

Approved: March 11, 1993
Date

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson William Bryant at 3:30 p.m. on March 10, 1993 in Room 527-S of the Capitol.

All members were present except: Representative Phil Kline, Excused

Committee staff present: William Wolff, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Kathy Taylor, KBA
Richard Grimes, Legislative Research
Sally Thompson, State Treasurer
Jim Maag, KBA

Others attending: See attached list

Hearing on SB 34: Loans secured by bank holding company stock

Kathy Taylor, representing the Kansas Bankers Association, stated that the bill would authorize any state-chartered bank to make loans to any stockholder on the security of the shares of its controlling bank holding company, with stipulations (Attachment 1). The shares could not be the only nor the primary collateral pledged. Directors of nationally-chartered banks now enjoy this privilege.

Hearing on SB 139: Investment of public funds, KDFA and SKILL projects

Richard Grimes of Legislative Research presented historical information on past legislation and the substantive and technical changes in existing statutes that this bill would make (Attachment 2). This bill relates to the investment of idle funds of local governments and the state. Two new statutes would allow participation in the Municipal Investment Pool Fund by certain state agencies and instrumentalities of this state and would permit state moneys to be reinvested in specified projects and bonds.

Sally Thompson, State Treasurer, stated that their office manages \$3 billion daily of public funds which are used for investment (Attachment 3). The funds are first offered to Kansas banks and if they are not accepted, the option is available at the state and local levels to invest in government securities and for the local governments to invest in the Municipal Investment Pool. Investment is also allowed in KDFA agency and SKILL projects and bonds. No funds are released until the federal reserve bank states the security is safe. The investor from the State Treasury office deals with at least 25 different brokerage firms and large banks. The Bloomberg system is used and constantly updated.

Jim Maag, Kansas Bankers Association, stated they had been working with the Treasurer's Office in developing the proposed amendments and were in full support of the proposed legislation (Attachment 4).

Representative King moved that the language stricken on Page 2 under E in SB 30 be reinserted.

Representative Neufeld seconded the motion. The motion carried. This would allow the Bank Commissioner to disapprove of acquisitions by out-of-state banks of Kansas banks which would protect Kansas consumers and depositors. Representative King moved to pass the bill favorably as amended. Representative Wagle seconded the motion. The motion carried.

Representative Cornfield moved to pass SB 33 favorably. Representative Cox seconded the motion. The motion carried.

Representative Neufeld moved to accept the minutes of March 9 as presented. Representative King seconded the motion. The motion carried.

The meeting adjourned at 5:00 p.m. The next scheduled meeting is March 11, 1993.

ILL

DATE:

3/10/93

[illegible]



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 10, 1993

TO: House Committee on Financial Institutions and Insurance

RE: SB 34 - Loans secured by bank holding company stock

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the committee in support of SB 34 which would authorize any state-chartered bank to make loans to any stockholder on the security of the shares of its controlling bank holding company. However, such shares could only be used as collateral if the bank would have extended credit to the stockholder regardless of whether the shares were pledged. In other words, the shares could not be the only collateral pledged, nor would they be the primary collateral. In addition, if a stockholder is also a director, the shares pledged could not be those shares that qualify the director for service on the board.

This amendment to the state banking code (KSA 9-1101) would place directors of state-chartered banks on a more equal footing with directors of nationally-chartered banks since national banks currently have the authority to pledge shares of their holding company stock.

If we are to maintain a truly competitive state banking system, it is imperative that state-chartered banks be empowered with the same rights and privileges as those chartered by federal agencies. Therefore, we are requesting that the committee give favorable consideration to SB 34.

We will be happy to supply the committee with any additional information and we appreciate the opportunity to present our views on this important issue for Kansas banking.

Kathleen A. Taylor
Associate General Counsel

LD
Attachment 1
3-10-93

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Kansas Investments in Lifelong Learning Program

Sub. H.B. 2536 establishes the State of Kansas Investments in Lifelong Learning (SKILL) Program, to be administered by the Secretary of Commerce. A business, which must qualify under the definition of "Kansas basic enterprise" in this Act, may apply to the Secretary of Commerce for approval of an agreement with an educational institution to establish a training project or projects for employees in new jobs. The term "new jobs" is defined as "a job in a new or expanding Kansas basic enterprise not including jobs of recalled workers, or existing jobs that are vacant, or other jobs that formerly existed in the Kansas basic enterprise in Kansas." The Secretary of Commerce is required to adopt rules and regulations governing determinations on agreements.

A business may enter into an agreement with a community college, area vocational-technical school, Washburn University, or a Regents' institution to receive funding for any of the following program services:

1. new jobs training, including training development costs (provided that the training period for a given job does not exceed 36 months from the date the job is first filled by an employee);
2. adult basic education and job-related instruction;
3. vocational and skill-assessment services and testing;
4. training equipment for educational institutions;
5. materials and supplies;
6. administrative expenses of educational institutions for new jobs training programs;
7. subcontracted services with other educational institutions, private colleges or universities, or other federal, state, or local agencies; and
8. contracted or professional service.

There are certain restrictions on acceptable program costs for services to be set forth in an agreement:

1. no wages may be paid to persons receiving education or training under a project;
2. no more than 50 percent of the total program costs for a project may be used for the purchase or lease of training equipment; and
3. no more than 10 percent of total program costs for a project may be used for administrative expenses.

This agreement must include: provisions regarding payment of program costs from various funding sources, as specified in the Act; a requirement that the business submit information

to the Secretary of Commerce regarding the number of new jobs and the wages and withholding taxes paid for the jobs; a provision which fixes any tuition and fee payments to be paid for program costs; and a provision which fixes an amount an employer must pay if an agreement is terminated or breached by the employer prior to the fulfillment of the employer's obligations. Educational institutions which are party to project agreements may not receive additional state aid or appropriations based on a course or training and the enrollment therein under the SKILL program.

Program services will be financed primarily through the issuance of public purpose bonds by the Kansas Development Finance Authority. These bonds will be retired through a diversion of withholding taxes from new jobs. (Funds used for bond retirement would otherwise be credited to the State General Fund.) The amount taken from new jobs withholding taxes applied to individuals may not exceed 1.0 percent of all statewide employer withholding taxes applied to individuals. Certain information, as specified in the Act, must be furnished by the Secretary of Revenue and the Secretary of Human Resources to assist the Secretary of Commerce in making determinations on the moneys needed to satisfy bond repayment obligations.

The procedures for authorizing funding are as follows. In approving any agreement between an educational institution and a business, the Secretary of Commerce must ensure that program costs of a project proposed therein do not exceed more than 90 percent of the amount equal to the estimated rate of withholding tax applied to the estimated amount of gross wages of all the new jobs under the project over a ten-year period. (All program costs must be repaid for a given project within ten years from the beginning date of the project.) The Secretary of Commerce may pool the funding requirements of projects proposed by agreements between educational institutions and businesses. Prior to obtaining financing from the Kansas Development Finance Authority for any project or a group of projects for one or more employers, the Secretary must submit all proposed projects to the Governor's Council on Work Force Training (established by Executive Order in March, 1990) for its review and approval.

EDUCATION

Elementary and Secondary

School Finance

S.B. 26 and H.B. 2428 amend the School District Equalization Act (SDEA) to make the following main changes:

1. **Budget Controls**

The budget per pupil controls for the 1991-92 school year are set at 100.75 percent to 102.25 percent and for the 1992-93 school year, at 101 percent to 103 percent. The "permanent" budget controls, applicable in 1993-94 and thereafter, are set at 102 percent to 106 percent. Another amendment, to which school



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INVESTMENT PHILOSOPHY

State of Kansas

"Governments that do not directly consider income-enhancing opportunities can be charged with failing to meet public obligations." - Girard Miller, "Investing Public Funds," published by the Government Financial Officers Association, 1986.

"My job is to earn the highest return on investments with minimum risk, at the lowest cost. It is the governor's and legislators' job to decide how to spend the income...(for) programs that address a specific need, with a specific dollar amount, with specific tracking." - Ned Regan, New York State Comptroller which is the sole trustee for the state's retirement plans.

- * The basic investment philosophy of the state of Kansas addresses public fund dollars as **public funds**, regardless of where those dollars originate, rather than artificially defining individual investment policies for several levels of public funds. **All of those funds are taxpayers' dollars**, whether those dollars are collected at the state level or the local level. The taxpayers should benefit from the investment of **their** money.
- * **All funds are offered first to Kansas banks**, at the market rate, defined as the government securities rate, which is equivalent to a government rate of equivalent maturity. **The market rate/investment rate allows for a three to five percent interest margin spread below the equivalent loan rate charged by banks.**
- * **When public funds are not accepted by Kansas banks**, the option is available at the state and local levels to invest in government securities, and for the local governments to invest in the Municipal Investment Pool.

*House F&S
Attachment 3
March 10, 1993*

PROPOSED CHANGES TO SB 480

Section 1

Issue: Provide option to local municipalities for State Treasurer to act as third-party custodian.

Type: All municipalities

Section 2

Issue: Allow local municipalities to buy directly from the Federal Reserve.

Type: All municipalities

Section 3, 4, and 6

Issue: Provide consistency between different types of funds in regard to investments in repurchase agreements.

<u>Section</u>	<u>Type</u>	<u>Current</u>		<u>Proposed (to 4 years)</u>
		<u>Less than 30 Days</u>	<u>Unlimited</u>	
	All Municipalities		X	
3	Municipal Pool	X		X
4	Expanded Local Powers	X		X
6	State Idle	X		X

Section 5

Issue: Expand definition of short term (0-90 days) investment rate primarily used by municipalities. (Weekly average of the Federal Funds rate.)

Type: Both state and local idle funds

Section 6

Issue: Expand authorized investments to include KDFA agency and SKILL act projects and bonds.

Type: State Idle Funds

PROPOSED CHANGES TO SB 480

Page 2

Section 7

Issue: Expand borrowing authority for short-term cash flow needs to include reverse repurchase agreements.

Type: State Idle Funds

Section 8

Issue: Eliminate inconsistencies in monies law regarding custodial accounts.

Type: State Idle Funds

Section 9

Issue: Allows for investment in KDFA agency and SKILL act projects and bonds.

Type: State Idle Funds

Section 10

Issue: Allows for use of the Municipal Investment Pool by certain state agencies.

Type: State Special Funds

1992 SB 480

Public Funds

Kansas banks and financial institutions have first right of refusal

State Funds

(Idle Funds)

- Lengthened maturities up to 4 years

Distribution:

- Capital formula (banks)
50% or \$350.0 million
- Investment rate
- Competitive bids (banks)
Market rate
- Repo's (banks, primary dealers)
- U.S. Treasuries
- U.S. Agencies
- 10% MBS limit
- Mtg collateral option
- Operating Account
- Cash Management
Function
- PMIB expansion
- Repo custodian power for Treasurer

Local Funds

(Idle Funds)

All municipalities (Sec. 3 of SB 480)

- up to 2 year CD
Investment rate
- up to 2 year maturities on Govt Treasuries
- Repo's
KS financial institutions
- Municipal Pool
- Trust depts or companies
- Mtg collateral option

Municipal Pool (Sec. 1 of SB 480)

- Maturities up to 4 years
- CD's
financial institutions
- U.S. Treasuries
- U.S. Agencies
- 10% MBS limit
- Repo's
financial institutions
primary dealers

Cities/Counties only (Sec. 2 of SB 480)

- With approved investment policies:
- Maturities up to 4 years
 - CD's
financial institutions
 - U.S. Treasuries and Agencies
 - 10% MBS limit
(max. 7 yr 3 mos "life")
 - Repo's
financial institutions
primary dealers
 - Penalty for violation of Sec. 3

1/10/3



STATE OF KANSAS

Sally Thompson

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Wednesday, March 10, 1993

Testimony in Support of S.B.139
Presented to the
House Financial Institutions and Insurance Committee
by State Treasurer Sally Thompson

Mr. Chairman, it is a pleasure to come before you today to discuss potential amendments to the substantive bill passed last session (S.B. 480) in regard to state and local investments. As with all major pieces of legislation, there are some minor changes which we believe to be necessary to clarify definitions, remove inconsistencies, restore items inadvertently removed, and add options.

We are very pleased with the results of the legislation. The Municipal Investment Pool, a new investment tool for municipalities that has been available since August, has reached a high of \$420 million. The rates paid have generally exceeded both the 0 to 90 and 3-month rates which municipalities could have received from other authorized investments.

The state has also realized substantial benefit from the implementation of S.B. 480. The idle funds portfolio for the month of February was earning at the rate of 4.80% as opposed to the 3.14% T-bill average, which was the previous statutory rate. On \$1.3 billion (the February average balance in idle funds) this increase in rate accounts for more than \$20 million in interest income on an annualized basis.

Section 1; KSA 1992 Supp. 9-1402 (Page 4, line 34 and Page 5, line 8)

The intent of this amendment is to provide an additional option, the Office of the State Treasurer, for municipalities when selecting a third-party custodian for securities which are pledged against deposits.

Section 2; KSA 1992 Supp. 12-1675 (Page 7, lines 3, 6 and 17)

Three amendments are made here. One involves the restoration of the ability of locals to acquire Treasury bills and notes directly from the Federal Reserve. This option was inadvertently removed in last year's changes and should be restored. The second is language suggested by Jim Parrish, Kansas Securities Commissioner, to further define those broker-dealers authorized to do business with municipalities. The third corrects language regarding location of banks in regard to trust company language.

Section 3; KSA 1992 Supp. 12-1677a (Page 9, line 5 and Page 10, line 20)

Two related items are proposed. The first removes language which limits repurchase agreements to 30 days or less for investments in the Municipal Investment Pool. This change would put the pool investments on an equal basis with the authority granted to municipalities, which has no such limitation. It also provides for an investment tool for funds in the 30 to 90 day range. The second item provides for a four year limitation in general.

Section 4; KSA Supp. 12-1677b (Page 11, line 21 and Page 12, line 8)

As in the case of Section 3, this amendment removes the 30 day limit on repurchase agreements for those cities and counties which have received approval from the Pooled Money Investment Board for expanded powers similar to those authorized by the State. A second item provides for a four year limitation in general.

Section 5; KSA 1992 Supp. 75-4201 (Page 13, lines 14-16)

Subsection (l) is amended to pinpoint the calculation of the investment rate for those funds set aside for liquidity purposes, i.e. those with maturities between zero and 90 days. This rate is utilized by municipalities in their dealings with local banks and is also utilized for state idle funds.

Section 6; KSA 1992 Supp. 75-4209 (Page 15, lines 32 and 40-41 and Page 16, lines 23-24)

As in the case of Sections 3 and 4, this amendment removes the 30 day limit on repurchase agreements for state idle funds. The amendment also expands the list of authorized investments with the addition of Kansas agency and SKILL act bonds. A second item provides for a four year limitation in general.

Section 7; KSA 1992 Supp. 75-4212a (Page 16, line 36 and Page 17, lines 4-11)

Since the intent of the legislature was to provide a vehicle for funding short term cashflow needs with the provision for borrowing against deposits in state banks, it seems natural to provide the same type of vehicle with the newest type of investment, i.e. securities. This is accomplished in the market through the use of reverse repurchase agreements which allow for the selling of securities with an agreement to buy back those same securities at an agreed upon price at an agreed upon time. Cashflow estimates are just that. If, as investors, we are maximizing income by investing as long as we can, we may, on occasion, experience cashflow shortages. The use of reverse repurchase agreements is an accepted method of cash management for many governmental entities.

Section 8; KSA 1992 Supp. 75-4213 (Page 17, lines 14-15, 19-21, 28, and 33)

The proposed amendments eliminate limitations for custodial bank relationships not found elsewhere in the state monies law. The 30 day limit of repurchase agreements is also lifted, and the investment in government agency, "enterprise", securities is added.

New Section 9 (Page 17)

This section would provide the opportunity for the Kansas Development Finance Authority and the Secretary of Administration to offer certain state projects to the Pooled Money Investment Board. This endeavor could be advantageous to both the state agency and the state in general as agencies could potentially pay less interest expense and the state could potentially earn more investment income. It also addresses the authority of the Pooled Money Investment Board to acquire bonds as set out in Section 6.

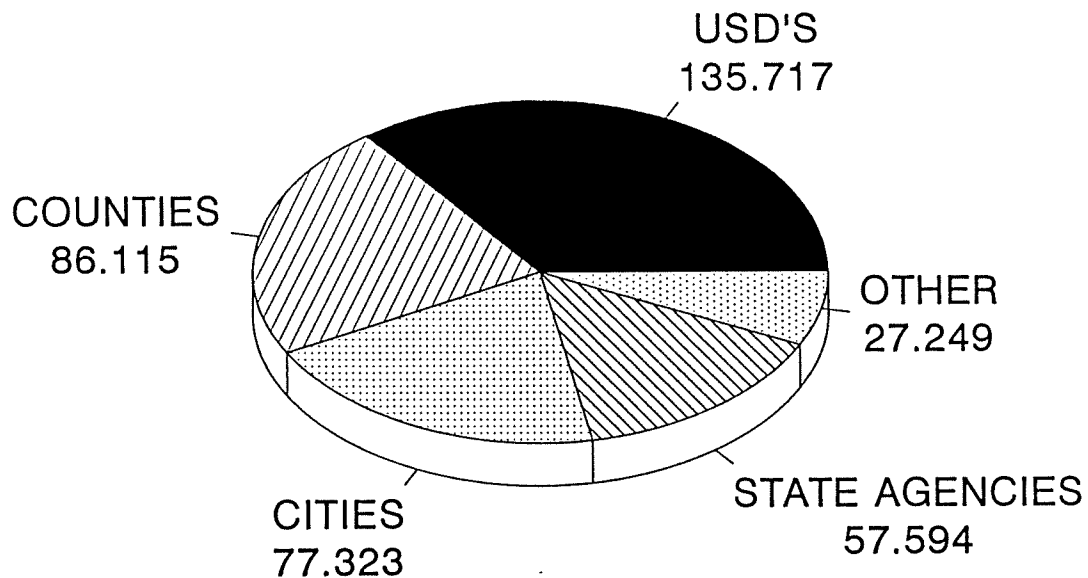
New Section 10 (Page 18)

This change allows agencies or instrumentalities with express investment authority to utilize the Municipal Investment Pool.

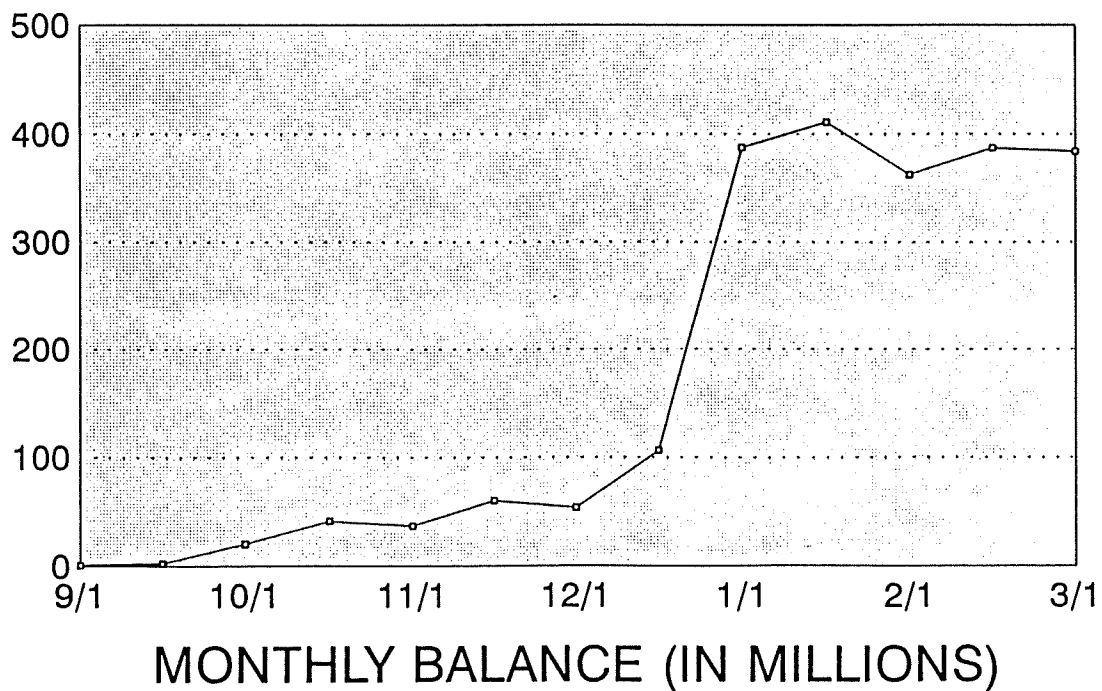
Thank you, Mr. Chairman, for the opportunity to present testimony in support of these proposed changes to enhance investment revenues and opportunities across the state.

KANSAS STATE TREASURER MUNICIPAL INVESTMENT POOL

FEBRUARY 28, 1993



PARTICIPATION BY \$ INVESTED (IN MILLIONS)



893

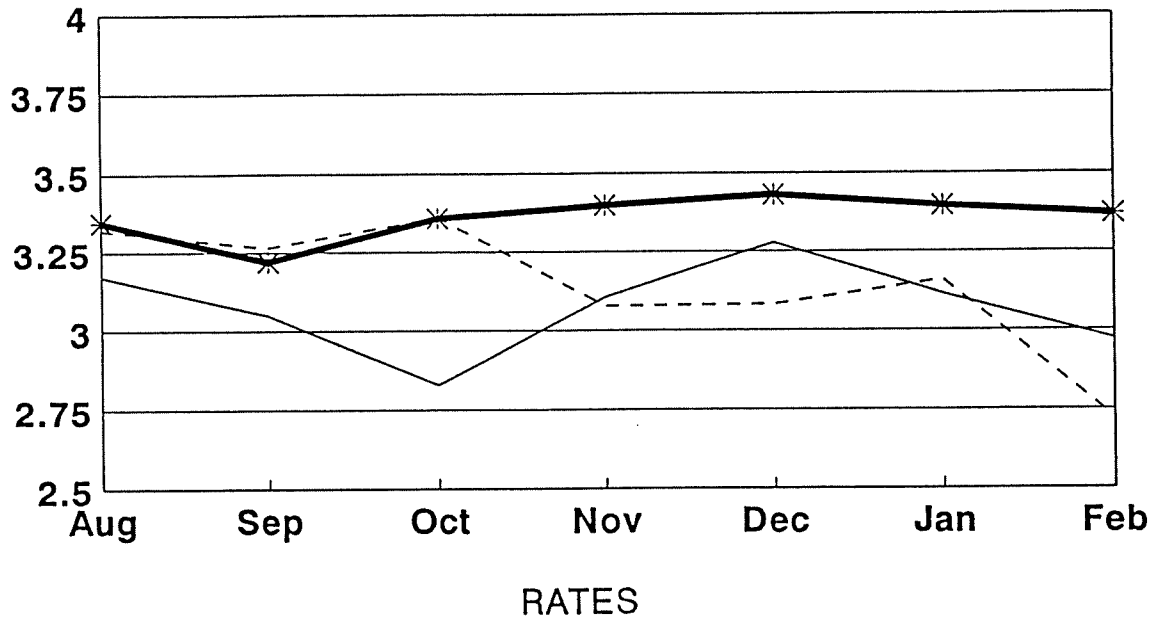
SALLY THOMPSON
STATE TREASURER

PEGGY HANNA
DIRECTOR OF CASH MANAGEMENT
SUSAN COPELAND
CHIEF INVESTMENT OFFICER

Municipal INVESTMENT POOL

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MIP YIELD vs INV RATE*



* KSA 12-1675

MUNICIPAL INVESTMENT POOL (MIP) FACTS

- ** 66 participants of which 43 are active (see attached list)
- ** Highest balance - \$420 million
- ** Current blended MIP yield - 3.366%
- ** Current weighted average maturity (WAM) - 118 days
- ** WAM has ranged from 1 day to 301 days
- ** Participant maturities currently range from 1 to 721 days

MUNICIPAL INVESTMENT POOL PARTICIPANTS

Active Participant Name

CITIES

Buhler
Chanute
Dodge City
*****Fort Scott
*****Garden City
Hesston
Iola
*****Junction City
*****Lawrence
*****Leawood
*****Lenexa
Liberal
*****Lindsorg
*****Manhattan
*****McPherson
Mission
*****Newton
North Newton
*****Ottawa
*****Overland Park
Park City
*****Prairie Village
Russell
*****Salina
*****Wellington

COUNTIES

Allen
*****Chase
Coffey
*****Elk
Ellis
*****Greenwood
Hodgeman
*****Johnson
Labette
*****Leavenworth
*****Lyon
*****McPherson
*****Morton
*****Pottawatomie
*****Reno
Riley
*****Sedgwick
*****Shawnee

Active Participant Name

SCHOOL DISTRICTS

Augusta USD #402
*****Blue Valley USD #229
*****Effingham USD #377
Garden City USD #457
*****Hays USD #490
Hutchinson USD #308
*****Leavenworth USD #453
*****McPherson USD #418
*****Newton USD #373
*****Olathe USD #233
Shawnee Mission USD #512
*****Topeka USD #501
*****Wichita USD #259

OTHER MUNICIPALITIES

*****Garden City Rec Commission
*****Hutchinson Comm College
*****Johnson County Community College
*****Johnson County Park & Recreation District
*****Johnson Co. Cons. Fire Dist #2
*****KDFA
*****Leavenworth Water Dept
Riley Co—Manhattan Health Dept
Shawnee County Motor Vehicles
Topeka Metropolitan Transit Authority

ACCOUNT TYPE TOTALS

25 Cities
18 Counties
13 School Districts
10 Other Municipalities

66



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 10, 1993

TO: House Committee on Financial Institutions and Insurance
RE: **SB 139** - Public Funds Investments

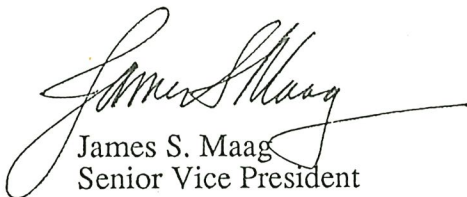
Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear in support of **SB 139**. The bill makes a number of amendments to the major public funds investment law (SB 480) which was enacted by the 1992 Legislature. While several of the amendments are substantive in nature, most of the proposed changes clean up technical problems in SB 480 passed last year.

The Senate Committee on Financial Institutions and Insurance requested that we work with the State Treasurer on amendments to **SB 139** and the recommendations which were made to the Senate subcommittee have been incorporated in the bill. Of particular importance to the banking industry are the changes made in Section 5 of the act relating to what constitutes the "investment rate" for deposits made by local units for a period of less than 90 days. We believe the new language will result in a much more realistic rate for these short term investments.

We would also call the committee's attention to the changes in Section 8 of the bill relating to custodial accounts. The amendments here eliminate the outdated restriction that a bank cannot have more than 10% of its total deposits in state custodial accounts. No such restriction is imposed on banks which hold local government deposits. This section also eliminates the requirement that the state can only contract for custodial accounts for a period of up to one year. We believe these changes will result in a more efficient handling of state custodial accounts.

We would urge the committee to give favorable consideration to **SB 139**.


James S. Maag
Senior Vice President

House FD&D
Attachment #
March 10, 1993

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