

Approved: 3-10-10
Date

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

The meeting was called to order by Chairman Ruth Teichman at 9:30 a.m. on March 9, 2010, in Room 152-S of the Capitol.

All members were present except Senator Masterson. He was excused.

Committee staff present:

Ken Wilke, Office of the Revisor of Statutes
Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Beverly Beam, Committee Assistant

Conferees appearing before the Committee:

Rep. Sheryl Spaulding,
Bob Vancrum, Blue Valley USD #229
Larry Baer (written only), League of Kansas Municipalities

Others attending:

See attached list.

Rep. Sheryl Spaulding, (Attachment 1)
Bob Vancrum, Blue Valley USD #229 (Attachment 2)
Larry Baer (written only), League of Kansas Municipalities (Attachment 3)

The Chair called the meeting to order.

Hearing on

HB 2540 - Municipal bonds; investment of bond proceeds

Melissa Calderwood, Legislative Research, gave an overview of the bill. Ms. Calderwood stated that current law allows the governing body of a municipality to invest the proceeds of bonds it has issued that are not currently needed in direct obligations of the U.S. government or any agency of the United States government. She stated that HB 2540 also would allow such investment in any obligation unconditionally guaranteed by the U.S. Government. She added that according to the League of Kansas Municipalities and the Kansas Association of Counties, passage of this bill could result in increased revenues to cities by providing greater flexibility in investing funds.

Representative Sheryl Spaulding testified in support of HB 2540. She stated that this bill would allow investments in a wider range of securities that are guaranteed by the federal government. She said this bill costs the state no money and causes no district or municipality to lose money. She said what it does do is allow any district or municipality which so desires to invest in certain federally guaranteed securities that are now prohibited. She added that this bill is not mandatory but merely allows school districts and municipalities to save their local taxpayers money. (Attachment 1)

Robert Vancrum, Blue Valley USD #229, testified in support of HB 2540. Mr. Vancrum stated that KSA Section 10-131 regulates how municipalities may invest the proceeds from the sale of their bond issues. He said the Statute provides numerous investment options that are generally considered to be of very high quality. He said the statute has worked well for municipalities for several decades; however, unfortunately during the recent turmoil in the financial markets, a number of the investments authorized under the statute became difficult to obtain or of lower return due to widespread downgrades of financial institutions. He said as a result, the list of viable investment options became much narrower. He added that the changes being proposed to the statute are designed to clarify the authority granted to municipalities to investment bond proceeds without compromising high credit standards. (Attachment 2)

Larry Baer, League of Kansas Municipalities, provided written testimony only in support of HB 2540. (Attachment 3)

3/9/10

CONTINUATION SHEET

Minutes of the Senate Financial Institutions and Insurance Committee at 9:30 a.m. on March 9, 2010, in Room 152-S of the Capitol.

The Chair closed the hearing on HB 2540.

Senator Taddiken made a motion to amend to HB 2540 to reconcile HB 2540 with SB 415 by reinserting the words "shares or units of" in Line 36 of HB 2540. Senator Brownlee seconded. Motion carried.

Senator Kelsey moved to pass HB 2540 out favorably as amended. Senator Steineger seconded. Motion carried.

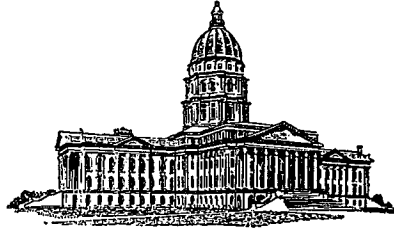
Senator Steineger moved to approve the Minutes of February 24 and March 2. Senator Kelsey seconded. Motion passed.

The next meeting is scheduled for March 10, 2010.

The meeting was adjourned at 10:05 a.m.

STATE OF KANSAS
HOUSE OF REPRESENTATIVES

STATE CAPITOL
300 S.W. TENTH STREET
TOPEKA, KANSAS 66612
(785) 296-7689
spalding@house.state.ks.us



12119 BLUEJACKET
OVERLAND PARK, KS 66213
(913) 681-8491

SHERYL SPALDING
29TH DISTRICT

Testimony before the
Senate Financial Institutions and Insurance Committee
On
HB2540 –Municipal bonds; investment of bond proceeds

March 9, 2010

Madam Chairman and Members of the Committee

Thank you for the opportunity to offer **HB2540** which would allow investments in a wider range of securities that are guaranteed by the federal government. I am in favor of this bill.

HB2540 costs the state no money. It causes no district or municipality to lose money. What it does do is allow any district or municipality which so desires to invest in certain federally guaranteed securities that are now prohibited.

I want to emphasize that is bill is permissive not mandatory. It merely allows school districts and municipalities to save their local taxpayers money. It is estimated that this one change in the law would have saved one school district's taxpayers over \$180,000 last year.

While money for every governing body is scarce it behooves each of us to look for ways to make every system we touch more efficient by saving money without hurting services. This bill does just that. I ask for your support.

Thank you for your consideration.

*FI&I Committee
3-9-10
Attachment 1*

Senate Financial Institutions and Insurance Committee
on HB 2540
Testimony of Robert J. Vancrum,
Blue Valley USD #229 Government Affairs Specialist
March 9, 2010

Chairman Teichman and other Honorable Senators:

KSA Section 10-131 (the "Statute") regulates how municipalities may invest the proceeds from the sale of their bond issues. The Statute provides numerous investment options that are generally considered to be of very high quality. The Statute has worked well for municipalities for several decades.

Unfortunately, during the recent turmoil in the financial markets, a number of the investments authorized under KSA 10-131 became difficult to obtain or of lower return due to widespread downgrades of financial institutions. As a result, the list of viable investment options became much narrower. For many municipalities that have very cautious financial policies and practices, the choices for the investment of their bond proceeds became severely limited. Our district asked a local financial firm if there were other investment options. They found two that are both considered some of the safest investments available that might nevertheless bring a higher interest return without compromising very cautious financial investment policies were not permitted due to the wording of the Statute:

First, there are a number of securities issued by US agencies or other entities (such as the Government National Mortgage Association, Agency for International Development, Tennessee Valley Authority, etc.) that are not allowable investments because they are not specifically listed in the Statute. Additionally, many of these securities are structured in such a manner that does not allow them to fall under the Statute's provisions that permit the purchase of "direct obligations of the United States government or an agency thereof". However, these securities are unconditionally guaranteed by the US government and are considered of the highest quality. Expanding section (a)(3) and (a)(6) of KSA 10-131 as proposed will permit investment in these obligations.

Second, the language in KSA 10-131 allowing for the investment of bond proceeds in money market funds only allows money market funds "the portfolio of which is comprised entirely of...direct obligations of the United States government or any agency thereof...or...obligations of the federal national mortgage association, federal home loan bank or the federal home loan mortgage corporation". Most such money market funds have slightly expanded investment policies that permit the fund repurchase agreements that are backed by the same types of securities. The repurchase agreements allow the money market funds to have more liquidity to meet daily inflows and outflows. Even with repurchase agreements, these money market funds are still considered amongst the safest investments available. Unfortunately, KSA-131 does not allow municipalities to invest in money market funds that utilize repurchase agreements. This restriction severely limits the number of allowable money market funds and during the recent financial crisis many of these temporarily stopped accepting new deposits. **At one point during 2009, only one such fund was found to be available and accepting new deposits. By modifying section (a)(6) of the Statute to allow for money market funds to hold repurchase agreements, municipalities will have access to potentially dozens of additional high quality money market funds.**

The changes being proposed to KSA 10-131 are designed to clarify the authority granted to municipalities to investment bond proceeds without compromising high credit standards. We also need a slight amendment to add "or CD" on line 37. I have a balloon amendment to fix this issue on the next page.

*FI & I Committee
3-9-10
Attachment 2*

Date: March 9, 2010
To: Senate Committee on Financial Institutions and Insurance
From: Larry R. Baer
Assistant General Counsel
Re: HB 2540
Written Testimony in Support

Thank you for allowing me to appear before you today and present testimony in support of HB 2540 on behalf of the League of Kansas Municipalities and its member cities.

HB 2540 amends K.S.A. 10-131 to allow cities, and others, who issue bonds under general Kansas bond law, to invest in "any obligation unconditionally guaranteed by the United States government", in addition to investments already permitted. This would allow cities to invest in GNMA's and other similar type federally guaranteed obligations.

The change proposed is permissive and provides more flexibility to a city when considering where and how to invest idle funds. A city can choose whether or not to take advantage of the change contained in the bill. As always, the choice remains a local option and a policy decision to be made by local elected officials.

For these reasons the League of Kansas Municipalities supports HB 2540 and asks for your support and that you pass it out favorably.

Thank you.

*FI&I Committee
3-9-10
Attachment 3*