

MINUTES OF THE HOUSE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Stephen Morris at 10:30 a.m. on January 24, 2003, in Room 123-S of the Capitol.

All members were present except: Senator Jim Barone - excused  
Senator Paul Feleciano, Jr. - excused

Committee staff present:

Alan Conroy, Director, Kansas Legislative Research Department  
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department  
Martha Dorsey, Kansas Legislative Research Department  
Melissa Calderwood, Kansas Legislative Research Department  
Michael Corrigan, Assistant Revisor of Statutes  
Judy Bromich, Administrative Analyst  
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Barbara Hinton, Legislative Post Auditor, Legislative Division of Post Audit  
Derl Treff, Director of Investments, Pooled Money Investment Board

Others attending: See attached list

Chairman Morris opened the public hearing on:

**SB 8--Pooled money investment board, comparative investment performance review and audit of investment program**

Barbara Hinton, Legislative Post Auditor, Legislative Division of Post Audit, spoke before the committee regarding **SB 8** which would implement a recommendation from her staff and the Legislative Post Audit Committee for eliminating overlapping audit requirements relating to the Pooled Money Investment Board (Attachment 1). Ms. Hinton explained in her testimony that the most cost-effective solution is to consolidate the two requirements into the annual audit of the Pooled Money Investment Board's financial-management practices.

Derl Treff, Director of Investments, Pooled Money Investment Board, spoke before the committee regarding **SB 8** which would implement a recommendation from the Legislative Division of Post Audit and the Legislative Post Audit Committee for eliminating overlapping audit requirements relating to the Pooled Money Investment Board (Attachment 2). Mr. Treff explained in testimony that by incorporating language into K.S.A. 46-1106 elimination of the biennial audit could be done without sacrificing audit scope and at the same time saving the state money.

Senator Adkins moved, with a second by Senator Bunten, to recommend **SB 8** favorable for passage. Motion carried on a roll call vote.

Copies of a memorandum were distributed to the committee from Edward R. Moses, Kansas Aggregates Producers Association, dated January 22, 2003, in opposition to **SB 30** (Attachment 3).

The meeting adjourned at 11:20 a.m. The next meeting is scheduled for January 27, 2003.

SENATE WAYS AND MEANS COMMITTEE

GUEST LIST

DATE January 24, 2003

NAME	REPRESENTING
Lois Weeks	IRS
Peggy Nayna	Treasurer's office
Dorrie Dehlo	PMIB
DERL TREFF	PMIB
Julia Thomas	DOB
Barb Hinton	Post Audit
Dan Osman	Jay Emier
	J



LEGISLATURE OF KANSAS  
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**Testimony for the  
Senate Ways and Means Committee on SB 8**  
Barb Hinton, Legislative Post Auditor  
January 24, 2003

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you in support of SB 8. This bill would implement a recommendation from my staff and the Legislative Post Audit Committee for eliminating overlapping audit requirements relating to the Pooled Money Investment Board.

Under current State law, the PMIB's investment practices are reviewed as part of 2 separate audits:

- a periodic investment performance review and investment program audit [PMIB contracts out this review / audit at least once every 2 years under K.S.A. 2002 Supp. 75-4264]
- an annual audit of the PMIB's financial-management practices and its compliance with applicable State laws [my office contracts out this audit under K.S.A. 46-1106(2)]

The Board's Director of Investments contacted our office last fall to discuss the overlap of work he saw between the 2 audits. That work is described on the attached page.

The most cost-effective solution: consolidate the 2 requirements into the annual audit of the Pooled Money Investment Board's financial-management practices. Consolidating these requirements could save as much as \$8,000 each time the investment performance review is done.

On behalf of the Post Audit Committee and our office, I would urge the Committee to support this bill as part of its effort to make government more efficient.

*Senate Ways and Means  
1-24-03  
Attachment 1*

## **EXECUTIVE SUMMARY**

LEGISLATIVE DIVISION OF POST AUDIT

### ***Reviewing the Operations of the Pooled Money Investment Board***

*As part of its responsibilities, the Pooled Money Investment Board does the following:*

- *helps ensure that cash flow needs of State agencies for moneys in the State Treasury are met*
- *manages State idle funds and municipal investment moneys in accordance with the requirements of State law*
- *ensures that investment income is received and properly credited to the appropriate accounts*
- *maintains custodial accountability for moneys for which it is responsible*

*The audit reviewed each of the above areas of responsibility, and found no deficiencies.*

**Agency Response** ..... page 8

This audit was conducted by the joint venture of Allen Gibbs & Houlik and Berberich Trahan & Company, certified public accounting firms, under contract with the Legislative Division of Post Audit. If you need any additional information about the audit's findings, please contact Randy Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at [LPA@lpa.state.ks.us](mailto:LPA@lpa.state.ks.us).



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DIRECTOR OF INVESTMENTS  
Derl S. Treff

**TESTIMONY ON SENATE BILL 8**

by

Derl S. Treff

Director of Investments

Pooled Money Investment Board

January 24, 2003

The Honorable Stephen Morris  
Senate Committee on Ways and Means  
Statehouse, Room 120-S  
Topeka, Kansas 66612

Senator Morris and Members of the Committee:

The Legislative Post Audit Act (K.S.A. 46-1106) requires a review of the financial management practices of the Pooled Money Investment Board every year. Additionally state law (K.S.A. 75-4264) requires that an investment performance review and audit be conducted every two years. The scope of both these audits is essentially the same, with the exception of the language that we are proposing to incorporate into K.S.A. 46-1106.

The proposed language is as follows: *The separate audit of the Pooled Money Investment Board also shall include a comparative investment performance review and an analysis of the investment program, including an evaluation of investment policies and practices and of specific investments in the Pooled Money Investment Portfolio. The analysis of the specific investments in the Pooled Money Investment Portfolio shall review whether such investments meet the investment priorities of safety, liquidity and performance. The performance of such investments shall be measured by comparison to an appropriate market index.*

By incorporating this language into K.S.A. 46-1106 we could eliminate the biennial audit without sacrificing audit scope and at the same time save the State approximately \$10,000.

Senate Ways and Means  
1-24-03  
Attachment 2



## MEMORANDUM

**DATE:** January 22, 2003

**TO:** Members of the Senate Ways & Means Committee

**FROM:** *W. Moses* Edward R. Moses, Kansas Aggregates Producers Association

**SUBJECT:** Senate Substitute for Senate Bill No. 30

The Kansas Aggregates Producers Association is strongly opposed to Senate Substitute for Senate Bill No. 30. In its current form Sub. SB 30 will remove the requirement for the State General Fund to repay the \$94.6 million loan from the State Highway Fund on June 30, 2003. Approval of this bill will materially impair the ability of the Kansas Department of Transportation to complete the Comprehensive Transportation Program (CTP) overwhelmingly approved by this legislature in 1999.

We are also joined in this opposition by Economic Lifelines, the statewide transportation coalition, which adopted a resolution supporting full repayment of the loan at its last board meeting held June 19, 2002. Economic Lifelines is the largest statewide coalition in Kansas dedicated to highway safety, transportation improvements, and the future economic development of Kansas communities. It is comprised of organizations ranging from the Kansas Chamber of Commerce and Industry, the Kansas AFL-CIO, the League of Kansas Municipalities, Kansas Association of Counties, Kansas Association of Airports, Kansas Public Transit Association, Kansas Farm Bureau, Kansas Motor Carriers Association, Kansas Consulting Engineers, Kansas Good Roads Association, Kansas Contractors Association, The Heavy Constructors Association of Kansas City, and most importantly, numerous communities represented by their local Chambers of Commerce, economic and industrial development groups, and city and county governments throughout the entire state.

The CTP has lost almost \$231 million through legislative transfer or the outright failure of the legislature to make the promised demand transfers. In 2002 the legislature took steps to correct this error by passing a supplemental revenue package. This package essentially restored the CTP to solvency, but only on the assumption that the loan and future demand transfers are made on time. Approval of Sub SB 30 will only upset the current funding plan and set the CTP up for ultimate failure.

While we understand and sympathize with your current efforts to correct the state's finances we think it is premature to cancel the loan payment. Rather, we urge this committee to consider other methods of financing state government and end the constant raids upon the State Highway Fund.

Even in these difficult times we think there are several good reasons for staying the course:

*Senate Ways and means  
1-24-03  
Attachment 3*

➤ **The CTP stabilizes and stimulates the state's economy during all times but especially during difficult economic times.**

- From an October 12, 1992 *U.S. News and World Report* article discussing states facing a downturn in their economic fortunes: "As the nation slid into recession during the second half of 1990, highway money began to course through the Kansas economy. Road expenditures leapt from 293 million dollars in 1989 to 429 million in 1991, sending a torrent of dollars through checkbooks and cash registers. In what economists call the multiplier effect, construction workers started buying tools, contractors leased new equipment, and engineering firms started placing help-wanted ads. As highway money worked its way through Kansas's economic bloodstream, personal income climbed at 2.4 percent, more than twice the national average (in 1991)."

➤ **Our investment in roads must be maintained**

- Thanks to the CTP, Kansas currently ranks " 4<sup>th</sup> in the nation in pavement condition, while ranking only 24-26<sup>th</sup> in per capita dollars spent to maintain the system." Source: Stidger, Ruth W., *Better Roads*, May 2002.
- Not only do Kansans benefit from the use of their outstanding highway system, upgrading the system as originally intended generates thousands of jobs each year, bringing financial benefits to the State.

➤ **Millions of dollars of unmet transportation needs remain to be addressed.**

- According to an article appearing January 17, 2003 in *USA Today*. " Highway traffic up 37% in decade but systems mileage grew only 5%"The economy of our State and local municipalities depends upon a reliable transportation infrastructure, providing not only a means to distribute products, but also jobs, and income resulting in revenue. The cost of construction only increases over time, and maintaining an adequate and consistent investment in the transportation infrastructure is a strategy that pays high returns over a long period. Deferring highway projects only increases costs and adds to pool of unmet needs.

➤ **Kansans, in overwhelming numbers, support completion of the CTP on time**

- "The citizens of Kansas overwhelmingly support the Comprehensive Transportation Program (CTP), are opposed to any funding reductions in CTP, are alarmed at how the State Highway Fund (SHF) dollars are being used to balance the state budget, and are demanding that the promises made when the CTP was passed in 1999 be kept." T-2000, *A Program in Jeopardy*, Report to the Governor, December 9, 2002.
- Four public meeting were held to gather input from citizens regarding the CTP. Approximately 800 city and county leaders, business

people, and citizens attended the four meetings. About 150 people spoke or gave presentations in favor of the CTP.

➤ **Completion of the CTP will save lives and provide a higher level of public safety**

- According to the Burress economic impact analysis, **\$1.3 billion** funding loss will cost the state **\$4.7 billion** in travel time and accidents. Source: Dr. David Burress, University of Kansas, Presentation to Transportation 2000, September, 2002
- Public Transit, already cut \$500,000 in FY03, provides many disabled citizens throughout the state with their only means of transportation. Vital to the maintenance of independent lives.

For these, any many other reasons, we urge you to keep the CTP solvent by opposing any attempt to remove repayment of the \$94.6 million loan. We stand ready, along with Economic Lifelines, to work with you in identifying more appropriate ways to fund state government. We recognize the need to be a part of the solution. We only ask you to pass on this premature action.