SESSION OF 2014

SUPPLEMENTAL NOTE ON SENATE BILL NO. 422

As Recommended by Senate Committee on
Financial Institutions and Insurance

Brief*

SB 422 would amend a statute governing the investment of public moneys by local units of government to add federal agency securities, excluding mortgage-backed securities, to the list of authorized investment options.

Under current law, local units of governments are permitted to invest idle funds, when eligible financial institutions cannot or will not accept the funds at a rate equal to or greater than the investment rate, in any of the following investment options: U.S. Treasury bills or notes with maturities that do not exceed two years; the Municipal Investment Pool Fund; direct investments authorized for cities, counties, and school districts; multiple municipal client investment pools managed by trust departments of banks; and municipal bonds or other obligations issued by municipalities. The bill would amend the current provision authorizing investment in U.S. Treasury bills or notes to specify federal agency securities, excepting mortgage-backed securities, with maturities that do not exceed two years in this list of permissible investment options.

Background

The bill was introduced by the Senate Ways and Means Committee. At the Senate Committee on Financial Institutions and Insurance hearing, proponents of the bill included the State Treasurer; a representative of the League of Kansas

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

Municipalities; representatives of the cities of Lawrence, Overland Park, and Prairie Village; a representative of Johnson County; and a representative of Columbia Capital Management, LLC. Representatives of the cities of Lenexa, Merriam, and Olathe submitted written testimony in support of the bill. The State Treasurer indicated municipalities, with the investment option presented in the bill, could earn a slightly higher yield than they would with treasuries of the same duration. City and county representatives generally indicated U.S. agency securities represent a safe and liquid investment option that could help generate a higher return on investments. It also was noted that, under current law, only local governments that have been granted expanded investment powers are allowed to invest in U.S. agency securities.

No neutral or opponent testimony was offered at the hearing.

The fiscal note prepared by the Division of the Budget indicates that, according to the Pooled Money Investment Board (PMIB), passage of the bill could cause a modest decline in the overall balance of the Municipal Investment Pool (MIP), which is one of the many investment alternatives available for local governments. Balances in the MIP are invested along with the state's idle funds in the Pooled Money Investment Portfolio. Investors in the MIP are paid a fixed rate of return with the PMIB collecting a fee for its expenses. Any amount collected after covering PMIB expenses is paid to the State General Fund. The goal of the MIP, the fiscal note continues, is not to raise revenue for the State General Fund, but to provide an investment option for local governments if they need it, while covering the PMIB expenses for the service. While the PMIB is unable to determine how many municipalities would withdraw funds from the MIP to take advantage of the new investment option, it estimates that a 10.0 percent drop in the overall MIP balance could result in a negligible decline in revenue to the State General Fund.

Over the long term, passage of the bill, the fiscal note suggests, could result in a further decline of the MIP as more local governments explored the new investment alternative. However, the PMIB points out that at present over 80.0 percent of the MIP balance resides in the Overnight Municipal Investment Pool option, suggesting a need for daily liquidity by participants. This need for liquidity may limit the ability of municipalities to take advantage of the new investment option and reduce any effect passage of the bill might otherwise have on the state. Any fiscal effect associated with the bill is not reflected in *The FY 2015 Governor's Budget Report*.