appreciated. Keep up the good work.

Sincerely,

  
Jerry L. Bressler,  
Mayor

JLB/bs

2-34

H-16









# ELLIS COUNTY TREASURY

Mike "Mickey" Billinger  
Treasurer  
Jerry Schmidtberger  
Administrative Assistant

1204 Fort \* Box 520 \* Hays, Kansas 67801-0520

Phone 913-628-9465  
FAX 913-628-9467

March 13, 1996

Sally Thompson  
Kansas State Treasurer  
900 SW Jackson, Suite 201  
Topeka, KS. 66612-1235

RE: Municipal Investment Pool

Dear Sally,

This letter is written in support of maintaining the Municipal Investment Pool under the jurisdiction of the State Treasurer but not for the obvious reasons. Yes it is true this pool gives public entities an investment option other than with local financial institutions. However the staff of the MIP are often used as a reference source both by public entities as well as financial institutions.

Even though Ellis County has invested with the MIP on a limited basis its services have generated interest earnings not before enjoyed by Ellis County from local financial institutions. One local institution in particular, after discussing investment strategies via a conference call with the Ellis County Treasurer and Susan Copeland of the MIP, is now using investment securities which heretofore were not in their investment portfolio. By using a repo to resell these securities to Ellis County, they were able to offer a more competitive interest rate. Most times the rates paid were comparable to those of the MIP. As a result of the MIP staff assistance, 90% of Ellis County tax dollars have been invested with this local financial institution at very competitive rates. It is my understanding that this institution offers these same securities and rates to other municipalities in their service area. I feel certain that without your expertise and assistance we would still be earning less than the market rates in northwestern Kansas.

In summation it is my belief that this type of service is a direct result of the State Treasurer's mission statement and therefore should remain and be administered by the State Treasurer. Once again thank you for the opportunity to comment on the importance of the MIP to county government.

Sincerely yours,

*Mike Billinger*

Mike "Mickey" Billinger  
Ellis County Treasurer

Attachment

3-14-96

House Appropriations

3



**TESTIMONY PRESENTED**

**TO THE**

**HOUSE**  
**APPROPRIATIONS**  
**COMMITTEE**

**BY**

**DAVID SCHLOSSER**

**OF**

**PETE MCGILL & ASSOCIATES**

**ON BEHALF OF**

**FEDERATED FUNDS**

**ON**

**SB 476**

---

**MARCH 14, 1996**

3-14-96

House Appropriations

Attachment

4

**TESTIMONY OF DAVID SCHLOSSER  
OF PETE MCGILL AND ASSOCIATES  
ON BEHALF OF FEDERATED FUNDS  
REGARDING SB 476  
HOUSE APPROPRIATIONS  
MARCH 14, 1996**

Mr. Chairman and members of the committee, thank you for the opportunity to appear on behalf of our client, Federated Funds, regarding Senate Bill 476. Federated Funds handles \$670 million of Kansas investments through 65 banks of every size and 25 other financial services firms.

We offer the attached balloon amendment with the understanding that 476 is a sensitive bill, which the Senate has already amended to remove the authority of the state to invest its money in investments considered "too risky."

The proposed amendment simply offers a different method for the state to invest in the types of investments already allowed in current legislation -- namely, government-backed securities, the safest kind of investments.

The difference offered if you adopt this amendment is simply that instead of investing only directly in government-backed securities, as allowed in sections (a) and (b) of section 15, the state would have the added option of investing in mutual funds -- market baskets, if you will -- of the exact same types of government-backed securities.

This amendment does not alter the political intent of SB 476, nor does it effect the technical or administrative aspects of the bill. But the amendment is good public policy, for the following reasons:

1. It does not increase the risk factor of the state's investments.
2. It does, however, potentially diminish the state's risk because an investment in several different bonds is inherently less risky than an investment in one bond.
3. It offers another layer of professional financial management, in Federated's fund managers, to protect the state's investments.
4. The mutual fund investments can be withdrawn at any time, so are not stuck in fixed-term investments.
5. Because the returns on the state's investment are reinvested, the state stands to receive greater value and return on its capital.

Thank you for the opportunity to offer these considerations. I will answer any questions I can at the appropriate time.

1 eligible for investment which are not invested in accordance with para-  
2 graph (1), in the following investments:

3 (A) Direct obligations of, or obligations that are insured as to prin-  
4 cipal and interest by, the United States of America or any agency thereof  
5 and obligations and securities of the United States sponsored enterprises  
6 which under federal law may be accepted as security for public funds,  
7 except that not more than 10% of the moneys available for investment  
8 under this subsection may be invested in mortgage-backed securities of  
9 such enterprises and of the government national mortgage association;

10 (B) repurchase agreements with a Kansas bank or a primary govern-  
11 ment securities dealer which reports to the market reports division of the  
12 federal reserve bank of New York for direct obligations of, or obligations  
13 that are insured as to principal and interest by, the United States govern-  
14 ment or any agency thereof and obligations and securities of United States  
15 government sponsored enterprises which under federal law may be ac-  
16 cepted as security for public funds;

17 (C) investments in SKILL act projects and bonds pursuant to K.S.A.  
18 1995 Supp. 74-8920, and amendments thereto, and investments in any  
19 state agency bonds or bond project; or

20 (D) until July 1, 1996, in the municipal investment pool fund, created  
21 under K.S.A. 1995 Supp. 12-1677a, and amendments thereto, in accor-  
22 dance with the policies adopted by the board on January 30, 1995. Any  
23 investment of such state moneys in such fund prior to the effective date  
24 of this act are hereby authorized, confirmed and validated. On July 1,  
25 1996, all state moneys invested in the municipal investment pool fund  
26 under this paragraph shall be removed from such fund;[.]

27 ~~(E) bankers' acceptances eligible for discounting with the federal re-~~  
28 ~~serve system which do not exceed 270 days to maturity and which are~~  
29 ~~issued by commercial banks or trust companies which have a short-term~~  
30 ~~rating in one of the two highest rating categories by a nationally recog-~~  
31 ~~nized investment rating firm; so long as such issuing bank or trust com-~~  
32 ~~pany is either a bank or trust company organized and operating in the~~  
33 ~~United States or a foreign branch thereof or a United States branch of a~~  
34 ~~foreign bank;~~

35 ~~(F) commercial paper that does not exceed 270 days to maturity and~~  
36 ~~which has received one of the two highest commercial paper credit ratings~~  
37 ~~by a nationally recognized investment rating firm; or~~

38 ~~(G) negotiable certificates of deposit issued by commercial banks~~  
39 ~~which have a short-term deposit rating in one of the two highest rating~~  
40 ~~categories by a nationally recognized investment rating firm; so long as~~  
41 ~~such issuing bank or trust company is either a bank or trust company~~  
42 ~~organized and operating in the United States or a foreign branch thereof~~  
43 ~~or a United States branch of a foreign bank domiciled in the United States~~

(E) securities of any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940 and rated in the top rating category by a nationally recognized rating organization, provided that the portfolio of such investment company or investment trust is limited to the investments authorized by subparagraphs (A) and (B) of this paragraph or securities of other such investment companies or investment trusts whose portfolios are so restricted.



**League  
of Kansas  
Municipalities**

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**LEGISLATIVE TESTIMONY**

**TO:** House Appropriations Committee  
**FROM:** Chris McKenzie, Executive Director *CM*  
**DATE:** March 14, 1996  
**SUBJECT:** SB 476

Thank you for the opportunity to appear today in general support of SB 476 based on actions by the League's Legislative Policy and Finance and Taxation Policy Committees. The League worked with the Legislature last year on SB 9 to deal with the consequences of the losses experienced in the Municipal Investment Pool (MIP) in 1994. We appreciated the Legislature's continued support for the MIP, and we urge a continuation of that commitment with the passage of SB 476.

Today the member cities of the League are even more committed to the MIP and its underlying principles than when it was established in 1992. Despite the setbacks of 1994, the MIP is a vital investment alternative for cities, especially smaller cities, faced with the challenge of earning a reasonable rate of return on the investment of their public funds.

The League applauds the efforts of the PMIB, including the State Treasurer, to craft SB 476 to deal with the challenges of 1994's market losses in the MIP portfolio. We also support the extensive work by the Senate Financial Institutions and Insurance Committee on this measure, providing a workable framework for managing the investments of the state and local units in one portfolio under the policy direction of the PMIB and the day-to-day administration of the State Treasurer.

The League recommends your support of SB 476.

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House Appropriations

Attachment

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TO : MEMBERS OF HOUSE APPROPRIATIONS COMMITTEE

FROM : LARRY TUCKER, RENO COUNTY TREASURER

TESTIMONY REGARDING SENATE BILL 476

Thank you Mr. Chairman and members of the House appropriations committee. As Reno County Treasurer, I am pleased to be here today to share our success story as a participant in the Kansas municipal investment pool. In addition, I am here to tell you why it is important that you support the legislation before you today, so that Kansans will continue to benefit from the success of the state investment pool.

As a county treasurer, most of the taxes that we collect are invested for a short term of less than 90 days. Prior to the creation of the municipal investment pool, most of these funds were invested in local banks until distributed to the various taxing districts in our county. However, the problem back in 1992, was due to lack of significant local loan demand, these local banks were not paying very good interest rates.

In 1992, we chose to become participants of the MIP to take advantage of competitive rates which were not being offered locally. This resulted in a higher rate of return and has during the first 4 years as a MIP participant, provided the taxpayers of Reno County additional non-tax revenues of over \$ 330,000, which would not have been available if these idle funds had been invested at our local banks. This has been good news for local taxpayers as it has helped hold down property tax levies.

In addition, the MIP staff has made transacting business with their office a simple process which has allowed us to improve our cash management techniques taking advantage of same day deposits of state transfers, local sales tax and same day bond payments.

The municipal investment pool has not also benefitted active participants, such as Reno County, but has helped non-participating municipalities as well. I have talked to many Treasurers and financial officers across Kansas who although not currently participating in the MIP, have seen their local banks become more competitive by matching or exceeding pool rates.

In addition, other municipal finance officers have told me how the staff at the MIP office has given investment advice which has helped them locally in their investment policies. All of this support and advice has come from the administration of the State Treasurer's office, an elected position.

*Attachment*

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*House Appropriations*

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Now that I have summarized some success stories from the state municipal pool, I would like to speak on the reasons why I ask that you support Senate Bill 476.

1. Recognizing that both the state and local governments can benefit from the pooled investment concept, the bill combines the portfolios of the two together. Maximizing its investment potential makes sense, especially in dealing with an uncertain securities market.
2. Amortizing the estimated \$ 20 million unrealized losses from past investment transfers makes sense as well. If you choose not to seek this option, then the state will be at risk of paying for the cost anyway, as local participants will withdraw their funds before July 1, 1996, leaving the state holding the bag. Those that have realized the gains, including both state and local governments should share in the cost of transacting the pool. This bill puts in place the mechanics to accomplish this task.
3. The bill resolves who should have authority over the day to day investments of the pool. The state treasurer's office has proven that such a pool can be operated at an efficient cost. Turning the operation of the pool over to an outside board, would only increase the costs to operate the pool without any change in its competitiveness and service to participants.

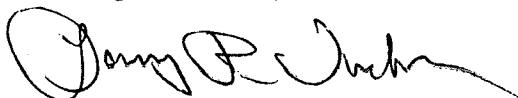
In addition, such a change would be revoking the power the voters of Kansas have given to its highest elected financial officer.

In conclusion, the municipal investment pool has been a plus for local governments. The legislation before you today will go a long way to strengthen and restructure the success of the state investment pool. Please remember that our local constituents and yours are the same people. With the enactment of SB 476, all citizens of Kansas will win !!!

I would be happy to answer any questions at this time.

Thank you for this time to address the committee.

Respectfully submitted,



Larry R. Tucker  
Reno County Treasurer





Testimony on S.B. 476  
before the  
House Committee on Appropriations

by

Norm Wilks, Director of Labor Relations  
Kansas Association of School Boards  
March 14, 1996

Committee Chairman and Members of the Committee, we appreciate the opportunity to support S.B. 476.

The Municipal Investment Pool is necessary for the following reasons:

1. Providing local units of government an alternative for investments when the local bank cannot or chooses not to take local money.
2. It provides an opportunity for investment with adequate security when the local bank or savings and loan is unable to do so.

This provides an opportunity to recover previous losses and provide stable and safe earnings for the future. The division of responsibility between the pooled money and investment board and the State Treasurer is appropriate. The PMIB establishes the investment policy and the Treasurer can carry out the administrative functions.

We do not believe that the kinds of investments need to be expanded to provide a working pool. Current investment authority is sufficient to provide adequate return and minimal risk of loss. We encourage your support in the passage of S.B. 476.

**TESTIMONY**  
**SENATE BILL NO. 476**  
**BILL CATON, MEMBER**  
**POOLED MONEY INVESTMENT BOARD**  
**MARCH 14, 1996**

Thank you very much for the opportunity to testify before you today on Senate Bill No. 476. I am a proponent of SB 476 in its original form. The Pooled Money Investment Board ("PMIB") voted to request this bill at its January 2, 1996 special meeting. I would like to address four issues, three of which are contained in SB 476. Those four items are: 1) Address the \$20 million loss in the Municipal Investment Pool ("MIP"); 2) Correct administrative shortcomings; 3) Request expanded investment powers; and 4) Correct restrictive statutory requirements for qualifications for Board members. Before I begin my testimony on these items I want to make sure you fully understand why there is a \$21.3 million loss as of June 30, 1995 that needs to be addressed during this legislative session. The current unrecovered loss stands at \$19,670,000.

Do not make the mistake of believing that rising interest rates caused the \$20 million trading loss in the Municipal Investment Pool ("MIP"). The investment strategy used by the Treasurer to invest in securities that had longer maturities than MIP deposits caused a liquidity problem when the MIP could no longer compete with other investment vehicles available to MIP participants, because the portfolio's earnings lagged behind the then current market rates. Also, the Chief Investment Officer invested heavily in callable securities, betting that interest rates would not rise, or perhaps not considering interest rates would rise, erroneously assuming that the securities would consequently be called on the call date. Instead, these securities were not called, and the MIP was left holding bonds yielding less than market rates and generally had another year to maturity. **These investment strategies did not fit the board policy or market conditions.** The Pooled Money Investment Board ("PMIB") had an investment policy that required safety first, liquidity second, and yield third. The Treasurer's investment strategies, formulated with erroneous assumptions, reversed liquidity and yield. The Board, on numerous occasions, questioned the Treasurer regarding the disparity between investment and deposit maturities. The Treasurer consistently responded that "core deposits" in excess of \$500 million allowed her to utilize this investment strategy to increase yield. This incorrect assumption, and the investments in callable securities left no choice but to sell securities and sustain huge losses when liquidity problems set in during December of 1994 and January of 1995. Any other explanation for these losses is incorrect!

**MUNICIPAL INVESTMENT POOL ("MIP") LOSS**

The PMIB has worked diligently this past year to formulate a plan to address the \$20 million trading loss in the MIP. Many alternatives were considered. It became obvious the following concerns would dictate what action might provide a reasonable solution to this problem:

- Due to contractual and statutory limitations, it is highly improbable that current and past MIP participants can be legally required to repay earnings already distributed.

- The size of the MIP limits its capacity to offer competitive rates with the drag of this \$20 million loss, and the scheduled withdrawal of State idle funds in July, 1996 and the current systematic withdrawal of the Health Care Stabilization Fund will further erode its earning capacity. The MIP will probably collapse, and the loss will still need to be addressed.
- Keeping the MIP viable is the best possible option, because it insures that municipalities will participate in recouping the loss by allowing the State to recover a portion of the loss through deferring a small portion of MIP earnings to offset the loss.
- The State will most likely be the ultimate bearer of the majority of the loss. The only way to mitigate the effect of the loss is to maximize earnings within a conservative investment policy that allows only appropriate credit and market risk assumption. Expanded investment powers to include short term, high grade commercial paper, banker's acceptances, and negotiable bank CDs would be appropriate to help offset earnings deferred to the loss.

The PMIB has concluded that:

- 1) maintaining the MIP as a viable and desirable alternative investment vehicle for municipalities;
- 2) managing the State idle funds and the MIP in one investment pool; and
- 3) amortizing the loss by allocating a small portion of the future earnings of the combined pool to the loss,

will cause the least amount of financial burden to the State. We did not hear from the Governor or the Budget Director that a \$20 million appropriation from the General Fund was a satisfactory solution, so the PMIB has worked hard to find a way to reasonably defray this loss over a relatively short period of time. A collapse of the MIP would not result in an immediate resolution of the problem unless the State bore the entire loss. It was the consensus of the PMIB that, in the event municipalities suffered any loss, probable lawsuits and claims against the State would drastically increase the cost of resolution to the state, cities, counties and school districts.

### **ADMINISTRATIVE SHORTCOMINGS**

The following occurrences have caused considerable concern regarding the administrative functions regarding the PMIB. These concerns have prompted PMIB members to request legislative changes reflected in the original Senate Bill No. 476.

- Investment strategies which jeopardized the liquidity of the MIP has led to \$21.3 million in realized losses.
- Incorrect rationale on swap calculation between the MIP and State Idle Funds caused improper transfer of funds, leaving the State Idle Funds almost \$1 million short. The

Treasurer and staff argued with Legislative Post Audit and independent auditor until PMIB asked the swap calculation be corrected and appropriate funds be returned to State Idle Funds.

- Additional mathematical errors on swap calculations short changed the State Idle Funds almost \$1.1 million. This exemplified carelessness and lack of checks and balances.
- Lack of proper controls in accounting. A dual entry general ledger system should be utilized to insure accurate accounting. Independent audit required approximately \$100,000 in correcting entries for errors caused by inadequate accounting controls and the auditor has recommended these accounting controls.
- The Treasurer unilaterally began a "haircut " policy which was highly discriminatory against the State Idle Funds prior to PMIB directive and refuses to reverse a portion of the unauthorized haircut, ignoring the PMIB directive. The Treasurer's plan allocated approximately 40% of the earnings of the State Idle Funds in the MIP to the loss.
- The Treasurer communicated to MIP participants on June 21, 1995, that the State Idle Funds would remain in the pool to the end and would suffer all of the losses in the MIP. This is clearly outside the Treasurer's authority and became a point of contention with the Attorney General.
- The Treasurer, as PMIB Chairman, refused to acknowledge a proper board motion and second because it did not comply with her own agenda.
- The Treasurer, Assistant Treasurer, and certain PMIB staff strongly resisted the PMIB's efforts to create financial reports to give the PMIB a better knowledge of the condition of the MIP and State Idle Funds. This is consistent with numerous instances when incorrect, and incomplete information was presented to the PMIB, making it extremely difficult to make informed decisions. Pertinent requests for information by the PMIB have also been ignored.

These are many of the reasons why Senate Bill No. 476 needs to be restored to its original form and shift the authority to the PMIB to match the statutory responsibility vested in the PMIB. **The balance between responsibility and authority is critical to the proper management of State investments.** The current form of SB 476 actually widens the gap and removes any ability of the PMIB to monitor, or provide investment performance advise, beyond an advisory status only.

It is obvious to me the administrative function is lacking proper oversight and accountability. I envision hiring a top-notch executive director with managerial skills to direct PMIB staff, carry out board directives, strictly adhere to investment policies and strategies and provide a high degree of accountability to the PMIB as well as the public by utilizing finance professionals for performance evaluation and strategic planning. **Risk management, not yield emphasis, is the most important function of the PMIB, and this proposal provides the clear authority to carry out that responsibility.**

I believe the legislative proposal of the original SB 476 will provide good financial management by matching responsibility and authority. As an independent agency, the PMIB can effectively and objectively manage the investment of State monies.

### **EXPANDED POWERS**

The PMIB has carefully considered the new investment vehicles requested in the original SB 476. It was concluded that the risks associated with these investments, specifically commercial paper, bankers acceptances, and negotiable CDs, is manageable and appropriate for public funds portfolios. It is the intent of the PMIB to utilize these investment tools to enhance short term investment earnings with minimal additional risk, which in turn will provide long term economic benefits to the State of Kansas long after the loss has been amortized.

There are two types of risk that must be evaluated when determining the quality of an investment. They are: credit risk and market risk. The basis for credit risk is the probability of repayment while market risk is based on an evaluation of the earnings of a security compared to current market rates. The length of term of a security and interest rate determine the amount of disparity a security has compared to the current market conditions. The longer the term of a security, the greater the market risk.

A shorter term security generally has less market risk than a longer term maturity because the cash flow of the shorter security compared to a comparable security with current market interest rates is not as large as the disparity between the cash flows when comparing longer term securities. As an example, a 90 day U.S. Treasury Bill has less market risk than a 1 year U.S. Treasury Security. These two securities virtually have the same credit risk. A 180 day commercial paper has less market risk than a 7 year mortgage backed security that has the full faith and credit of the United States government.

Market risk can only cause a realized gain or loss if an investor sells a security prior to maturity. This premature sale can occur either by choice or forced sale. The \$21.3 million loss in the MIP was caused by forced sales due to liquidity problems. Securities were sold at a loss to meet cash flow needs.

Of the three new investment tools requested, commercial paper is by far the most common instrument and is lower on the risk scale than the other tools. I would suggest that commercial paper be added to the permitted investments and mortgage backed securities, which are relatively high on the risk scale, be deleted from permitted investments. This change in the permitted investments would expose the State to less market risk than current statutes allow. If an upper limit as to the amount of permitted commercial paper in the portfolio gives the legislators some comfort level, I am sure the PMIB would accept a reasonable statutory limitation. However, subparagraph (l) of section 15 of SB 476 (page 33, line 7) requires the PMIB, by rules and regulations, establish limitations on types of investments which would allow the Legislature to review these limitations. I would promote a limitation of not more than 25% of the total investment portfolio or 40% of funds

required to be available within 12 months as determined by the cash flow models developed by the State Treasurer's office, whichever is less.

### **BOARD QUALIFICATIONS**

The current qualifications for a Board member are: *all members appointed to the board shall be persons with not less than 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.* These qualifications are extremely limiting and do not address what a PMIB member needs the most - risk management experience. SB 480 in 1992 and SB 9 in 1995 both had changes to board qualifications which further restricted the eligibility of potential board members.

A diverse board brings different qualities of management to the board. I contend that a bank board with all bankers as board members does not comprise a good board. The current qualifications for the PMIB does not provide for a well rounded board. I would recommend that the qualifications be changed so that board members must have at least five years of direct work experience in management in the field of finance. This would provide the Governor with enough latitude to appoint a well rounded board that would put in place sound business practices and provide the critical risk management which is so important to the PMIB.

### **CONCLUSIONS**

My perception of the situation is this: the authority of the PMIB is inadequate to effectively manage the assets for which it is statutorily responsible. There are numerous situations which have recently occurred that has frustrated the PMIB members in attempts to properly manage the investment functions that we are statutorily responsible for. It is a very basic managerial concept that authority and responsibility need to be balanced; otherwise, the imbalance creates dysfunction. An organization does not function effectively when the responsibility of managing assets and the authority to carry out the policies and directives related to such responsibility are not in balance.

The current statutes do not help clarify how much, if any, authority the PMIB has concerning administrative decisions. The Treasurer can claim, and has often maintained, that her actions and decisions fall under her administrative responsibilities. To rectify this imbalance, it was proposed in the original SB 476 to place the administrative functions in the PMIB by separating the operations of the PMIB and the Treasurer. The alternative proposed in the current SB 476 diminishes the statutory responsibilities of the PMIB. I do not believe this alternative would be the prudent course of action to take.

I am sure the issue of accountability will be raised, and rightfully so. It is a difficult issue, and one that should be carefully considered by the Legislature. The PMIB members, other than the Treasurer, are appointed by the Governor. Questions that need to be answered are: Does placing the administrative function under the PMIB weaken the accountability to the public? Should the State Treasurer have the ultimate and unilateral responsibility for the investment function? Who should



be responsible for risk management? These are public policy issues that need to be resolved by the Legislature. I believe the proposal before you makes the best business sense and provides a better structure to manage the risks involved in investing money without diminishing accountability. Risk management is by far the most critical investment function, and we must do a better job of market risk management in the future.

In conclusion, Senate Bill No. 476 with the proposed changes addresses the most practical and least painful solution to recover the trading losses and provides the proper balance of responsibility and authority within the PMIB. I believe the current version of SB 476 actually increases the imbalance between the PMIB's responsibility and authority. The current imbalance will promote continued mismanagement and hinder the Board's attempts to manage the assets that have been entrusted to the PMIB.

SENATE BILL No. 476

By Committee on Financial Institutions and Insurance

1-17

12 AN ACT relating to public funds; amending K.S.A. ~~12-3724~~, 40-3406,  
13 44-712, ~~68-2321~~, ~~68-2324~~, 75-622, 75-4204, 75-4210a, ~~75-4253~~, 75-  
14 4254 and 76-818 and K.S.A. 1995 Supp. 12-1677a, ~~12-1677e~~, 40-3403,  
15 75-4201, 75-4202, 75-4209, 75-4212a, 75-4218, 75-4220, 75-4221a,  
16 75-4222, 75-4228, 75-4232, ~~75-4262~~, ~~75-4263~~ and 79-4804 and re-  
17 pealing the existing sections; also repealing K.S.A. 1995 Supp. 12-  
18 1677c and 75-4213.

, 12-1677e

19  
20 Be it enacted by the Legislature of the State of Kansas:

21 New Section 1. (a) Except as provided in subsection (d), all moneys  
22 in the state treasury shall be invested as a single portfolio which is hereby  
23 designated as the pooled money investment portfolio. The portfolio shall  
24 be invested in accordance with article 42 of chapter 75 of the Kansas  
25 Statutes Annotated, and amendments thereto. The ~~pooled money invest-~~  
26 ~~ment board state treasurer~~ shall compute daily the earnings of the port-  
27 folio, including realized gains and losses. The ~~pooled money investment~~  
28 ~~board~~ by written policy may provide for allocation of unrealized gains or  
29 losses. The ~~board state treasurer~~ shall deduct from earnings an admin-  
30 istrative fee which shall be set by the board and applied as a fixed annual  
31 percentage of the book value of the assets in the portfolio, calculated on  
32 a daily basis. The annual administrative fee shall not exceed .25%. The  
33 ~~board state treasurer~~ shall deposit the administrative fee in accordance  
34 with section 2. The gross earnings, after deduction of the administrative  
35 fee, shall be designated as the net earnings of the pooled money invest-  
36 ment portfolio.

pooled money investment board

board

board

37 (b) A comparative investment performance review of the pooled  
38 money investment portfolio shall be contracted for periodically by the  
39 pooled money investment board. The costs of such review shall be paid  
40 from moneys appropriated to the ~~state treasurer~~.

pooled money investment board

41 (c) The pooled money investment board shall contract for the services  
42 of an external investment advisor to provide advisory services concerning  
43 the investment policies and practices of the pooled money investment

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1 portfolio. Such investment advisor shall not be the person or firm con-  
2 tracted with under subsection (b).

3 (d) The following moneys shall not be invested in the pooled money  
4 investment portfolio:

5 (1) Moneys in the employment security fund established by K.S.A.  
6 44-712, and amendments thereto, *shall not be invested in the pooled*  
7 *money investment portfolio* except as may be authorized by the sec-  
8 retary of human resources pursuant to subsection (e) of K.S.A. 44-712,  
9 and amendments thereto;

10 (2) moneys in the state highway fund; except that such moneys may  
11 be invested in the municipal investment pool if authorized by the seere-  
12 tary of transportation;

13 (3) moneys in the Kansas public employees retirement fund created  
14 by K.S.A. 74-4021; and amendments thereto; except that such moneys  
15 may be invested in the municipal investment pool if authorized by the  
16 board of trustees; and

17 (4) moneys relating to bonds and bond funds of state agencies and  
18 authorities; except that such moneys may be invested in the municipal  
19 investment pool if authorized by the bond documents or bond covenants:

20 (e) *For moneys in funds designated in this subsection which are*  
21 *not invested in the municipal investment pool fund, the pooled*  
22 *money investment board shall prescribe by written policy for the*  
23 *crediting of interest to be paid on balances of such funds that are*  
24 *in the pooled money investment portfolio. At a minimum, the inter-*  
25 *est rate credited shall be equal to the lowest rate paid on investment*  
26 *options in the municipal investment pool fund. This subsection shall*  
27 *apply to the state highway fund and bond funds of state agencies*  
28 *and authorities.*

29 New Sec. 2. (a) The administrative fee authorized by section 1 shall  
30 be credited to the municipal investment pool fund:

31 (b) When amounts credited to the municipal investment pool fund  
32 pursuant to subsection (a) total an amount equal to the net losses in the  
33 municipal investment pool as of July 1, 1996; the entire administrative  
34 fee assessed thereafter shall be credited to the state general fund:

35 New Sec. 2. (a) *The administrative fee authorized by section 1*  
36 *shall be credited to the pooled money investment portfolio fee fund,*  
37 *which is hereby created.*

38 (b) ~~The state treasurer~~ may deduct from the pooled money in-  
39 vestment portfolio fee fund amounts to pay expenses incurred in the  
40 administration of the pooled money investment portfolio. All ex-  
41 penditures from such fee fund for reimbursement of administrative  
42 expenses shall be made in accordance with appropriation acts pur-  
43 suant to vouchers of the ~~state treasurer~~. The ~~state treasurer~~ shall

pooled money investment board

pooled money investment board (both places)

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1 certify, periodically, the amount in the pooled money investment  
2 portfolio fee fund not necessary for reimbursement of administra-  
3 tive expenses and the director of accounts and reports shall transfer  
4 and credit the amount certified in accordance with the provisions  
5 of subsection (c).

6 (c) The total amount transferred pursuant to subsection (b)  
7 shall be credited to the municipal investment pool fund until an  
8 amount equal to the net losses in such fund as of July 1, 1996, have  
9 been credited to such fund, thereafter, the total amount transferred  
10 pursuant to subsection (b), shall be credited to the state general  
11 fund.

12 ~~New Sec. 3.—On and after the effective date of this act, whenever~~  
13 ~~in the law it is provided that the pooled money investment board~~  
14 ~~may or shall invest or invest and reinvest moneys of the state or any~~  
15 ~~state agency or municipality, or words of like effect, the same shall~~  
16 ~~mean that the state treasurer may or shall invest or invest and re-~~  
17 ~~invest moneys of the state or such state agency or municipality in~~  
18 ~~accordance with investment policies established by the pooled~~  
19 ~~money investment board under K.S.A. 75-4232, and amendments~~  
20 ~~thereto.~~

3

21 Sec. 3. ~~4~~ K.S.A. 1995 Supp. 12-1677a is hereby amended to read as  
22 follows: 12-1677a. (a) Moneys deposited by any municipality with the  
23 state treasurer for investment authorized in paragraph (6) of subsection  
24 (b) of K.S.A. 12-1675, and amendments thereto, shall be deposited in the  
25 municipal investment pool fund which is hereby created in the state treas-  
26 ~~ury. Any municipality depositing moneys under the provisions of this sec-~~  
27 ~~tion shall provide notice to the pooled money investment board of such~~  
28 ~~deposits in accordance with policies adopted by the pooled money in-~~  
29 ~~vestment board. Such notice shall~~ ~~The state treasurer shall provide the~~  
30 ~~board a monthly record of the deposits and withdrawals of munic-~~  
31 ~~ipalities. Such record may include the amount of the deposit, the date~~  
32 ~~of the deposit and such other information as the pooled money investment~~  
33 ~~board may require.~~

Any municipality depositing monies under the provisions of this section shall provide notice to the pooled money investment board of such deposits in accordance with policies adopted by the pooled money investment board. Such notice shall

pooled money investment board

34 (b) The pooled money investment board [~~state treasurer~~] may in-  
35 vest and reinvest moneys in the municipal investment pool fund in the  
36 following investments:

37 (1) Direct obligations of, or obligations that are insured as to principal  
38 and interest by, the United States of America or any agency thereof and  
39 obligations and securities of United States sponsored enterprises which  
40 under federal law may be accepted as security for public funds; except  
41 that: (A) Not more than 10% of the moneys available for investment under  
42 this subsection may be invested in mortgage-backed securities of such  
43 enterprises and of the government national mortgage association; and (B)

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

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

8 (3) repurchase agreements with a Kansas bank; Kansas savings and  
9 loan association; a federally chartered savings bank having an office or  
10 offices in the state of Kansas or with a primary government securities  
11 dealer which reports to the market reports division of the federal reserve  
12 bank of New York for direct obligations of, or obligations that are insured  
13 as to principal and interest by, the United States government or any  
14 agency thereof and obligations and securities of United States govern-  
15 ment sponsored enterprises which under federal law may be accepted as  
16 security for public funds *accordance with [investment policies estab-*  
17 *lished by the pooled money investment board under K.S.A. 75-4232,*  
18 *and amendments thereto, and in accordance with] section 1 of this*  
19 *act and K.S.A. 75-4209, and amendments thereto.*

20 (c) All interest earnings received from investments of money in the  
21 municipal investment pool fund shall be credited to the municipal in-  
22 vestment pool fund. Interest earnings experienced by the fund on in-  
23 vestments attributable to each participating municipality shall be prorated  
24 and applied to the individual accounts of the municipalities; maintained  
25 by the state treasurer. Deferred earnings transferred from the municipal  
26 investment pool reserve fund to the municipal investment pool fund shall  
27 be prorated and applied to the individual accounts of the municipalities;  
28 maintained by the state treasurer ~~The board state treasurer shall ap-~~  
29 ~~portion earnings among the accounts of the depositors in the various in-~~  
30 ~~vestment options of the municipal investment pool in accordance with~~  
31 ~~policies approved and published by the board.~~ A statement for each mu-  
32 nicipality participating unit account showing deposits, withdrawals, earn-  
33 ings and losses distributions shall be provided monthly to the municipal-  
34 ity. The state treasurer ~~pooled money investment board state treasurer~~  
35 shall make comprehensive reports monthly to those municipalities par-  
36 ticipating in the municipal investment pool fund and to other interested  
37 parties requesting such reports. Such reports shall include a summary of  
38 transactions for the month, the current market value of the ~~pool~~ *pooled*  
39 *money investment portfolio* investments, the weighted average maturity  
40 ratio of the ~~fund~~ *portfolio*, the original costs of the investments in the  
41 ~~fund~~ *portfolio*, including any fees associated with such investments and  
42 such other relevant information the state treasurer ~~pooled money invest-~~  
43 ~~ment board state treasurer~~ may wish to include in such report.

board

pooled money investment board

pooled money investment board

1 (d) The state treasurer may assess reasonable charges not to exceed  
 2 1% of the interest earned against the fund for reimbursement of expenses  
 3 incurred in administering the fund. The state treasurer shall certify, pe-  
 4 riodically, the amount of the assessment and the director of accounts and  
 5 reports shall transfer the amount certified from the municipal investment  
 6 pool fund to the municipal investment pool fund fee fund, which is hereby  
 7 created. All expenditures from the municipal investment pool fund fee  
 8 fund shall be made in accordance with appropriation acts upon warrants  
 9 of the director of accounts and reports issued pursuant to vouchers ap-  
 10 proved by the state treasurer or a person or persons designated by the  
 11 state treasurer. Amounts of gains realized on disposition of investments  
 12 of the municipal investment pool fund shall be periodically certified by  
 13 the state treasurer, and the director of accounts and reports shall transfer  
 14 the amount certified from the municipal investment pool fund to the  
 15 municipal investment pool reserve fund which is hereby created in the  
 16 state treasury. The state treasurer shall make a determination of the  
 17 amount needed for a reserve for possible losses to the municipal invest-  
 18 ment pool fund and shall certify periodically such amount, and the direc-  
 19 tor of accounts and reports shall transfer the amount so certified from  
 20 the municipal investment pool fund fee fund to the municipal investment  
 21 pool reserve fund. If the state treasurer makes a determination that sig-  
 22 nificant losses or gains have occurred to the municipal investment pool  
 23 fund, the state treasurer shall certify the amount thereof to the director  
 24 of accounts and reports, and the director of accounts and reports shall  
 25 transfer the amount so certified from the municipal investment pool re-  
 26 serve fund to the municipal investment pool fund. *The municipal invest-*  
 27 *ment pool reserve fund is abolished effective July 1, 1996, and any unen-*  
 28 *cumbered balance remaining therein shall be applied to net losses in the*  
 29 *municipal investment pool fund. The municipal investment pool fund fee*  
 30 *fund is abolished on July 1, 1997, and any unencumbered balance re-*  
 31 *maining therein shall be transferred to the pooled money investment*  
 32 *portfolio fee fund and such amounts shall be applied to net losses, as*  
 33 *of July 1, 1996, in the municipal investment pool fund.*

34 (e) The state treasurer ~~may~~ *pooled money investment board state treas-*  
 35 ~~urer~~ may adopt rules and regulations necessary for the administration  
 36 and operation of the municipal investment pool fund and may enter into  
 37 agreements with any municipality as to methods of deposits, withdrawals  
 38 and investments.

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

41 (g) A comparative investment performance review shall be contracted  
 42 for periodically by the pooled money investment board. The cost of such  
 43 review shall be paid by the municipal investment pool fund from moneys

\_\_\_\_\_ pooled money investment board



1 in the municipal investment pool fund fee fund.

2 (h) (f) Deposits in the municipal investment pool fund: (1) May only  
3 be made for the same maturity as the maturity which is offered under  
4 paragraphs (2) and (3) of subsection (b) of K.S.A. 12-1675 and amend-  
5 ments thereto; and (2) upon the maturity of such deposits, such moneys  
6 shall be offered for investment under paragraphs (2) or (3) of subsection  
7 (b) of K.S.A. 12-1675, and amendments thereto, and may be reinvested  
8 in such fund only if the conditions contained in subsection (c) of K.S.A.  
9 12-1675, and amendments thereto, have been satisfied.

10 (i)(g) Moneys and investments in the municipal investment pool fund  
11 and any separate portfolio within such fund shall be managed by the  
12 pooled money investment board in accordance with investment policies  
13 developed, approved, published and updated on an annual basis by such  
14 board. Such investment policies shall include at a minimum guidelines  
15 which identify credit standards, eligible instruments, allowable maturity  
16 ranges, methods for valuing the portfolio, calculating earnings and yields  
17 and limits on portfolio concentration for each type of investment. Any  
18 changes in such investment policies shall be approved by the pooled  
19 money investment board provided for in K.S.A. 75-4209, and amend-  
20 ments thereto. A copy of such published policies shall be distributed to  
21 all municipalities participating in the municipal investment pool fund and  
22 to other interested persons requesting a copy of such policies. The pooled  
23 money investment board shall not contract for management of invest-  
24 ments by a money manager. The pooled money investment board shall  
25 contract for the services of an external investment advisor to provide  
26 advisory services concerning the investment policies and practices for the  
27 municipal investment pool fund. Such investment advisor shall be differ-  
28 ent from the person or firm contracted with under subsection (g).

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

35 (k) On and after July 1, 1996:

36 (1) Except as provided in paragraph (2), the weighted average ma-  
37 turity of all investments in the municipal investment pool fund shall not  
38 exceed the weighted average maturity of all deposits in the municipal  
39 investment pool fund by more than 100%; except that the weighted av-  
40 erage maturity of investments in such fund shall not exceed the weighted  
41 average maturity of deposits in such fund by more than 90 days.

42 (2) The pooled money investment board, for the purposes of insuring  
43 and maintaining the soundness of and the liquidity of the municipal in-

vestment pool fund, may increase the ninety-day limitation contained in paragraph (1), except that such increase shall not exceed 180 days. The increased limitations established by the board under this paragraph shall be effective for periods not exceeding 120 days. Upon the expiration of the limitations established pursuant to this paragraph (2), the limitations contained in paragraph (1) shall be applicable, unless the board establishes new limitations under the provisions of this paragraph (2).

(3) For the purpose of determining the weighted average maturity under this subsection, all deposits in the municipal investment pool fund without a stated maturity shall be assumed to have a maturity of one day.

(4) The pooled money investment board shall not be required to sell any investments at a loss held by the municipal investment pool fund on the effective date of this act in order to meet the requirements of paragraphs (1) or (2) of this subsection.

(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. 1995 Supp. 12-1677e, and amendments thereto.

(m) On and after January 1, 1996, investments made under paragraph (2) of subsection (a) of K.S.A. 75-4200, 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 (e) of K.S.A. 75-3711e, and amendments thereto. All such exchanges shall be made in accordance with generally accepted accounting principles.

(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.

(o) (h) For the purpose of this section: (1), "municipality" means those entities specified in subsection (a) of K.S.A. 12-1675, and amendments thereto, and K.S.A. 1995 Supp. 75-4263, 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: (A) For investments, 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; and (B) for deposits, the sum of the total number of days for each individual deposit multiplied by the dollar value of each individual deposit divided by the sum of the dollar values of all deposits.

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1 See. 4. K.S.A. 1995 Supp. 12-1677e is hereby amended to read as  
2 follows: 12-1677e. (a) There is hereby established the municipal in-  
3 vestment pool advisory committee which shall have nine voting members.  
4 Initially, the league of Kansas municipalities shall nominate six persons  
5 of whom the governor shall appoint three to be members of the advisory  
6 committee. Initially, the association of counties shall nominate six persons  
7 of whom the governor shall appoint three to be members of the advisory  
8 committee. Initially, the Kansas association of school boards shall nomi-  
9 nate six persons of whom the governor shall appoint three to be members  
10 of the advisory committee. Of the persons initially appointed to the ad-  
11 visory committee, one from each of the three members nominated by  
12 each nominating body and appointed by the governor to be members  
13 shall have a term of four years. Of the persons initially appointed to the  
14 advisory committee, one from each of the three members nominated by  
15 each nominating body and appointed by the governor to be members of  
16 the advisory committee shall have terms of two years. Of the persons  
17 initially appointed to the advisory committee, one from each of the three  
18 members nominated by each nominating body and appointed by the gov-  
19 ernor to be members of the advisory committee shall have terms of one  
20 year. Of the persons so appointed the governor shall designate the term  
21 of each in accordance with the above. The governor shall also appoint  
22 two nonvoting ex officio members of the advisory committee to serve for  
23 terms of three years. One of such ex officio members shall be selected  
24 by the governor from three persons nominated by the Kansas bankers  
25 association.

26 (b) Upon the expiration of the terms of each member initially ap-  
27 pointed to the advisory committee, the nominating body specified in sub-  
28 section (a) which nominated the member whose term has expired shall  
29 nominate three persons to fill such vacancy, and the governor shall ap-  
30 point one of such persons to fill such vacancy for a term of four years. In  
31 like manner persons shall be nominated and appointed to fill all vacancies  
32 which occur upon the expiration of a member's term and each person so  
33 appointed shall serve for a term of four years. When a vacancy occurs  
34 before the term of the member expires, the vacancy shall be filled for the  
35 balance of the unexpired term in the same manner as for vacancies oc-  
36 curring when terms expire.

37 (c) The municipal investment pool advisory committee shall organize  
38 annually by electing from its members a chairperson and vice-chairper-  
39 son. The advisory committee shall meet on call of the chairperson or any  
40 four voting members, or upon call of the state treasurer *pooled money*  
41 *investment board*. Members of the advisory committee shall receive such  
42 compensation and expense reimbursement as is provided by the govern-  
43 ing body of the city, county or board of education which nominated such

1 member.

2 (d) Persons nominated under subsection (a); and members appointed  
3 to the advisory committee, except ex officio members, shall be from a  
4 city, county or school district that is an active participant in the municipal  
5 investment pool fund. Nominees and members appointed to the advisory  
6 committee shall be from geographically diverse areas and communities  
7 of the state. Persons nominated and members appointed to the advisory  
8 committee shall be nominated and appointed without regard to political  
9 party affiliation. Nominees and members appointed to the advisory com-  
10 mittee shall be educated in, and have substantial work experience in,  
11 matters of money management and investments. Such education and  
12 work experience may be as an investment manager, municipal investment  
13 officer or trust officer for a financial institution, association or corporation  
14 or be a currently certified public accountant, certified financial analyst or  
15 certified cash manager. In lieu of such education and work experience,  
16 nominees and members appointed to the advisory board may have sub-  
17 stantial experience as a local government money manager.

18 (e) The municipal government investment pool advisory committee  
19 shall advise the state treasurer *pooled money investment board* on matters  
20 of investment strategies, policies and operational procedures for the mu-  
21 nicipal investment pool fund.

22 ~~Sec. 5. K.S.A. 12-3724 is hereby amended to read as follows:~~  
23 ~~12-3724. (a) The pooled money investment board state treasurer may~~  
24 ~~invest and reinvest moneys in the self-insurance reserve fund in ac-~~  
25 ~~cordance with investment policies established by the pooled money in-~~  
26 ~~vestment board under K.S.A. 75-4232, and amendments thereto, in ob-~~  
27 ~~ligations of the United States of America or obligations the principal~~  
28 ~~and interest of which are guaranteed by the United States of Amer-~~  
29 ~~ica or in interest bearing time deposits in any commercial bank lo-~~  
30 ~~cated in Kansas, or, if the board [state treasurer] determines that~~  
31 ~~it is impossible to deposit such moneys in such time deposits, in~~  
32 ~~repurchase agreements of less than 30 days' duration with a Kansas~~  
33 ~~bank or with a primary government securities dealer which reports~~  
34 ~~to the market reports division of the federal reserve bank of New~~  
35 ~~York for direct obligations of, or obligations that are insured as to~~  
36 ~~principal and interest by, the United States government or any~~  
37 ~~agency thereof.~~

38 ~~(b) For the purposes of this act the board [state treasurer] may~~  
39 ~~accept funds, public or private, from any person, firm, corporation~~  
40 ~~or from any state agency or other public instrumentality, or from~~  
41 ~~the federal government or any department or agency thereof.~~

42 ~~(c) All moneys in the self-insurance reserve fund, or payable to~~  
43 ~~such fund, are hereby specifically exempt from any and all taxes~~

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1 ~~authorized by law to be levied or collected, whether sales, income,~~  
2 ~~ad valorem, premium or by whatever name described.~~

5

3 Sec. 5. ~~6.~~ K.S.A. 1995 Supp. 40-3403 is hereby amended to read as  
4 follows: 40-3403. (a) For the purpose of paying damages for personal  
5 injury or death arising out of the rendering of or the failure to render  
6 professional services by a health care provider, self-insurer or inactive  
7 health care provider subsequent to the time that such health care provider  
8 or self-insurer has qualified for coverage under the provisions of this act,  
9 there is hereby established the health care stabilization fund. The fund  
10 shall be held in trust in a ~~segregated fund~~ in the state treasury and ac-  
11 counted for separately from other state funds. The board of governors  
12 shall administer the fund or contract for the administration of the fund  
13 with an insurance company authorized to do business in this state.

14 (b) (1) On the effective date of this act, the board of governors in  
15 existence on the day preceding such effective date is hereby abolished.  
16 On the effective date of this act, there is hereby created a board of gov-  
17 ernors which shall be composed of such members and shall have such  
18 powers, duties and functions as are prescribed by this act. The board of  
19 governors shall:

20 (A) Administer the fund and exercise and perform other powers, du-  
21 ties and functions required of the board under the health care provider  
22 insurance availability act;

23 (B) provide advice, information and testimony to the appropriate li-  
24 censing or disciplinary authority regarding the qualifications of a health  
25 care provider;

26 (C) prepare and publish, on or before October 1 of each year, a sum-  
27 mary of the fund's activity during the preceding fiscal year, including but  
28 not limited to the amount collected from surcharges, the highest and  
29 lowest surcharges assessed, the amount paid from the fund, the number  
30 of judgments paid from the fund, the number of settlements paid from  
31 the fund and the amount in the fund at the end of the fiscal year; and

32 (D) have the authority to grant exemptions from the provisions of  
33 subsection (m) of this section when a health care provider temporarily  
34 leaves the state for the purpose of obtaining additional education or train-  
35 ing or to participate in religious, humanitarian or government service  
36 programs. Whenever a health care provider has previously left the state  
37 for one of the reasons specified in this paragraph and returns to the state  
38 and recommences practice, the board of governors may refund any  
39 amount paid by the health care provider pursuant to subsection (m) of  
40 this section if no claims have been filed against such health care provider  
41 during the provider's temporary absence from the state.

42 (2) The board shall consist of 10 persons appointed by the commis-  
43 sioner of insurance, as provided by this subsection (b) and as follows:

1 (A) Three members who are licensed to practice medicine and sur-  
2 gery in Kansas who are doctors of medicine and who are on a list of  
3 nominees submitted to the commissioner by the Kansas medical society;

4 (B) three members who are representatives of Kansas hospitals and  
5 who are on a list of nominees submitted to the commissioner by the  
6 Kansas hospital association;

7 (C) two members who are licensed to practice medicine and surgery  
8 in Kansas who are doctors of osteopathic medicine and who are on a list  
9 of nominees submitted to the commissioner by the Kansas association of  
10 osteopathic medicine;

11 (D) one member who is licensed to practice chiropractic in Kansas  
12 and who is on a list of nominees submitted to the commissioner by the  
13 Kansas chiropractic association;

14 (E) one member who is a licensed professional nurse authorized to  
15 practice as a registered nurse anesthetist who is on a list of nominees  
16 submitted to the commissioner by the Kansas association of nurse anes-  
17 thetists.

18 (3) On and after the effective date of this act, whenever a vacancy  
19 occurs in the membership of the board of governors created by this act,  
20 the commissioner shall appoint a successor of like qualifications from a  
21 list of three nominees submitted to the commissioner by the professional  
22 society or association prescribed by this section for the category of health  
23 care provider required for the vacant position on the board of governors.  
24 Except as otherwise provided by this section, all appointments made shall  
25 be for a term of office of four years, but no member shall be appointed  
26 for more than two successive four-year terms. Each member shall serve  
27 until a successor is appointed and qualified. Whenever a vacancy occurs  
28 in the membership of the board of governors created by this act for any  
29 reason other than the expiration of a member's term of office, the com-  
30 missioner shall appoint a successor of like qualifications to fill the unex-  
31 pired term. In each case of a vacancy occurring in the membership of the  
32 board of governors, the commissioner shall notify the professional society  
33 or association which represents the category of health care provider re-  
34 quired for the vacant position and request a list of three nominations of  
35 health care providers from which to make the appointment.

36 (4) (A) The persons serving as members of the board of governors  
37 on the day preceding the effective date of this act, except the commis-  
38 sioner of insurance and the persons appointed from the public at large  
39 or to represent the unspecified category of health care providers under  
40 the provisions of this section as it existed on the day preceding the effec-  
41 tive date of this act, shall be the initial members of the board of governors  
42 created by this act and shall hold such office in accordance with and  
43 subject to the provisions of this section. The commissioner shall designate



1 the terms of office of such initial members of the board of governors  
2 created by this act as follows:

3 (i) One member who is licensed to practice medicine and surgery in  
4 Kansas who is a doctor of medicine shall be designated for a term expiring  
5 on July 1, 1995;

6 (ii) one member who is licensed to practice medicine and surgery in  
7 Kansas who is a doctor of medicine shall be designated for a term expiring  
8 on July 1, 1996;

9 (iii) one member who is licensed to practice medicine and surgery in  
10 Kansas who is a doctor of medicine shall be designated for a term expiring  
11 on July 1, 1997;

12 (iv) one member who is a representative of a Kansas hospital shall be  
13 designated for a term expiring on July 1, 1995;

14 (v) one member who is a representative of a Kansas hospital shall be  
15 designated for a term expiring on July 1, 1996;

16 (vi) one member who is a representative of a Kansas hospital shall be  
17 designated for a term expiring on July 1, 1997;

18 (vii) one member who is licensed to practice medicine and surgery  
19 in Kansas who is a doctor of osteopathic medicine shall be designated for  
20 a term expiring on July 1, 1995;

21 (viii) one member who is licensed to practice medicine and surgery  
22 in Kansas who is a doctor of osteopathic medicine shall be designated for  
23 a term expiring on July 1, 1996;

24 (ix) the member who is licensed to practice chiropractic in Kansas  
25 shall be designated for a term expiring on July 1, 1995; and

26 (x) the member who is a licensed professional nurse authorized to  
27 practice as a registered nurse anesthetist in Kansas shall be designated  
28 for a term expiring on July 1, 1996.

29 (B) If there was a vacancy in the membership of the board of gov-  
30 ernors abolished by this act on the day preceding the effective date of  
31 this act, the commissioner shall appoint a person of like qualifications in  
32 accordance with this subsection (b) and shall designate the term of such  
33 member in accordance with this subsection (b) as though such member  
34 had been a member on the day preceding the effective date of this act.  
35 In any such case, the commissioner shall notify the professional society  
36 or association representing the category of health care provider required  
37 for the vacant position and request a list of nominations of health care  
38 providers from which to make the appointment.

39 (5) The board of governors shall organize at its first meeting in Jan-  
40 uary of 1995, and at its first meeting subsequent to July 1, 1995, and July  
41 1 of each year thereafter and shall elect a chairperson and vice-chairper-  
42 son from among its membership. Meetings shall be called by the chair-  
43 person or by a written notice signed by three members of the board.

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1 (6) The board of governors, in addition to other duties imposed by  
2 this act, shall study and evaluate the operation of the fund and make such  
3 recommendations to the legislature as may be appropriate to ensure the  
4 viability of the fund.

5 (7) On and after January 1, 1995, and prior to July 1, 1995, the board  
6 of governors shall be attached to the insurance department in accordance  
7 with this section and all staff, other than the executive director, budgeting,  
8 personnel, purchasing and related management functions of the board  
9 shall be provided by the commissioner of insurance. The commissioner  
10 shall include the budget estimates of the board of governors, as approved  
11 by the board, with the budget estimates for the insurance department  
12 which are submitted to the division of the budget under K.S.A. 75-3717  
13 and amendments thereto. All vouchers for expenditures of the board shall  
14 be approved by the chairperson of the board or a person designated by  
15 the chairperson and, upon such approval, shall be paid from the fund.  
16 On and after January 1, 1995, the board shall appoint an executive director  
17 who shall be in the unclassified service of the Kansas civil service act. On  
18 and after July 1, 1995, the board may appoint such additional employees,  
19 and provide all office space, services, equipment, materials and supplies,  
20 and all budgeting, personnel, purchasing and related management func-  
21 tions required by the board in the exercise of the powers, duties and  
22 functions imposed or authorized by the health care provider insurance  
23 availability act or may enter into a contract with the commissioner of  
24 insurance for the provision, by the commissioner, of all or any part  
25 thereof.

26 (8) The commissioner shall:

27 (A) Provide technical and administrative assistance to the board of  
28 governors with respect to administration of the fund upon request of the  
29 board;

30 (B) provide such expertise as the board may reasonably request with  
31 respect to evaluation of claims or potential claims; and

32 (C) On and after January 1, 1995, and prior to July 1, 1995, provide  
33 such staff, other than the executive director, office space, services, equip-  
34 ment, materials and supplies and all budgeting, personnel, purchasing  
35 and related management functions as may be required by the board in  
36 the exercise of its powers, duties and functions imposed or authorized by  
37 the health care provider insurance availability act; and on and after July  
38 1, 1995, provide all or any part thereof required by any contract entered  
39 into between the board and the commissioner therefor.

40 (9) On the effective date of this act, all of the powers, duties, func-  
41 tions, records and property of the board of governors that is abolished by  
42 this section, which are prescribed for the board of governors by this act  
43 are hereby transferred to and conferred and imposed upon the board of

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1 governors that is created by this section, except as is otherwise specifically  
2 provided by this act. On the dates prescribed for the transfer of the pow-  
3 ers, duties and functions by this act, all of the powers, duties, functions,  
4 records and property of the commissioner of insurance or the insurance  
5 department, which relate to or are required for the performance of pow-  
6 ers, duties or functions which are prescribed for the board of governors  
7 by this act, including the power to expend funds now or hereafter made  
8 available in accordance with appropriation acts, are hereby transferred to  
9 and conferred and imposed upon the board of governors that is created  
10 by this section, except as is otherwise specifically provided by this act.

11 (10) The board of governors created by this act shall be the successor  
12 in every way to the powers, duties and functions of the board of governors  
13 and the commissioner of insurance in which such powers, duties and  
14 functions were vested prior to the dates prescribed for the transfer of  
15 such powers, duties and functions to the board in accordance with this  
16 act, except as otherwise specifically provided by this act. Every act per-  
17 formed under the authority of the board of governors created by this act  
18 shall be deemed to have the same force and effect as if performed by the  
19 board of governors and the commissioner of insurance in which such  
20 powers, duties and functions were vested prior to the transfer of such  
21 powers, duties and functions.

22 (11) Subject to the provisions of this act, whenever the board of gov-  
23 ernors that is abolished by this act or the commissioner of insurance, or  
24 words of like effect, is referred to or designated by a statute, contract, or  
25 other document, and such reference or designation relates to a power,  
26 duty or function which is transferred to and conferred and imposed upon  
27 the board of governors that is created by this act, such reference or des-  
28 ignation shall be deemed to apply to the board of governors created by  
29 this act.

30 (12) All rules and regulations and all orders or directives of the board  
31 of governors that is abolished by this act and all rules and regulations of  
32 the commissioner of insurance, which are in existence on the date pre-  
33 scribed for the transfer of powers, duties and functions to such board  
34 under this act and which relate to powers, duties and functions that were  
35 vested in such board of governors or the commissioner of insurance prior  
36 to such date, shall continue to be effective and shall be deemed to be the  
37 rules and regulations and orders or directives of the board of governors  
38 created by this act, until revised, amended or revoked or nullified pur-  
39 suant to law. The board of governors created by this act shall be deemed  
40 to be a continuation of the board of governors abolished by this act.

41 (13) On July 1, 1995, all employees who were engaged prior to such  
42 date in the performance of duties and functions under the health care  
43 provider insurance availability act, and who, in the opinion of the board,

1 are necessary to perform the duties and functions required under such  
2 act by the board shall become employees of the board, and shall retain  
3 all retirement benefits and rights of civil service which such employee  
4 had prior to July 1, 1995, and their services shall be deemed to have been  
5 continuous.

6 (c) Subject to subsections (d), (e), (f), (i), (k), (m), (n), (o) and (p),  
7 the fund shall be liable to pay: (1) Any amount due from a judgment or  
8 settlement which is in excess of the basic coverage liability of all liable  
9 resident health care providers or resident self-insurers for any personal  
10 injury or death arising out of the rendering of or the failure to render  
11 professional services within or without this state;

12 (2) subject to the provisions of subsection (m), any amount due from  
13 a judgment or settlement which is in excess of the basic coverage liability  
14 of all liable nonresident health care providers or nonresident self-insurers  
15 for any such injury or death arising out of the rendering or the failure to  
16 render professional services within this state but in no event shall the  
17 fund be obligated for claims against nonresident health care providers or  
18 nonresident self-insurers who have not complied with this act or for  
19 claims against nonresident health care providers or nonresident self-in-  
20 surers that arose outside of this state;

21 (3) subject to the provisions of subsection (m), any amount due from  
22 a judgment or settlement against a resident inactive health care provider,  
23 an optometrist or pharmacist who purchased coverage pursuant to sub-  
24 section (n) or a physical therapist who purchased coverage pursuant to  
25 subsection (o), for any such injury or death arising out of the rendering  
26 of or failure to render professional services;

27 (4) subject to the provisions of subsection (m), any amount due from  
28 a judgment or settlement against a nonresident inactive health care pro-  
29 vider, an optometrist or pharmacist who purchased coverage pursuant to  
30 subsection (n) or a physical therapist who purchased coverage pursuant  
31 to subsection (o), for any injury or death arising out of the rendering or  
32 failure to render professional services within this state, but in no event  
33 shall the fund be obligated for claims against: (A) Nonresident inactive  
34 health care providers who have not complied with this act; or (B) non-  
35 resident inactive health care providers for claims that arose outside of this  
36 state, unless such health care provider was a resident health care provider  
37 or resident self-insurer at the time such act occurred;

38 (5) subject to subsection (b) of K.S.A. 40-3411, and amendments  
39 thereto, reasonable and necessary expenses for attorney fees incurred in  
0 defending the fund against claims;

41 (6) any amounts expended for reinsurance obtained to protect the  
42 best interests of the fund purchased by the board of governors, which  
43 purchase shall be subject to the provisions of K.S.A. 75-3738 through 75-

1 3744, and amendments thereto, but shall not be subject to the provisions  
2 of K.S.A. 75-4101 and amendments thereto;

3 (7) reasonable and necessary actuarial expenses incurred in admin-  
4 istering the act, including expenses for any actuarial studies contracted  
5 for by the legislative coordinating council, which expenditures shall not  
6 be subject to the provisions of K.S.A. 75-3738 through 75-3744, and  
7 amendments thereto;

8 (8) periodically to the plan or plans, any amount due pursuant to  
9 subsection (a)(3) of K.S.A. 40-3413 and amendments thereto;

10 (9) reasonable and necessary expenses incurred by the board of gov-  
11 ernors in the administration of the fund or in the performance of other  
12 powers, duties or functions of the board under the health care provider  
13 insurance availability act;

14 (10) return of any unearned surcharge;

15 (11) subject to subsection (b) of K.S.A. 40-3411, and amendments  
16 thereto, reasonable and necessary expenses for attorney fees and other  
17 costs incurred in defending a person engaged or who was engaged in  
18 residency training or the private practice corporations or foundations and  
19 their full-time physician faculty employed by the university of Kansas  
20 medical center from claims for personal injury or death arising out of the  
21 rendering of or the failure to render professional services by such health  
22 care provider;

23 (12) notwithstanding the provisions of subsection (m), any amount  
24 due from a judgment or settlement for an injury or death arising out of  
25 the rendering of or failure to render professional services by a person  
26 engaged or who was engaged in residency training or the private practice  
27 corporations or foundations and their full-time physician faculty em-  
28 ployed by the university of Kansas medical center;

29 (13) reasonable and necessary expenses for the development and pro-  
30 motion of risk management education programs;

31 (14) notwithstanding the provisions of subsection (m), any amount,  
32 but not less than the required basic coverage limits, owed pursuant to a  
33 judgment or settlement for any injury or death arising out of the rendering  
34 of or failure to render professional services by a person, other than a  
35 person described in clause (12) of this subsection (c), who was engaged  
36 in a postgraduate program of residency training approved by the state  
37 board of healing arts but who, at the time the claim was made, was no  
38 longer engaged in such residency program;

39 (15) subject to subsection (b) of K.S.A. 40-3411, and amendments  
40 thereto, reasonable and necessary expenses for attorney fees and other  
41 costs incurred in defending a person described in clause (14) of this sub-  
42 section (c);

43 (16) expenses incurred by the commissioner in the performance of

1 duties and functions imposed upon the commissioner by the health care  
2 provider insurance availability act, and expenses incurred by the com-  
3 missioner in the performance of duties and functions under contracts  
4 entered into between the board and the commissioner as authorized by  
5 this section; and

6 (17) periodically to the state general fund reimbursements of  
7 amounts paid to members of the health care stabilization fund oversight  
8 committee for compensation, travel expenses and subsistence expenses  
9 pursuant to subsection (e) of K.S.A. 40-3403b, and amendments thereto.

10 (d) All amounts for which the fund is liable pursuant to subsection  
11 (c) shall be paid promptly and in full except that, if the amount for which  
12 the fund is liable is \$300,000 or more, it shall be paid, by installment  
13 payments of \$300,000 or 10% of the amount of the judgment including  
14 interest thereon, whichever is greater, per fiscal year, the first installment  
15 to be paid within 60 days after the fund becomes liable and each subse-  
16 quent installment to be paid annually on the same date of the year the  
17 first installment was paid, until the claim has been paid in full. Any at-  
18 torney fees payable from such installment shall be similarly prorated.

19 (e) In no event shall the fund be liable to pay in excess of \$3,000,000  
20 pursuant to any one judgment or settlement against any one health care  
21 provider relating to any injury or death arising out of the rendering of or  
22 the failure to render professional services on and after July 1, 1984, and  
23 before July 1, 1989, subject to an aggregate limitation for all judgments  
24 or settlements arising from all claims made in any one fiscal year in the  
25 amount of \$6,000,000 for each health care provider.

26 (f) The fund shall not be liable to pay in excess of the amounts spec-  
27 ified in the option selected by the health care provider pursuant to sub-  
28 section (l) for judgments or settlements relating to injury or death arising  
29 out of the rendering of or failure to render professional services by such  
30 health care provider on or after July 1, 1989.

31 (g) A health care provider shall be deemed to have qualified for cov-  
32 erage under the fund:

33 (1) On and after July 1, 1976, if basic coverage is then in effect;

34 (2) subsequent to July 1, 1976, at such time as basic coverage be-  
35 comes effective; or

36 (3) upon qualifying as a self-insurer pursuant to K.S.A. 40-3414 and  
37 amendments thereto.

38 (h) A health care provider who is qualified for coverage under the  
39 fund shall have no vicarious liability or responsibility for any injury or  
40 death arising out of the rendering of or the failure to render professional  
41 services inside or outside this state by any other health care provider who  
42 is also qualified for coverage under the fund. The provisions of this sub-  
43 section shall apply to all claims filed on or after July 1, 1986.



1 (i) Notwithstanding the provisions of K.S.A. 40-3402 and amend-  
2 ments thereto, if the board of governors determines due to the number  
3 of claims filed against a health care provider or the outcome of those  
4 claims that an individual health care provider presents a material risk of  
5 significant future liability to the fund, the board of governors is authorized  
6 by a vote of a majority of the members thereof, after notice and an op-  
7 portunity for hearing in accordance with the provisions of the Kansas  
8 administrative procedure act, to terminate the liability of the fund for all  
9 claims against the health care provider for damages for death or personal  
10 injury arising out of the rendering of or the failure to render professional  
11 services after the date of termination. The date of termination shall be  
12 30 days after the date of the determination by the board of governors.  
13 The board of governors, upon termination of the liability of the fund  
14 under this subsection, shall notify the licensing or other disciplinary board  
15 having jurisdiction over the health care provider involved of the name of  
16 the health care provider and the reasons for the termination.

17 (j) (1) Upon the payment of moneys from the health care stabiliza-  
18 tion fund pursuant to subsection (c)(11), the board of governors shall  
19 certify to the director of accounts and reports the amount of such pay-  
20 ment, and the director of accounts and reports shall transfer an amount  
21 equal to the amount certified, reduced by any amount transferred pur-  
22 suant to paragraph (3) of this subsection (j), from the state general fund  
23 to the health care stabilization fund.

24 (2) Upon the payment of moneys from the health care stabilization  
25 fund pursuant to subsection (c)(12), the board of governors shall certify  
26 to the director of accounts and reports the amount of such payment which  
27 is equal to the basic coverage liability of self-insurers, and the director of  
28 accounts and reports shall transfer an amount equal to the amount cer-  
29 tified, reduced by any amount transferred pursuant to paragraph (3) of  
30 this subsection (j), from the state general fund to the health care stabili-  
31 zation fund.

32 (3) The university of Kansas medical center private practice foun-  
33 dation reserve fund is hereby established in the state treasury. If the  
34 balance in such reserve fund is less than \$500,000 on July 1 of any year,  
35 the private practice corporations or foundations referred to in subsection  
36 (c) of K.S.A. 40-3402, and amendments thereto, shall remit the amount  
37 necessary to increase such balance to \$500,000 to the state treasurer for  
38 credit to such reserve fund as soon after such July 1 date as is practicable.  
39 Upon receipt of each such remittance, the state treasurer shall credit the  
40 same to such reserve fund. When compliance with the foregoing provi-  
41 sions of this paragraph have been achieved on or after July 1 of any year  
42 in which the same are applicable, the state treasurer shall certify to the  
43 board of governors that such reserve fund has been funded for the year

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1 in the manner required by law. Moneys in such reserve fund may be  
2 invested or reinvested in accordance with the provisions of K.S.A. 40-  
3 3406, and amendments thereto, and any income or interest earned by  
4 such investments shall be credited to such reserve fund. Upon payment  
5 of moneys from the health care stabilization fund pursuant to subsection  
6 (c)(11) or (c)(12) with respect to any private practice corporation or foun-  
7 dation or any of its full-time physician faculty employed by the university  
8 of Kansas, the director of accounts and reports shall transfer an amount  
9 equal to the amount paid from the university of Kansas medical center  
10 private practice foundation reserve fund to the health care stabilization  
11 fund or, if the balance in such reserve fund is less than the amount so  
12 paid, an amount equal to the balance in such reserve fund.

13 (4) Upon payment of moneys from the health care stabilization fund  
14 pursuant to subsection (c)(14) or (c)(15), the board of governors shall  
15 certify to the director of accounts and reports the amount of such pay-  
16 ment, and the director of accounts and reports shall transfer an amount  
17 equal to the amount certified from the state general fund to the health  
18 care stabilization fund.

19 (k) Notwithstanding any other provision of the health care provider  
20 insurance availability act, no psychiatric hospital licensed under K.S.A.  
21 75-3307b and amendments thereto shall be assessed a premium sur-  
22 charge or be entitled to coverage under the fund if such hospital has not  
23 paid any premium surcharge pursuant to K.S.A. 40-3404 and amend-  
24 ments thereto prior to January 1, 1988.

25 (l) On or after July 1, 1989, every health care provider shall make an  
26 election to be covered by one of the following options provided in this  
27 subsection (l) which shall limit the liability of the fund with respect to  
28 judgments or settlements relating to injury or death arising out of the  
29 rendering of or failure to render professional services on or after July 1,  
30 1989. Such election shall be made at the time the health care provider  
31 renews the basic coverage in effect on July 1, 1989, or, if basic coverage  
32 is not in effect, such election shall be made at the time such coverage is  
33 acquired pursuant to K.S.A. 40-3402, and amendments thereto. Notice  
34 of the election shall be provided by the insurer providing the basic cov-  
35 erage in the manner and form prescribed by the board of governors and  
36 shall continue to be effective from year to year unless modified by a  
37 subsequent election made prior to the anniversary date of the policy. The  
38 health care provider may at any subsequent election reduce the dollar  
39 amount of the coverage for the next and subsequent fiscal years, but may  
40 not increase the same, unless specifically authorized by the board of gov-  
41 ernors. Such election shall be made for persons engaged in residency  
42 training and persons engaged in other postgraduate training programs  
43 approved by the state board of healing arts at medical care facilities or

1 mental health centers in this state by the agency or institution paying the  
2 surcharge levied under K.S.A. 40-3404, and amendments thereto, for  
3 such persons. Such options shall be as follows:

4 (1) *OPTION 1.* The fund shall not be liable to pay in excess of  
5 \$100,000 pursuant to any one judgment or settlement for any party  
6 against such health care provider, subject to an aggregate limitation for  
7 all judgments or settlements arising from all claims made in the fiscal year  
8 in an amount of \$300,000 for such provider.

9 (2) *OPTION 2.* The fund shall not be liable to pay in excess of  
10 \$300,000 pursuant to any one judgment or settlement for any party  
11 against such health care provider, subject to an aggregate limitation for  
12 all judgments or settlements arising from all claims made in the fiscal year  
13 in an amount of \$900,000 for such provider.

14 (3) *OPTION 3.* The fund shall not be liable to pay in excess of  
15 \$800,000 pursuant to any one judgment or settlement for any party  
16 against such health care provider, subject to an aggregate limitation for  
17 all judgments or settlements arising from all claims made in the fiscal year  
18 in an amount of \$2,400,000 for such health care provider.

19 (m) The fund shall not be liable for any amounts due from a judgment  
20 or settlement against resident or nonresident inactive health care provid-  
21 ers who first qualify as an inactive health care provider on or after July 1,  
22 1989, unless such health care provider has been in compliance with K.S.A.  
23 40-3402, and amendments thereto, for a period of not less than five years.  
24 If a health care provider has not been in compliance for five years, such  
25 health care provider may make application and payment for the coverage  
26 for the period while they are nonresident health care providers, nonres-  
27 ident self-insurers or resident or nonresident inactive health care provid-  
28 ers to the fund. Such payment shall be made within 30 days after the  
29 health care provider ceases being an active health care provider and shall  
30 be made in an amount determined by the board of governors to be suf-  
31 ficient to fund anticipated claims based upon reasonably prudent actuarial  
32 principles. The provisions of this subsection shall not be applicable to any  
33 health care provider which becomes inactive through death or retirement,  
34 or through disability or circumstances beyond such health care provider's  
35 control, if such health care provider notifies the board of governors and  
36 receives approval for an exemption from the provisions of this subsection.  
37 Any period spent in a postgraduate program of residency training ap-  
38 proved by the state board of healing arts shall not be included in com-  
39 putation of time spent in compliance with the provisions of K.S.A. 40-  
40 3402, and amendments thereto.

41 (n) Notwithstanding the provisions of subsection (m) or any other  
42 provision in article 34 of chapter 40 of the Kansas Statutes Annotated to  
43 the contrary, the fund shall not be liable for any claim made on or after

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1 July 1, 1991, against a licensed optometrist or pharmacist relating to any  
 2 injury or death arising out of the rendering of or failure to render pro-  
 3 fessional services by such optometrist or pharmacist prior to July 1, 1991,  
 4 unless such optometrist or pharmacist qualified as an inactive health care  
 5 provider prior to July 1, 1991, and obtained coverage pursuant to sub-  
 6 section (m). Optometrists and pharmacists not qualified as inactive health  
 7 care providers prior to July 1, 1991, may purchase coverage from the fund  
 8 for periods of prior compliance by making application prior to August 1,  
 9 1991, and payment within 30 days from notice of the calculated amount  
 10 as determined by the board of governors to be sufficient to fund antici-  
 11 pated claims based on reasonably prudent actuarial principles.

12 (o) Notwithstanding the provisions of subsection (m) or any other  
 13 provision in article 34 of chapter 40 of the Kansas Statutes Annotated to  
 14 the contrary, the fund shall not be liable for any claim made on or after  
 15 July 1, 1995, against a physical therapist registered by the state board of  
 16 healing arts relating to any injury or death arising out of the rendering of  
 17 or failure to render professional services by such physical therapist prior  
 18 to July 1, 1995, unless such physical therapist qualified as an inactive  
 19 health care provider prior to July 1, 1995, and obtained coverage pursuant  
 20 to subsection (m). Physical therapists not qualified as inactive health care  
 21 providers prior to July 1, 1995, may purchase coverage from the fund for  
 22 periods of prior compliance by making application prior to August 1, 1995,  
 23 and payment within 30 days from notice of the calculated amount as  
 24 determined by the board of governors to be sufficient to fund anticipated  
 25 claims based on reasonably prudent actuarial principles.

26 (p) Notwithstanding anything in article 34 of chapter 40 of the Kansas  
 27 Statutes Annotated to the contrary, the fund shall in no event be liable  
 28 for any claims against any health care provider based upon or relating to  
 29 the health care provider's sexual acts or activity, but in such cases the  
 30 fund may pay reasonable and necessary expenses for attorney fees in-  
 31 curred in defending the fund against such claim. The fund may recover  
 32 all or a portion of such expenses for attorney fees if an adverse judgment  
 33 is returned against the health care provider for damages resulting from  
 34 the health care provider's sexual acts or activity.

35 Sec. ~~6-7~~ K.S.A. 40-3406 is hereby amended to read as follows: 40-  
 36 3406. ~~The pooled money investment board~~ **After consultation with the**  
 37 ~~board of governors the state treasurer~~ **pooled money investment board** may invest and reinvest moneys  
 38 in the fund in obligations of the United States of America or obligations  
 39 the principal and interest of which are guaranteed by the United States  
 40 of America or in interest-bearing time deposits in any commercial bank  
 41 located in Kansas; or, if the board determines that it is impossible to  
 42 deposit such moneys in such time deposits, in repurchase agreements of  
 43 less than 30 days' duration with a Kansas bank or with a primary govern-

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 pooled money investment board

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1 ment securities dealer which reports to the market reports division of the  
 2 federal reserve bank of New York for direct obligations of, or obligations  
 3 that are insured as to principal and interest by, the United States govern-  
 4 ment or any agency thereof. Any income or interest earned by such in-  
 5 vestments shall be credited to the fund *the pooled money investment*  
 6 *portfolio accordance with investment policies established by the*  
 7 *pooled money investment board under K.S.A. 75-4232, and amend-*  
 8 *ments thereto, in the following:*

9 (a) *Those investments under subparagraphs (A); [or] (B); (E);*  
 10 *(F) or (G) of paragraph (2) of subsection (a) of K.S.A. 75-4209, and*  
 11 *amendments thereto; or*

12 (b) *the municipal investment pool fund, under K.S.A. 12-1677a,*  
 13 *and amendments thereto.*

14 Sec. 7-~~8~~ K.S.A. 44-712 is hereby amended to read as follows: 44-  
 15 712. (a) *Establishment and control.* There is hereby established as a spe-  
 16 cial fund in the state treasury, separate and apart from all public moneys  
 17 or funds of this state, an employment security fund, which shall be ad-  
 18 ministered by the secretary as provided in this act. This fund shall consist  
 19 of: (1) All contributions collected under this act; (2) interest earned upon  
 20 any moneys in the fund; (3) all moneys credited to this state's account in  
 21 the federal unemployment trust fund, pursuant to section 903 of the social  
 22 security act, 42 U.S.C.A. § 1103, as amended; (4) any property or secu-  
 23 rities acquired through the use of moneys belonging to the fund, and all  
 24 other moneys received for the fund from any other source; (5) all earnings  
 25 of such property or securities. All moneys in this fund shall be mingled  
 26 and undivided.

27 (b) *Accounts and deposits.* The state treasurer shall be ex officio cus-  
 28 todian of the fund. Payments from the fund, and for the purposes of this  
 29 act deposits with the secretary of the treasury of the United States shall  
 30 not be deemed to be payments from the fund, shall be made upon war-  
 31 rants drawn upon the state treasurer by the director of accounts and  
 32 reports upon vouchers approved by the secretary. There shall be main-  
 33 tained within the fund three separate accounts: (1) A clearing account;  
 34 (2) an unemployment trust fund account, and (3) a benefit account. All  
 35 money payable to the fund upon receipt thereof by the secretary, shall  
 36 be forwarded to the state treasurer, who shall immediately deposit them  
 37 in the state treasury to the credit of the clearing account of the fund.  
 38 Refunds payable pursuant to K.S.A. 44-717 and amendments thereto may  
 39 be paid from the clearing account of the fund by warrants drawn by the  
 40 director of accounts and reports upon the state treasurer upon vouchers  
 41 approved by the secretary. After clearance thereof, all other moneys in  
 42 the clearing account of the fund shall be immediately deposited with the  
 43 secretary of the treasury of the United States of America to the credit of

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1 the account of this state in the federal unemployment trust fund estab-  
2 lished and maintained pursuant to section 904 of the social security act,  
3 42 U.S.C.A. § 1104, as amended, any provisions of law in this state relating  
4 to the deposit, administration, release, or disbursement of moneys in the  
5 possession or custody of this state to the contrary notwithstanding. The  
6 benefit account of the fund shall consist of all moneys requisitioned from  
7 this state's account in the federal unemployment trust fund. Except as  
8 herein otherwise provided, moneys in the clearing and benefit accounts  
9 of the fund may be deposited by the state treasurer in any bank or public  
10 depository as is now provided by law for the deposit of general funds of  
11 the state, but no public deposit insurance charge or premium shall be  
12 paid out of the fund. Moneys in the clearing and benefit accounts of the  
13 fund shall not be commingled with other state funds; ~~but~~ and shall be  
14 maintained in separate accounts on the books of the depository banks  
15 bank accounts.

16 (c) *Withdrawals.* Moneys shall be requisitioned from this state's ac-  
17 count in the federal unemployment trust fund solely for the payment of  
18 benefits and in accordance with the provisions of this act and the rules  
19 and regulations adopted by the secretary, except that moneys credited to  
20 this state's account pursuant to section 903 of the social security act, 42  
21 U.S.C.A. § 1103, as amended, shall be used exclusively as provided in  
22 subsection (d) of this section. The secretary shall from time to time req-  
23 uisition from the federal unemployment trust fund such amounts, not  
24 exceeding the amounts standing to its account therein, as deemed nec-  
25 essary for the payment of benefits for a reasonable future period. Upon  
26 receipt thereof the state treasurer shall deposit such moneys in the benefit  
27 account of the fund and warrants for the payment of benefits shall be  
28 charged solely against such benefit account of the fund. Expenditures of  
29 such moneys in the benefit account and refunds from the clearing account  
30 of the fund shall not be subject to any provisions of law requiring specific  
31 appropriations. Any balance of moneys requisitioned from the federal  
32 unemployment trust fund which remains unclaimed or unpaid in the ben-  
33 efit account of the fund after the expiration of the period for which such  
34 sums were requisitioned shall either be deducted from estimates for, and  
35 may be utilized for the payment of benefits during succeeding periods,  
36 or, in the discretion of the secretary shall be directed to be redeposited  
37 with the secretary of the treasury of the United States of America, to the  
38 credit of this state's account in the federal unemployment trust fund, as  
39 provided in subsection (b) of this section. All balances accrued from un-  
40 paid or canceled warrants issued pursuant to this section, notwithstanding  
41 the provisions of K.S.A. 10-812 and amendments thereto shall remain in  
42 the benefit account of the fund, and be disbursed in accordance with the  
43 provisions of this act relating to such account.

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1 (d) *Administrative use.* (1) Money credited to the account of this state  
2 in the federal unemployment trust fund by the secretary of the treasury  
3 of the United States of America, pursuant to section 903 of the social  
4 security act, 42 U.S.C.A. § 1103, as amended, may be requisitioned and  
5 used for the payment of expenses incurred in the administration of this  
6 act pursuant to a specific appropriation by the legislature, if expenses are  
7 incurred and the money is requisitioned after the enactment of an ap-  
8 propriation law which: (A) Specifies the purposes for which such money  
9 is appropriated and the amounts appropriated therefor, (B) limits the  
10 period within which such money may be obligated to a period ending not  
11 more than two years after the date of the enactment of the appropriation  
12 law, and (C) limits the amount which may be obligated during a twelve-  
13 month period beginning on July 1 and ending on the next June 30 to an  
14 amount which does not exceed the amount by which (i) the aggregate of  
15 the amounts credited to the account of this state pursuant to section 903  
16 of the social security act, 42 U.S.C.A. § 1103, as amended, (ii) the aggre-  
17 gate of the amounts obligated pursuant to this subsection and amounts  
18 paid out for benefits and charged against the amounts credited to the  
19 account of this state. For the purposes of this subsection, amounts obli-  
20 gated during any such twelve-month period shall be charged against  
21 equivalent amounts which were first credited and which are not already  
22 so charged.

23 (2) Money credited to the account of this state pursuant to section  
24 903 of the social security act, 42 U.S.C.A. § 1103, as amended, may not  
25 be withdrawn or obligated except for the payment of benefits and for the  
26 payment of expenses for the administration of this act and of public em-  
27 ployment offices pursuant to this subsection (d).

28 (3) Money appropriated as provided by this subsection (d) for the  
29 payment of expenses of administration shall be requisitioned as needed  
30 for the payment of obligations incurred under such appropriation and,  
31 upon requisition shall be deposited in the state treasury to the credit of  
32 the employment security administration fund from which such payments  
33 shall be made. Money so deposited and credited shall, until expended,  
34 remain a part of the federal unemployment trust fund, and, if it will not  
35 be expended, shall be returned promptly to the account of this state in  
36 the federal unemployment trust fund.

37 (e) *Management of funds upon discontinuance of federal unemploy-*  
38 *ment trust fund.* The provisions of subsections (a), (b), (c) and (d) of this  
39 section, to the extent that they relate to the federal unemployment trust  
40 fund, shall be operative only so long as such unemployment trust fund  
41 continues to exist and so long as the secretary of the treasury of the United  
42 States of America continues to maintain for this state a separate book  
43 account of all funds deposited therein by this state for benefit purposes,

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1 together with this state's proportionate share of the earnings of such un-  
 2 employment trust fund, from which no other state is permitted to make  
 3 withdrawals. If and when such unemployment trust fund ceases to exist,  
 4 or such separate book account is no longer maintained, all moneys, prop-  
 5 erties or securities therein, belonging to the employment security fund  
 6 of this state, shall be transferred to the state treasurer, to be administered  
 7 by the secretary as a trust fund for the purpose of paying benefits under  
 8 this act, and the pooled money investment board ~~[state treasurer]~~ upon  
 9 the direction of the secretary shall have authority to hold, invest, transfer,  
 10 sell, deposit, and release such moneys, and any properties, securities, or  
 11 earnings acquired as an incident to such administration.

pooled money investment board

12 Sec. 8. ~~9.~~ K.S.A. 75-622 is hereby amended to read as follows: 75-  
 13 622. The treasurer shall appoint an assistant state treasurer, who may, in  
 14 the absence of the treasurer, may perform such acts as he or she may be  
 15 authorized to perform by the state treasurer, except such as to the duties  
 16 of the state treasurer as pertain to him or her as a member of the executive  
 17 council; and said pooled money investment board. The assistant state  
 18 treasurer is hereby empowered to administer oaths pertaining to all mat-  
 19 ters relating to the business of the state treasurer's office, which person  
 20 shall take the oath of office required of public officers, and the state  
 21 treasurer of the state shall be responsible for the acts of such person so  
 22 designated. Such person shall have such power and authority so long as  
 23 it shall be the will and pleasure of the state treasurer.

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24 Sec. 10. ~~K.S.A. 68-2321 is hereby amended to read as follows:~~  
 25 ~~68-2321. (a) Bonds issued shall be authorized by resolution of the~~  
 26 ~~secretary. The secretary shall determine the form and manner of~~  
 27 ~~the execution of the bonds and the bonds may be made exchangeable~~  
 28 ~~for bonds of another denomination or in another form. The bonds~~  
 29 ~~shall be dated and shall mature not more than 20 years from their~~  
 30 ~~date. The bonds may be in such form and denominations, may bear~~  
 31 ~~interest payable at such times and at such rate or rates, may be~~  
 32 ~~payable at such places within or without the state, may be subject~~  
 33 ~~to such terms of redemption in advance of maturity at such prices,~~  
 34 ~~and may contain such terms and conditions, all as the secretary~~  
 35 ~~shall determine. The bonds shall have all the qualities of and shall~~  
 36 ~~be deemed to be negotiable instruments under the laws of the state~~  
 37 ~~of Kansas. The authorizing resolution may contain any other terms,~~  
 38 ~~covenants and conditions that the secretary deems reasonable and~~  
 39 ~~desirable.~~

40 (b) ~~The proceeds from the sale of the bonds authorized to be~~  
 41 ~~issued under this section are deemed to be trust funds which shall~~  
 42 ~~be deposited in the custody of the state treasurer in the highway~~  
 43 ~~bond proceeds fund which is hereby created. The secretary shall~~

1 ~~have responsibility for the management and control of the highway~~  
2 ~~bond proceeds fund and shall provide, by resolution, for both~~  
3 ~~amounts and the duration of investments of moneys in such fund.~~  
4 ~~Such resolution may recommend investment and reporting policies,~~  
5 ~~including acceptable levels of return, risk and security. After con-~~  
6 ~~sultation with the secretary and subject to the terms, covenants and~~  
7 ~~conditions provided in the resolutions providing for the issuance of~~  
8 ~~such bonds, the pooled money investment board state treasurer shall~~  
9 ~~have the authority to invest and reinvest moneys in such fund and~~  
10 ~~to acquire, retain, manage, including the exercise of any voting~~  
11 ~~rights, and dispose of investments of such fund. In investing or re-~~  
12 ~~investing moneys in such fund, there shall be exercised the judgment~~  
13 ~~and care under the circumstances then prevailing which persons of~~  
14 ~~prudence, discretion and intelligence exercise in the management of~~  
15 ~~their own affairs, not in regard to speculation but in regard to the~~  
16 ~~permanent disposition of their funds, considering the probable in-~~  
17 ~~come as well as the probable safety of their capital, except that~~  
18 ~~moneys of the fund may not be invested in common stocks. Not~~  
19 ~~withstanding anything to the contrary, all interest or other income~~  
20 ~~of the investments, after payment of any management fees, of the~~  
21 ~~highway bond proceeds fund shall be credited to the highway bond~~  
22 ~~debt service fund, until payments on bonds authorized by this act~~  
23 ~~and interest thereon has been fully funded. Thereafter, earnings and~~  
24 ~~other income shall be credited to the state highway fund.~~

25 (c) ~~The authorizing resolution may provide for the execution of~~  
26 ~~a trust indenture. The trust indenture may contain any terms, cov-~~  
27 ~~enants and conditions that are deemed desirable by the secretary,~~  
28 ~~including, without limitation, those pertaining to the maintenance~~  
29 ~~of various funds and reserves, the nature and extent of any security~~  
30 ~~for payment of the bonds, the custody and application of the pro-~~  
31 ~~ceeds of the bonds, the collection and disposition of bond proceeds~~  
32 ~~and earnings thereon, the investing for authorized purposes, and~~  
33 ~~the rights, duties and obligations of the secretary and the holders~~  
34 ~~and registered owners of the bonds.~~

35 (d) ~~Any authorizing resolution and trust indenture relating to~~  
36 ~~the issuance and security of the bonds may set forth covenants,~~  
37 ~~agreements and obligations therein, which may be enforced by man-~~  
38 ~~damus or other appropriate proceeding at law or in equity.~~

39 (e) ~~The bonds may be issued under the provisions of this act~~  
40 ~~without obtaining the consent of any department, division, com-~~  
41 ~~mission, board, bureau or agency of the state and without any other~~  
42 ~~proceedings or the happening of any other conditions or things than~~  
43 ~~those proceedings, conditions or things which are specifically re-~~

12-6

1 ~~quired by this act.~~

2 ~~Sec. 11 K.S.A. 68-2324 is hereby amended to read as follows:~~

3 ~~68-2324. Subject to appropriations acts, the secretary shall have~~

4 ~~responsibility for the management of the state highway fund and~~

5 ~~shall provide, by resolution, for amounts and duration of invest-~~

6 ~~ments and reinvestments of moneys in such fund. The resolution~~

7 ~~may recommend investment and reporting policies, including ac-~~

8 ~~ceptable levels of return, risk and security. After consultation with~~

9 ~~the secretary, the pooled money investment board state treasurer shall~~

10 ~~have the authority to invest and reinvest moneys in such fund and~~

11 ~~to acquire, retain, manage, including the exercise of any voting~~

12 ~~rights, and dispose of investments of such fund. In investing or re-~~

13 ~~investing moneys in such fund, there shall be exercised the judgment~~

14 ~~and care under the circumstances then prevailing which persons of~~

15 ~~prudence, discretion and intelligence exercise in the management of~~

16 ~~their own affairs, not in regard to speculation but in regard to the~~

17 ~~permanent disposition of their funds, considering the probable in-~~

18 ~~come as well as the probable safety of their capital, except that~~

19 ~~moneys in such fund may not be invested in common stock.~~

20 ~~Notwithstanding anything to the contrary, all interest or other~~

21 ~~income of the investments, after payment of any management fees,~~

22 ~~shall be considered income of the state highway fund.~~

23 Sec. 9. ~~12.~~ K.S.A. 1995 Supp. 75-4201 is hereby amended to read as

24 follows: 75-4201. As used in this act, unless the context otherwise re-

25 quires:

26 (a) "Treasurer" means state treasurer.

27 (b) "Controller" means director of accounts and reports.

28 (c) "Board" means the pooled money investment board.

29 (d) "Bank" means a state bank incorporated under the laws of Kansas

30 or a national bank having such bank's home office within the state of

31 Kansas.

32 (e) "State moneys" means all moneys in the treasury of the state or

33 coming lawfully into the possession of the treasurer.

34 (f) "Custodial moneys" means state moneys deposited with the treas-

35 urer which, in the written opinion of the attorney general, are required

36 by contract, bequest or law to be segregated from other bank accounts.

37 (g) "Special moneys" means moneys which are required to be or are

38 deposited in a custodial bank account or a fee agency account by the state

39 or any agency thereof.

40 (h) (f) "State bank account" means state moneys or special fee agency

41 account moneys deposited in accordance with the provisions of this act.

42 (i) (g) "Operating account" means a state bank account which is pay-

43 able or withdrawable, in whole or in part, on demand.

9

9-28

1     ~~(j)~~ (h) "Investment account" means a state bank account which is not  
2 payable on demand ~~but shall not include custodial accounts.~~

3     ~~(k)~~ (i) "Market rate" means the average of the average equivalent  
4 yields, with equivalent maturities, of: (1) United States government se-  
5 curities; and (2) debt obligations of the following United States govern-  
6 ment agencies, federal home loan banks, federal national mortgage as-  
7 sociation and federal farm credit bank.

8     ~~(l)~~ (j) "Investment rate" means a rate which is the equivalent yield  
9 for United States government securities having a maturity date as pub-  
10 lished in the Wall Street Journal, nearest the maturity date for equivalent  
11 maturities. ~~For liquidity investments,~~ The 0-90 day rate shall be computed  
12 on the average effective federal funds rate as published by the federal  
13 reserve system for the previous week.

14     ~~(m)~~ "Custodial account" means a state bank account of custodial  
15 moneys.

16     ~~(n)~~ (k) "Fee agency account" means a state bank account of any state  
17 agency consisting of fees, tuition or charges authorized by law prior to  
18 remittance to the state treasurer.

19     ~~(o)~~ (l) "Disbursement" means a payment of any kind whatsoever  
20 made from the state treasury or from any operating account, except trans-  
21 fer of state or special moneys between or among operating accounts and  
22 investment accounts or either or both of them.

23     ~~(p)~~ (m) "Securities" means, for the purposes of K.S.A. 75-4218, and  
24 amendments thereto, any one or more of the following, which may be  
25 accepted or rejected by the pooled money investment board:

26     (1) Direct obligations of, or obligations that are insured as to principal  
27 and interest by, the United States government or any agency thereof and  
28 obligations, letters of credit and securities of United States sponsored  
29 enterprises which under federal law may be accepted as security for pub-  
30 lic funds.

31     (2) Kansas municipal bonds which are general obligations of the mu-  
32 nicipality issuing the same.

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

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

1 (5) Temporary notes of any municipal corporation or quasi-municipal  
2 corporation within the state of Kansas which are general obligations of  
3 the municipal corporation or quasi-municipal corporation issuing the  
4 same.

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

9 (7) Bonds of any municipal or quasi-municipal corporation of the  
10 state of Kansas which have been refunded in advance of their maturity  
11 and are fully secured as to payment of principal and interest thereon by  
12 deposit in trust, under escrow agreement with a bank, of direct obligations  
13 of, or obligations the principal of and the interest on which are uncon-  
14 ditionally guaranteed by, the United States of America. A copy of such  
15 escrow agreement shall be furnished to the treasurer.

16 (8) Securities listed in paragraph (13) of subsection (d) of K.S.A. 9-  
17 1402 and amendments thereto within limitations of K.S.A. 9-1402 and  
18 amendments thereto.

19 (9) A corporate surety bond guaranteeing deposits in a bank, savings  
20 or savings and loan association in excess of federal deposit insurance cor-  
21 poration insurance, underwritten by an insurance company authorized to  
22 do business in the state of Kansas.

23 (10) All of such securities shall be current as to interest according to  
24 the terms thereof.

25 (11) Whenever a bond is authorized to be pledged as a security under  
26 this section, such bond shall be accepted as a security if: (i) In the case  
27 of a certificated bond, it is assigned, delivered or pledged to the holder  
28 of the deposit for security; (ii) in the case of an uncertificated bond,  
29 registration of a pledge of the bond is authorized by the system and the  
30 pledge of the uncertificated bond is registered; or (iii) in a form approved  
31 by the attorney general, which assures the availability of the bond pro-  
32 ceeds pledged as a security for public deposits.

33 ~~(n)~~ (n) "Savings bank" means a federally chartered savings bank in-  
34 sured by the federal deposit insurance corporation and doing business  
35 within the state of Kansas.

36 ~~(o)~~ (o) "Savings and loan association" means a state or federally char-  
37 tered savings and loan association insured by the federal deposit insurance  
38 corporation and doing business within the state of Kansas.

39 ~~(p)~~ (p) "Custodial bank" means a bank designated to keep safely col-  
40 lateral pledged as security for state bank accounts.

41 ~~(q)~~ (q) "Centralized securities depository" means a clearing agency  
42 registered with the securities and exchange commission which provides  
43 safekeeping and book-entry settlement services to its participants.



9-30

1 (u) (r) "Depository bank" means a bank, savings bank or savings and  
2 loan association authorized and eligible to receive state moneys.

10

3 Sec. ~~10: 15.~~ K.S.A. 1995 Supp. 75-4202 is hereby amended to read  
4 as follows: 75-4202. All state moneys and credits received by the treasurer  
5 shall be deposited daily in one or more operating accounts; ~~except eus-~~  
6 ~~todial moneys which shall be so deposited in custodial accounts.~~ All dis-  
7 bursements shall be drawn from operating accounts. All banks having a  
8 state bank account shall service all warrants, drafts or checks of the state  
9 or its agencies. The board shall determine the compensation for services  
10 rendered that banks may receive on state bank accounts. Such compen-  
11 sation may be either compensating balances or fees.

11.

12 Sec. ~~11: 14.~~ K.S.A. 75-4204 is hereby amended to read as follows:  
13 75-4204. All orders of the treasurer transferring ~~state or special~~ moneys  
14 from one state bank account to another shall be signed both by the treas-  
15 urer or ~~his or her~~ the treasurer's duly authorized deputy and director of  
16 accounts and reports or ~~his or her~~ the director's duly authorized assistant.

12

17 Sec. ~~12: 15.~~ K.S.A. 1995 Supp. 75-4209 is hereby amended to read  
18 as follows: 75-4209. (a) After the ~~board state treasurer~~ determines the  
19 liquidity needs for the state, and ~~the~~ determines the varying maturities of the  
20 investment accounts to be offered and the amount of state moneys to be  
21 invested in each of the maturities offered, in accordance with rules and  
22 regulations adopted pursuant to K.S.A. 1995 Supp. 75-4232, and amend-  
23 ments thereto, the ~~board state treasurer~~ shall make available state mon-  
24 eys eligible for investment accounts in the following manner:

the pooled money investment board

board  
board

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

board

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

board

40 (C) Qualified banks shall be determined in accordance with require-  
41 ments established by rules and regulations adopted pursuant to K.S.A.  
42 1995 Supp. 75-4232, and amendments thereto.

board

43 (2) The ~~board state treasurer~~ may invest and reinvest state moneys

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1 eligible for investment which are not invested in accordance with para-  
2 graph (1), in the following investments:

3 (A) Direct obligations of, or obligations that are insured as to prin-  
4 cipal and interest by, the United States of America or any agency thereof  
5 and obligations and securities of the United States sponsored enterprises  
6 which under federal law may be accepted as security for public funds,  
7 except that ~~not more than 10% of the moneys available for investment~~  
8 under this subsection ~~may~~ be invested in mortgage-backed securities of  
9 such enterprises and of the government national mortgage association;

shall not  
but any mortgage-backed securities of such  
enterprises and of the government national  
mortgage association held for investment  
on the date this act becomes law may be  
held to maturity

10 (B) repurchase agreements with a Kansas bank or a primary govern-  
11 ment securities dealer which reports to the market reports division of the  
12 federal reserve bank of New York for direct obligations of, or obligations  
13 that are insured as to principal and interest by, the United States govern-  
14 ment or any agency thereof and obligations and securities of United States  
15 government sponsored enterprises which under federal law may be ac-  
16 cepted as security for public funds;

17 (C) investments in SKILL act projects and bonds pursuant to K.S.A.  
18 1995 Supp. 74-8920, and amendments thereto, and investments in any  
19 state agency bonds or bond project; or

20 (D) until July 1, 1996, in the municipal investment pool fund, created  
21 under K.S.A. 1995 Supp. 12-1677a, and amendments thereto, in accor-  
22 dance with the policies adopted by the board on January 30, 1995. Any  
23 investment of such state moneys in such fund prior to the effective date  
24 of this act are hereby authorized, confirmed and validated. On July 1,  
25 1996, all state moneys invested in the municipal investment pool fund  
26 under this paragraph shall be removed from such fund. ~~or~~

27 ~~(E) bankers' acceptances eligible for discounting with the federal re-~~  
28 ~~serve system which do not exceed 270 days to maturity and which are~~  
29 ~~issued by commercial banks or trust companies which have a short-term~~  
30 ~~rating in one of the two highest rating categories by a nationally recog-~~  
31 ~~nized investment rating firm, so long as such issuing bank or trust com-~~  
32 ~~pany is either a bank or trust company organized and operating in the~~  
33 ~~United States or a foreign branch thereof or a United States branch of a~~  
34 ~~foreign bank;~~

or (E) commercial paper that does not exceed  
270 days to maturity and which has  
received one of the two highest  
commercial paper credit ratings  
by a nationally recognized investment  
rating firm

35 (F) commercial paper that does not exceed 270 days to maturity and  
36 which has received one of the two highest commercial paper credit ratings  
37 by a nationally recognized investment rating firm; or

38 (G) negotiable certificates of deposit issued by commercial banks  
39 which have a short-term deposit rating in one of the two highest rating  
40 categories by a nationally recognized investment rating firm, so long as  
41 such issuing bank or trust company is either a bank or trust company  
42 organized and operating in the United States or a foreign branch thereof  
43 or a United States branch of a foreign bank domiciled in the United States

9-32

1 ~~which is subject to United States government regulation.~~

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

board

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

board

12 (d) When moneys are available for deposits or investments, the ~~board~~  
13 ~~state treasurer~~ may invest in loans pursuant to legislative mandates, ex-  
14 cept that not more than the lesser of 10% or \$80,000,000 of the state  
15 moneys shall be invested.

board

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

board

18 (f) Investments made by the ~~board state treasurer~~ under the pro-  
19 visions of this section shall be made with judgment and care, under cir-  
20 cumstances then prevailing, which persons of prudence, discretion and  
21 intelligence exercise in the management of their own affairs, not for spec-  
22 ulation, but for investment, considering the probable safety of their capital  
23 as well as the probable income to be derived.

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

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

board

32 (i) On and after July 1, 1996, the ~~board state treasurer~~ shall not  
33 invest state moneys eligible for investment under paragraph (2) of sub-  
34 section (a), in the municipal investment pool fund, created under K.S.A.  
35 1995 Supp. 12-1677a, and amendments thereto.

pooled money investment board

36 (j) ~~The pooled money investment board state treasurer~~ shall not in-  
37 vest moneys in the pooled money investment portfolio in derivatives. As  
38 used in this subsection, "derivatives" means a financial contract whose  
39 value depends on the value of an underlying asset or index of asset values.

40 (k) Moneys and investments in the pooled money investment portfolio  
41 shall be managed by the ~~pooled money investment board~~ invested and  
42 ~~reinvested by the state treasurer~~ in accordance with investment policies  
43 developed, approved, published and updated on an annual basis by ~~such~~

pooled money investment board

such

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1 ~~the~~ board. Such investment policies shall include at a minimum guidelines  
2 which identify credit standards, eligible instruments, allowable maturity  
3 ranges, methods for valuing the portfolio, calculating earnings and yields  
4 and limits on portfolio concentration for each type of investment. Any  
5 changes in such investment policies shall be approved by the pooled  
6 money investment board.

and allocating

7 (l) The board shall adopt rules and regulations to establish an  
8 overall percentage limitation on the investment of moneys in in-  
9 vestments authorized under subparagraphs (E), (F) and (G) of par-  
10 agraph (2) of subsection (a), and ~~within each such authorized in-~~  
11 ~~vestment,~~ the board shall establish a percentage limitation on the  
12 investment in any single financial institution or business entity. The  
13 rules and regulations adopted pursuant to this subsection shall be  
14 adopted by ~~a vote of four members of the board.~~

majority

15 Sec. ~~13. 16.~~ K.S.A. 75-4210a is hereby amended to read as follows:  
16 75-4210a. Any moneys received from Interest earned on state moneys  
17 shall be credited to the state general fund, unless required by law, con-  
18 tract or bequest to be credited to a fund other than the state general fund.  
19 When interest earnings are required by law, contract or bequest to be  
20 credited to a fund other than the state general fund, such earnings shall  
21 be based on the average daily balance in the fund for each month and the  
22 net earnings rate of the pooled money investment portfolio for such month  
23 unless such law, contract or bequest provides a different method of com-  
24 puting interest earnings.

13

25 Sec. ~~14. 17.~~ K.S.A. 1995 Supp. 75-4212a is hereby amended to read  
26 as follows: 75-4212a. Whenever the balance in operating accounts is in-  
27 sufficient to meet the state's obligations or withdrawals from the munic-  
28 ipal investment pool fund, and there are state moneys in authorized in-  
29 vestments, the treasurer, with approval of the board, may:

14

30 (a) Borrow upon the security of any one or more investment accounts  
31 an amount sufficient to meet the state's or the municipal investment pool  
32 fund's obligations. Any such loan shall be repaid in full within 60 days or  
33 prior to July 1, whichever occurs first. Interest payment by the state for  
34 any loan under this section shall be made only by way of setoff from  
35 interest obligations to the state from the bank making such loan. The  
36 amount borrowed under this section from any bank, shall never exceed  
37 an amount equal to the amount of state moneys on deposit in such bank;  
38 or

39 (b) enter into reverse repurchase agreements utilizing securities pur-  
40 chased by the board pursuant to subsection (a)(2)(A) of K.S.A. 75-4209  
41 and amendments thereto. Such reverse repurchase agreements may be  
42 entered into with Kansas banks or primary government securities dealers  
43 which report to the market reports division of the federal reserve bank

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K-6

1 of New York. Expenses of reverse repurchase agreements shall be paid  
2 by deducting such expenses against other interest income to the state.

15

3 Sec. ~~15. 18.~~ K.S.A. 1995 Supp. 75-4218 is hereby amended to read  
4 as follows: 75-4218. (a) All state bank accounts shall be secured by pledge  
5 of securities as provided in this section.

6 (b) The bank, savings bank or savings and loan association receiving  
7 or having a state bank account shall deposit or cause its affiliate bank to  
8 deposit securities acceptable to the board and owned by it or by its affiliate  
9 bank, in one of the following ways:

10 (1) Deposit with the treasurer.

11 (2) Deposit with a custodial bank having adequate modern facilities  
12 for the safekeeping of securities which shall have had the prior approval  
13 of the board. Any such custodial bank receiving securities for safekeeping  
14 shall be liable to the state for any loss suffered by the state in the event  
15 such custodial bank relinquishes the custody of any such securities con-  
16 trary to the provisions of this act or rules and regulations adopted there-  
17 under. This section shall not prohibit any custodial bank receiving secu-  
18 rities for safekeeping from issuing a joint custody receipt and placing  
19 those securities in such bank's account with any bank chartered in Kansas  
20 or any other state, any trust company chartered in Kansas or any other  
21 state, any national bank, or any centralized securities depository wherever  
22 located within the United States. No bonds or securities pledged to secure  
23 public deposits shall be left for safekeeping in any bank, trust company,  
24 or national bank which is owned directly or indirectly by any parent cor-  
25 poration of the depository bank, or with any bank, trust company, or  
26 national bank, having common controlling shareholders, having a com-  
27 mon majority of the board of directors or having common directors with  
28 the ability to control or influence directly or indirectly the acts or policies  
29 of the bank, state or federally chartered savings and loan association or  
30 federally chartered savings bank securing such public deposits.

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

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

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

34 (c) The depository bank shall obtain a written agreement from its  
35 affiliate bank that the affiliate bank grants a security interest to the state  
36 of Kansas in securities owned by the affiliate bank which are pledged on  
37 behalf of the depository bank to secure payment of deposits made with  
38 the depository bank pursuant to this section. Such agreement shall be  
39 approved by the board of directors of the affiliate bank and reflected in  
40 its minutes. From the time of execution of such agreement, the agree-  
41 ment shall remain continuously an official record of the affiliate bank.  
42 Any such deposit of securities, except with the treasurer, shall have a joint  
43 custody receipt which shall constitute a perfected security interest taken

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1 therefor with one copy going to the treasurer and one copy going to the  
 2 bank, savings bank or savings and loan association which deposits such  
 3 securities. In lieu of the initial deposit of securities provided for in this  
 4 subsection (c), the treasurer or the treasurer's duly authorized deputy,  
 5 for a period of not to exceed 10 calendar days, may accept the telephone  
 6 assurance of a bank qualified as provided in (2) or (3) of subsection (b),  
 7 that the depository bank has requested the issuance of a joint custody  
 8 receipt with the state of Kansas, specifying the securities pledged, for the  
 9 purpose of compliance with this section and that such joint custody re-  
 10 ceipt will be forthcoming.

11 (d) The depository bank, the board and the custodial bank shall enter  
 12 into a written agreement for the safekeeping of securities and the agree-  
 13 ment shall be maintained in the records of the depository bank.

14 (e) Securities deposited to comply with this section may be with-  
 15 drawn on application of the bank, savings bank or savings and loan asso-  
 16 ciation depositing the securities, if such application is approved by the  
 17 treasurer or the treasurer's duly authorized deputy for the reason that  
 18 such deposit of securities is no longer needed to comply with this section  
 19 or are required for collection by virtue of their maturity or for exchange.  
 20 Securities withdrawn for collection by virtue of their maturity or for  
 21 exchange shall be replaced within 15 calendar days, but until replaced  
 22 the state shall retain a first lien on the withdrawn security or the proceeds  
 23 therefrom.

24 (f) Operating accounts, investment accounts, *and* fee agency accounts  
 25 ~~and custodial accounts~~ shall be secured by pledge of securities, the market  
 26 value of which is equal to 100% of the amount of the deposits in the  
 27 account plus accrued interest, less the amount of deposits in the account  
 28 protected by the federal deposit insurance corporation. Any agency re-  
 29 sponsible for a fee agency account shall transfer immediately all moneys  
 30 not so secured to the state treasurer for deposit in the state treasury.

31 ~~Sec. 16. 19.~~ K.S.A. 1995 Supp. 75-4220 is hereby amended to read 16  
 32 as follows: 75-4220. (a) Each depository or its affiliate bank pledging se-  
 33 curities for such depository pursuant to K.S.A. 75-4218, and amendments  
 34 thereto, shall be liable for payment if: (1) The depository bank fails to:  
 35 (A) Pay any check, draft or warrant drawn by the treasurer and director  
 36 of accounts and reports; or (B) account for any check, draft, warrant,  
 37 order, or certificate of deposit, or any money entrusted to such bank by  
 38 the treasurer; or (2) a conservator or receiver is appointed for the depos-  
 39 itory bank.

40 Any loss incurred by the state by reason of failure by any depository  
 41 bank to safely keep and account for ~~state or special~~ moneys and interest  
 42 thereon shall be recovered by the state from the depository bank and a  
 43 sale of the securities pledged under this act. The attorney general is au-

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1 thorized to prosecute in the name of the state any and all actions for  
2 recovery of any loss incurred by the state under this act.

3 In case of default by any depository bank having a state bank account  
4 of any type, the securities pledged under this act, if not in the possession  
5 of the treasurer, shall be transferred to the treasurer by the custodial  
6 bank to be sold by the treasurer and payment of the proceeds of such  
7 sale shall be made to the state to the extent of the state's interest, subject  
8 to the provisions of K.S.A. 75-4221, and amendments thereto.

9 ~~Sec. 17. 20.~~ / K.S.A. 1995 Supp. 75-4228 is hereby amended to read 17  
10 as follows: 75-4228. The making of profit by the treasurer or director of  
11 accounts and reports out of any moneys in the state treasury, the custody  
12 of which the treasurer or director of accounts and reports is charged with,  
13 by lending, depositing, or otherwise using, or disposing of the same in  
14 any manner whatsoever not provided in this act, or the removal by the  
15 treasurer or director of accounts and reports or by such official's consent,  
16 of any securities deposited by any bank under the provisions of this act  
17 out of the treasury, or failing to return or dispose of any securities as  
18 provided by law, shall be deemed a felony, and on conviction thereof, the  
19 treasurer or director of accounts and reports shall be punished by im-  
20 prisonment in the custody of the secretary of corrections for a term of  
21 not less than two nor more than five years. In addition to such criminal  
22 liability the treasurer or director of accounts and reports and the surety  
23 thereof shall also be liable, on official bond, for all profits realized from  
24 such unlawful use of any state or special moneys. It shall be the duty of  
25 the attorney general to enter and prosecute to final termination all actions  
26 for violation of this act.

27 ~~Sec. 18. 21.~~ / K.S.A. 1995 Supp. 75-4221a is hereby amended to read 18  
28 as follows: 75-4221a. (a) There is hereby established the pooled money  
29 investment board which shall consist of five members, four of whom shall  
30 be appointed by the governor, subject to confirmation by the senate as  
31 provided in K.S.A. 75-4315b and amendments thereto. Except as pro-  
32 vided by K.S.A. 1995 Supp. 46-2601, and amendments thereto, no person  
33 appointed to the board, whose appointment is subject to confirmation,  
34 shall exercise any power, duty or function as a member of the board until  
35 confirmed by the senate. The fifth member shall be the state treasurer.  
36 Not more than three members of the board shall be of the same political  
37 party. All members appointed to the board shall be persons with not less  
38 than ~~16~~ five years of direct work experience in in the field of finance  
39 ~~income securities as an investment or trust officer for a financial institution,~~  
40 ~~association or corporation.~~ Except as provided by subsection (b), mem-  
41 bers appointed by the governor shall serve for a term of four years and  
42 until successors are appointed and confirmed. *The governor shall select*  
43 *one of the board members to serve as chairperson.*

five in the field of finance



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1 (b) (1) On July 1, 1992, the two appointive board members serving  
 2 on the board immediately prior to such date shall cease to be members  
 3 of the board and on such date, or as soon thereafter as possible, the  
 4 governor shall appoint four members to the board to serve for terms as  
 5 specified by this subsection. The two appointive members serving on the  
 6 board immediately prior to July 1, 1992, may be reappointed to the board  
 7 on or after such date under this subsection. Of the members first ap-  
 8 pointed on or after July 1, 1992, two members shall be appointed for a  
 9 term commencing on July 1, 1992, and ending on June 30, 1994, and two  
 10 members shall be appointed for a term commencing on July 1, 1992, and  
 11 ending on June 30, 1996. The governor shall designate the term for each  
 12 member so appointed. Except as provided in paragraph 2 of this subsec-  
 13 tion, members appointed to the board shall serve for four-year terms and  
 14 until their successors are appointed and confirmed. Whenever a vacancy  
 15 occurs in the membership of the board prior to the expiration of a term  
 16 of office, the governor shall appoint a qualified successor to fill the unex-  
 17 pired term.

18 (2) The terms of members who are serving on the board on the ef-  
 19 fective date of this act shall expire on March 15, of the year in which such  
 20 member's term would have expired under the provisions of this section  
 21 prior to amendment by this act and by section 3 of chapter 194 of the  
 22 session laws of 1995. Thereafter members shall be appointed for terms  
 23 of four years and until their successors are appointed and confirmed.

24 (c) Members of the pooled money investment board attending meet-  
 25 ings of such board, or attending a subcommittee meeting thereof au-  
 26 thorized by such board, shall be paid compensation, subsistence allow-  
 27 ances, mileage and other expenses as provided in K.S.A. 75-3223 and  
 28 amendments thereto.

29 ~~Sec. 10-22.~~ K.S.A. 1995 Supp. 75-4222 is hereby amended to read  
 30 as follows: 75-4222. (a) It shall be unlawful for the pooled money invest-  
 31 ment board to award a state bank account to any depository bank in which  
 32 any member of the board is interested as a stockholder or officer, except  
 33 upon the unanimous vote of the other members of the board.

34 (b) ~~The state treasurer shall be chairperson of the board.~~ The board  
 35 may appoint such employees as may be needed. ~~In addition to the above~~  
 36 ~~personnel, the board may~~ The state treasurer, subject to the approval  
 37 ~~of the board, shall~~ appoint investment officers and investment analysts,  
 38 who shall be in the unclassified service of the Kansas civil service act. The  
 39 chairperson shall keep and preserve a written record of the board's pro-  
 40 ceedings. ~~Such investment officers and analysts may be terminated~~  
 41 ~~by a vote of four members of the board.~~

42 (c) ~~From and after the effective date of this act, all current em-~~  
 43 ~~ployees of the pooled money investment board are hereby trans-~~

19.

In addition to the above personnel, the  
 board may  
 an executive director,  
 executive director,

majority

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1 ~~ferred to the office of the state treasurer. All such employees shall~~  
 2 ~~retain all retirement benefits and all rights of civil service which~~  
 3 ~~such employees had before the effective date of this act and their~~  
 4 ~~service shall be deemed to have been continuous. All such transfers~~  
 5 ~~shall be in accordance with civil service laws and rules and~~  
 6 ~~regulations.~~

7 (e) ~~(f)~~ The employees working for the pooled money investment  
 8 board shall have access at all times to all papers, documents and property  
 9 in the custody or possession of the state treasurer that relate to duties of  
 10 the board, and the state treasurer shall take such steps as may be nec-  
 11 essary to make this provision of law effective for such purposes as the  
 12 pooled money investment board may indicate.

(c)

13 (d) ~~(e)~~ Except as otherwise provided in this act, On and after July 1,  
 14 1996, the pooled money investment board may provide all office space,  
 15 services, equipment, materials and supplies, and ~~Except as otherwise~~  
 16 ~~provided in this act~~, all budgeting, purchasing and related management  
 17 functions of ~~required by~~ of the pooled money investment board shall be  
 18 administered under the direction and supervision of the state treasurer  
 19 in the exercise of the powers, duties and functions imposed or authorized  
 20 upon such board shall be administered under the direction and su-  
 21 pervision of the ~~state treasurer.~~

(d)

Except as otherwise provided in this act,  
 On and after July 1, 1996, the pooled  
 money investment board may provide all  
 office space, services, equipment,  
 materials and supplies; and  
 required by

and

board

22 (f) ~~(g)~~ The chairperson shall keep and preserve a written record of  
 23 the board's proceedings.

(e)

24 (e) ~~(g)~~ The board shall make an annual report to the legislature of  
 25 the investments by the board of all moneys under the jurisdiction and  
 26 control of the board, by filing a copy of the report with the chief clerk of  
 27 the house of representatives and with the secretary of the senate no later  
 28 than the 10th calendar day of each regular session of the legislature.

(f)

20

29 Sec. ~~20. 23.~~ K.S.A. 1995 Supp. 75-4232 is hereby amended to read  
 30 as follows: 75-4232. State moneys shall be managed by the pooled money  
 31 investment board ~~invested and reinvested by the state treasurer~~ in  
 32 accordance with investment policies provided by law and, by rules and  
 33 regulations and published policies of ~~such the~~ board. The pooled money  
 34 investment board shall not contract for management of investments by a  
 35 money manager. ~~In administering the functions of the pooled money~~  
 36 ~~investment board, the~~ The board shall adopt rules and regulations or  
 37 published policies pursuant to K.S.A. 75-4209, and amendments thereto  
 38 establishing investment policies and procedures. Such policies and pro-  
 39 cedures shall address liquidity, diversification, safety of principal, yield,  
 40 maturity and quality and capability of investment management, with pri-  
 41 mary emphasis on safety and liquidity. Such investment policy shall spec-  
 42 ify when or under what circumstances securities may be disposed of prior  
 43 to maturity. Such investment policies and procedures shall be reviewed

such

pooled money investment board

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1 annually by the pooled money investment board.  
 2 ~~Sec. 24. K.S.A. 75-4253 is hereby amended to read as follows:~~  
 3 ~~75-4253. Whenever any state agency or authority has issued any~~  
 4 ~~bonds in connection with which there exists surplus proceeds or~~  
 5 ~~surplus reserves, the pooled money investment board state treasurer~~  
 6 ~~shall have management responsibility to invest the same as required~~  
 7 ~~by this act, unless the applicable bond statute, trust agreement,~~  
 8 ~~indenture or resolution requires a different management responsi-~~  
 9 ~~bility, in which case the person or agency so specified to have such~~  
 10 ~~management responsibility shall invest such surplus proceeds or~~  
 11 ~~surplus reserves as provided in this act.~~

12 ~~Sec. 21. 25. K.S.A. 75-4254 is hereby amended to read as follows:~~ 21  
 13 75-4254. The pooled money investment board ~~state treasurer~~ may invest  
 14 and reinvest the moneys of surplus proceeds and surplus reserves in:

pooled money investment board

15 (a) Direct obligations of, or obligations the principal of and interest  
 16 on which are unconditionally guaranteed by, the United States of Amer-  
 17 ica; Investments enumerated in K.S.A. 10-131, and amendments thereto;  
 18 or

19 (b) in interest-bearing time deposits in any commercial bank located  
 20 in Kansas; except that the amount so invested in any such bank shall not  
 21 exceed an amount equal to the total capital and surplus of such bank and  
 22 shall be secured in the manner prescribed by subsections (a) to (e); in-  
 23 elusive; of K.S.A. 75-4218; and amendments thereto;

24 (c) if the board determines that it is impossible to deposit such mon-  
 25 eys in such time deposits; in repurchase agreements of less than 30 days'  
 26 duration with a Kansas bank or with a primary government securities  
 27 dealer which reports to the market reports division of the federal reserve  
 28 bank of New York for direct obligations of, or obligations that are insured  
 29 as to principal and interest by, the United States government or any  
 30 agency thereof; or

31 (d) in shares or accounts in savings and loan associations insured by  
 32 the federal savings and loan insurance corporation; or other federal  
 33 agency; to the extent covered by such insurance the pooled money in-  
 34 vestment portfolio.

35 ~~Sec. 26. K.S.A. 1995 Supp. 75-4262 is hereby amended to read~~  
 36 ~~as follows: 75-4262. (a) State agencies having statutorily authorized~~  
 37 ~~loans from the pooled money investment board are hereby author-~~  
 38 ~~ized to undertake projects to convert such loans to bond financing~~  
 39 ~~in accordance with this section.~~

40 (b) ~~No bonds shall be issued for any such project unless: (1) The~~  
 41 ~~secretary of administration has determined that it is in the financial~~  
 42 ~~best interests of the state; (2) the bonds are sold at public sale; (3)~~  
 43 ~~bond counsel provides an opinion that the interest on the bonds is~~

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~~1 excluded from gross income for federal income tax purposes; and  
2 (4) such project has been approved by the secretary of administra-  
3 tion. Upon approval by the secretary of administration, any such  
4 project is hereby approved for the purposes of subsection (b) of  
5 K.S.A. 74-8905, and amendments thereto.~~

~~6 (c) The pooled money investment board state treasurer is hereby  
7 authorized to invest the proceeds of loans repaid pursuant to this  
8 section, and interest earnings thereon, in: (1) United States govern-  
9 ment obligations with maturities no longer than the date the loan  
10 from the board was to be repaid; or (2) investments with banks  
11 operating in Kansas, at interest rates at or above the average yield  
12 that investments in United States securities would earn for similar  
13 maturities.~~

14 Sec. 27. K.S.A. 1995 Supp. 75-4263 is hereby amended to read  
15 as follows: 75-4263. (a) Except as provided in subsection (b), mon-  
16 eys of a state agency or public instrumentality of this state which  
17 may be invested by the pooled money investment board state treasurer  
18 in accordance with investment policies established by the pooled money  
19 investment board under K.S.A. 75-4232, and amendments thereto, ex-  
20 pressly for such agency or instrumentality, or invested directly by  
21 the agency or instrumentality, may be invested in the municipal  
22 investment pool fund established in K.S.A. 1995 Supp. 12-1677a and  
23 amendments thereto. Such agency or instrumentality shall be  
24 treated as a municipality for purposes of participation in such fund.

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

22

29 Sec. ~~22~~ 28. K.S.A. 76-818 is hereby amended to read as follows: 76-  
30 818. All funds received pursuant to the provisions of this act, whether as  
31 proceeds from the sale of bonds, sale of property, insurance or condem-  
32 nation awards, as revenues, proceeds or otherwise, shall be deemed to  
33 be trust funds to be held and applied solely as provided in this act and as  
34 provided in the resolution authorizing the issuance of the bonds or the  
35 trust agreement. The resolution of the board authorizing the issuance of  
36 the bonds or the trust agreement securing any bonds may provide that  
37 any of such moneys, including the proceeds of the bonds, the sinking  
38 fund and any reserve account or accounts, may be invested by the pooled  
39 money investment board ~~state treasurer in accordance with invest-~~  
40 ~~ment policies established by the pooled money investment board~~  
41 ~~under K.S.A. 75-4232, and amendments thereto,~~ pending the dis-  
42 bursement thereof, in obligations of the United States of America or  
43 obligations the principal and interest of which are guaranteed by the

pooled money investment board  
such

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1 United States of America or in interest-bearing time deposits in any com-  
 2 mercial bank located in Kansas; or, if the board determines that it is  
 3 impossible to deposit such moneys in such time deposits; in repurchase  
 4 agreements of less than 30 days' duration with a Kansas bank or with a  
 5 primary government securities dealer which reports to the market reports  
 6 division of the federal reserve bank of New York for direct obligations of,  
 7 or obligations that are insured as to principal and interest by, the United  
 8 States government or any agency thereof: (a) investments enumerated in  
 9 K.S.A. 10-131, and amendments thereto; or (b) the pooled money invest-  
 10 ment portfolio.

11 Whenever such moneys are invested in interest-bearing deposits in any  
 12 commercial bank, such deposits shall be secured by pledge of securities  
 13 as provided in K.S.A. 75-4218, and amendments thereto.

14 ~~Sec. 23-29-~~ K.S.A. 1995 Supp. 79-4804 is hereby amended to read <sup>23</sup>  
 15 as follows: 79-4804. (a) Before July 1, 1995, an amount equal to 90% of  
 16 all moneys credited to the state gaming revenues fund shall be transferred  
 17 and credited to the state economic development initiatives fund which is  
 18 hereby created in the state treasury. On and after July 1, 1995, An amount  
 19 equal to 85% of all moneys credited to the state gaming revenues fund  
 20 shall be transferred and credited to the state economic development ini-  
 21 tiatives fund. Expenditures from the state economic development initia-  
 22 tives fund shall be made in accordance with appropriations acts for the  
 23 financing of such programs supporting and enhancing the existing eco-  
 24 nomic foundation of the state and fostering growth through the expansion  
 25 of current, and the establishment and attraction of new, commercial and  
 26 industrial enterprises as provided by this section and as may be authorized  
 27 by law and not less than ½ of such money shall be distributed equally  
 28 among the congressional districts of the state. Except as provided by sub-  
 29 section (g), all moneys credited to the state economic development ini-  
 30 tiatives fund shall be credited within the fund, as provided by law, to an  
 31 account or accounts of the fund which are created by this section.

32 (b) There is hereby created the Kansas capital formation account in  
 33 the state economic development initiatives fund. All moneys credited to  
 34 the Kansas capital formation account shall be used to provide, encourage  
 35 and implement capital development and formation in Kansas.

36 (c) There is hereby created the Kansas economic development re-  
 37 search and development account in the state economic development ini-  
 38 tiatives fund. All moneys credited to the Kansas economic development  
 39 research and development account shall be used to promote, encourage  
 40 and implement research and development programs and activities in Kan-  
 41 sas and technical assistance funded through state educational institutions  
 42 under the supervision and control of the state board of regents or other  
 43 Kansas colleges and universities.

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(d) There is hereby created the Kansas economic development endowment account in the state economic development initiatives fund. All moneys credited to the Kansas economic development endowment account shall be accumulated and invested as provided in this section to provide an ongoing source of funds which shall be used for economic development activities in Kansas, including but not limited to continuing appropriations or demand transfers for programs and projects which shall include, but are not limited to, specific community infrastructure projects in Kansas that stimulate economic growth.

(e) Except as provided in subsection (f), the ~~pooled money investment board~~ ~~state treasurer~~ may invest and reinvest moneys credited to the state economic development initiatives fund in accordance with investment policies established by the ~~pooled money investment board~~ under K.S.A. 75-4232, and amendments thereto, in obligations of the United States of America or obligations the principal and interest of which are guaranteed by the United States of America or in interest-bearing time deposits in any commercial bank located in Kansas; or, if the board determines that it is impossible to deposit such moneys in such time deposits; in repurchase agreements of less than 30 days' duration with a Kansas bank 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 the pooled money investment portfolio. All moneys received as interest earned by the investment of the moneys credited to the state economic development initiatives fund shall be deposited in the state treasury and credited to the Kansas economic development endowment account of such fund.

pooled money investment board  
such

(f) Moneys credited to the Kansas economic development endowment account of the state economic development initiatives fund may be invested in government guaranteed loans and debentures as provided by law in addition to the investments authorized by subsection (e) or in lieu of such investments. All moneys received as interest earned by the investment under this subsection of the moneys credited to the Kansas economic development endowment account shall be deposited in the state treasury and credited to the Kansas economic development endowment account of the state economic development initiatives fund.

(g) In each fiscal year, the director of accounts and reports shall make transfers in equal amounts on July 15 and January 15 which in the aggregate equal \$2,000,000 from the state economic development initiatives fund to the state water plan fund created by K.S.A. 82a-951, and amendments thereto. No other moneys credited to the state economic development initiatives fund shall be used for: (1) Water-related projects or

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1 programs, or related technical assistance; or (2) any other projects or  
2 programs, or related technical assistance, which meet one or more of the  
3 long-range goals, objectives and considerations set forth in the state water  
4 resource planning act.

5 ~~Sec. 24. K.S.A. 40-3406, 44-712, 75-622, 75-4204, 75-4210a, 75-4254~~ 24

6 ~~Sec. 30. K.S.A. 12-3724, 40-3406, 44-712, 68-2321, 68-2324,~~  
7 ~~75-622, 75-4204, 75-4210a, 75-4253, 75-4254~~ and 76-818 and K.S.A.  
8 1995 Supp. 12-1677a, 12-1677c, ~~12-1677e~~, 40-3403, 75-4201, 75-4202,  
9 75-4209, 75-4212a, 75-4213, 75-4218, 75-4220, 75-4221a, 75-4222, 75-  
10 4228, 75-4232, ~~75-4262, 75-4263~~ and 79-4804 are hereby repealed. 12-1677e,

11 Sec. ~~25~~ 31. This act shall take effect and be in force from and after  
12 its publication in the statute book *Kansas register*.



Testimony for the House Appropriations Committee  
March 14, 1996  
Senate Bill No. 476

By:  
Robert D. Hayes, Executive Director  
Health Care Stabilization Fund

The Health Care Stabilization Fund supports the legislative efforts to resolve the issues related to the Municipal Investment Pool (MIP). Our interest in this matter is based on the Fund's remaining investments of \$110.7 million in the MIP. If the legislature does not address the loss issues related to the MIP, then the Fund could conceivably be the last one out of the MIP. If the Fund were to be the last one out of the MIP, a substantial investment loss to the Fund would occur.

Our Fund has been, with the assistance of the Treasurer's office, rolling its investments on maturity dates out of the MIP and into U.S. Government Treasury Bills and Notes. Our plan is to restructure a portion or all of the Fund's investments into government securities with maturity dates of one to four years. The objective is to achieve a higher investment yield and to structure the Fund's investments based on the loss expectations of the Fund. This plan was initiated in November of 1995 and is currently being continued. This means that between July 1, 1996 and November 14, 1996 the remaining Fund investments of \$69.3 million will mature. Additional information regarding the Fund's investments is disclosed on the attached exhibit.

If the issues related to the MIP are not resolved in a manner similar to what is currently set out in Senate Bill No. 476, the Fund would be forced to consider:

- remaining in the MIP, incurring losses of investment earnings related to the recapture or "haircut" program; or
- terminating its remaining MIP investments prior to July 1, 1996 and incur early withdrawal penalties; or
- any other alternative actions which may be available at that time.

The Fund supports this proposed legislation. I will be pleased to answer questions the committee may have regarding the Fund's investments or other matters related to Senate Bill No. 476.

3-14-96

House Appropriations

Attachment  
10

# HEALTH CARE STABILIZATION FUND MATURITIES

As of **14-Mar-96**

Maturity	Instrument	Par Value	Monthly Total
03/28/96	IMIP	<u>7,025,000.00</u>	7,025,000.00
04/11/96	IMIP	<u>4,850,000.00</u>	
04/25/96	IMIP	<u>5,925,000.00</u>	10,775,000.00
05/09/96	IMIP	<u>5,025,000.00</u>	
05/23/96	IMIP	<u>3,700,000.00</u>	8,725,000.00
06/06/96	IMIP	<u>4,075,000.00</u>	
06/20/96	IMIP	<u>6,800,000.00</u>	
06/26/96	IMIP	<u>4,000,000.00</u>	14,875,000.00
07/18/96	IMIP	<u>4,000,000.00</u>	
07/25/96	IMIP	<u>5,600,000.00</u>	9,600,000.00
08/08/96	IMIP	<u>6,025,000.00</u>	
08/22/96	IMIP	<u>11,625,000.00</u>	17,650,000.00
09/05/96	IMIP	<u>6,875,000.00</u>	
09/12/96	IMIP	<u>7,975,000.00</u>	
09/26/96	IMIP	<u>15,475,000.00</u>	30,325,000.00
10/03/96	IMIP	<u>5,300,000.00</u>	
10/24/96	IMIP	<u>5,850,000.00</u>	11,150,000.00
11/14/96	IMIP	<u>575,000.00</u>	
11/15/96	4.375% cp. T-Note	<u>8,290,000.00</u>	
11/30/96	7.25% cp. T-Note	<u>4,500,000.00</u>	13,365,000.00
12/12/96	T-Bill	<u>3,160,000.00</u>	
12/31/96	7.50% cp. T-Note	<u>2,500,000.00</u>	5,660,000.00
01/15/97	8.00% cp. T-Note	<u>4,100,000.00</u>	
01/31/97	7.50% cp. T-Note	<u>9,300,000.00</u>	13,400,000.00
02/15/97	4.75% cp. T-Note	<u>2,950,000.00</u>	
02/28/97	6.875% cp. T-Note	<u>2,850,000.00</u>	5,800,000.00
04/30/97	6.50% cp. T-Note	<u>6,250,000.00</u>	6,250,000.00
05/31/97	6.75% cp. T-Note	<u>5,835,000.00</u>	
05/31/97	6.125% cp. T-Note	<u>1,473,000.00</u>	7,308,000.00
02/15/98	8.125% cp. T-Note	<u>3,025,000.00</u>	3,025,000.00
02/15/99	8.875% cp. T-Note	<u>9,650,000.00</u>	9,650,000.00
05/31/99	8.75% cp. T-Note	<u>3,930,000.00</u>	3,930,000.00
08/15/99	8.00% cp. T-Note	<u>5,050,000.00</u>	5,050,000.00
09/30/99	7.125% cp. T-Note	<u>6,225,000.00</u>	6,225,000.00
		<u>\$139,788,000.00</u>	

**\$69,300,000**  
 Maturing Between  
 July 1, 1996 and November 14, 1996

**Investment Balances:**

MIP	U.S. Treasury's
\$110,700,000	\$79,088,000
58.33%	41.67%