

Approved: 2/9/93  
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Richard Bond at 9:10 on February 3, 1993 in Room 529-S of the Capitol.

All members were present .

Committee staff present: William Wolff, Legislative Research Department  
Fred Carman, Revisor of Statutes  
June Kossover, Committee Secretary  
Richard Ryan, Legislative Research Department

Conferees appearing before the committee: Senator Richard Rock  
Sally Thompson, State Treasurer  
William Caton, Director KFDA

Others attending: See attached list

Clarence Gideon, Gubernatorial Appointee to the State Banking Board, was not present for the scheduled confirmation hearing.

Senator Richard Rock appeared before the committee to request introduction of legislation to allow free standing trust companies to establish branch offices. (Attachment #1.) In response to Senator Corbin's request, Senator Rock explained "free standing trust company." Senator Steffes made a motion, seconded by Senator Lee, to introduce this legislation. The motion carried.

The hearing was opened on SB 139 . Sally Thompson, State Treasurer, appeared before the committee as a proponent to explain the bill, which amends SB 480, passed in the 1992 Session. (Attachment #2.)

William Caton, Director KFDA, also appeared as a proponent of this bill. (Attachment #3.) Mr. Caton explained the new Section 9.

The Kansas Bankers Association submitted written testimony. (Attachment #4.)

Chairman Bond referred the bill to a subcommittee chaired by Senator Steffes and consisting also of Senators Corbin and Lee, to work out language differences between the banking association and the State Treasurer's office. The hearing on this bill will be continued pending receipt of the subcommittee report.

Senator Lawrence made a motion, seconded by Senator Moran, to approve the minutes of February 2 as submitted. The motion carried.

**SB 105**, scheduled for hearing at today's meeting, will be deferred to Thursday, February 4.

The meeting adjourned at 10:02 a.m.

The next scheduled meeting is Thursday, February 4, 1993.

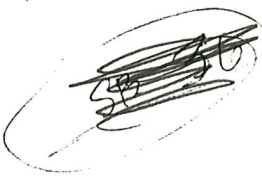
## GUEST LIST

SENATE

COMMITTEE: FINANCIAL INSTITUTIONS AND INSURANCE

DATE: 2-3-93

[illegible]

  
AN ACT concerning trust companies; trust service offices; authorization and regulation.

*Be it enacted by the Legislature of the State of Kansas:*

Section 1. Any trust company organized or established pursuant to the laws of this state may, subject to the provisions of this act, establish one or more trust service offices in this state.

Section 2. Before any trust company organized or established pursuant to the laws of this state may establish a new trust service office in this state, it shall request, in writing, permission to establish such trust service office from the state bank commissioner. Such request shall be in the form prescribed by the commissioner and shall include, but not be limited to, the address of the proposed trust service office, the name and mailing address of the main office where acceptance of fiduciary business will be approved or denied, and the number and position of all personnel to be employed at the trust service office. Upon receipt of this information, the commissioner may, within 60 days, issue an approval letter authorizing the trust company to begin operation of the trust service office, subject to the provisions of this act.

Section 3. It is a condition of the right of any trust company to establish or maintain a trust service office in this state that each such trust company shall file a report by January 31st of each year with the state bank commissioner. This report shall be filed for each trust service office maintained by the trust company stating those items required in the initial request, as outlined in the previous section. Such report shall also include a statement of the volume of fiduciary business generated by the trust service office since the last submission of information to the state bank commissioner.

Section 4. A trust company operating any trust services office in this state as of the effective date of this act shall, within 60 days of the effective date of this act, file with the state bank commissioner a request for permission to maintain such office, in the form required by Section 2.

Section 5. Activities of a trust service office operated in this state shall be limited to: (1) the solicitation of fiduciary business including advertising; (2) the dispensing of information; (3) contact with clients and prospective clients; and (4) the signing of documents. All original documents and assets are to be held at the trust company

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Attachment #1



main office or at a designated depository. Activities expressly prohibited at a trust service office include, but are not limited to:

- (1) Approving or rejecting assumption of responsibility as fiduciary
- (2) preparation of documents

Section 6. The state bank commissioner may inspect, examine or investigate the business and records of any trust service office located in this state. The commissioner may conduct these inspections as often as deemed appropriate, but at least annually.

Section 7. If the commissioner finds that a trust service office is pursuing activities not allowed by this act, the commissioner may issue to the trust company an order to cease and desist unauthorized activity. Any trust company which refuses or neglects for a period of 30 days after a demand in writing to comply with any requirement lawfully made upon it, shall forfeit its authorization to operate that trust service office and the commissioner shall thereupon give notice to the managing officer of the trust company that its authority to operate that trust service office is immediately revoked.

Section 8. This act shall take effect and be in force from and after its publication in the statute book.

4141 2/3/93

1-2



STATE OF KANSAS

Sally Thompson

TREASURER

900 JACKSON, SUITE 201  
TOPEKA, KANSAS 66612-1235

TELEPHONE  
(913) 296-3171

Wednesday, February 3, 1993

Testimony in Support of S.B 139  
Presented to the  
Senate 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 (SB 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 in August, has reached a high of \$411 million. The rates paid have generally exceeded both the 0-90 and 3-month rates which municipalities could have received from other authorized investments.

The state has also realized substantial benefit from the implementation of SB 480. The idle funds portfolio for the month of December was earning interest at the rate of 4.36% as opposed to the 3.25% T-bill average, which was the previous statutory rate. On \$1.1 billion (the December average balance in idle funds) this increase in rate accounts for more than \$12 million in interest income on an annualized basis.

*Senate 7/11 2/3/93*  
*Attachment #2*

Section 1; KSA 1992 Supp. 9-1402

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

Two 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.

Section 3; KSA 1992 Supp. 12-1677a

Two related changes are proposed. The first change 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

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 the State.

Section 5; KSA 1992 Supp. 75-4201

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

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.



Section 7; KSA 1992 Supp. 75-4212a

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

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

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 inasmuch as agencies could potentially pay less interest expense and the state could potentially earn more investment income if this were allowed. It also addresses the authority of the Pooled Money Investment Board to acquire bonds as set out in Section 6.

Thank you, Mr. Chairman, for the opportunity to present testimony in support of these proposed changes to the state's investment and banking statutes. I would be pleased to answer any questions you might have.

IDLE FUNDS SUMMARY  
December, 1992

	Balance as of Dec. 31, 1992	A.D.B. Dec., 1992	Avg. Return	Net Earnings Dec., 1992	A.D.B. FY 93 Y.T.D.	Avg. Return	Net Earnings FY 93 Y.T.D.
Active Repo	178,000,000.00	66,360,887.10	3.136	177,259.60	296,558,084.24	3.298	5,036,714.13
Inv. Accts.	285,969,000.00	285,969,000.00	4.133	0.00	235,296,570.65	4.143	0.00
Inv. Securities	723,030,031.27	709,213,541.03	4.498	1,905,046.25	425,288,533.67	4.561	5,003,167.66
Loan Ref. Inv.	23,861,892.50	23,545,101.94	6.750	63,136.11	6,983,723.59	6.750	63,136.11
KVCI	5,000,000.00	5,000,000.00	— — —	0.00	5,000,000.00	— — —	0.00
PMIB Loans	22,587,711.07	22,587,711.07	5.620	0.00	39,052,945.89	6.460	2,277,094.07
Oper. Acct.	6,850,185.49	3,832,388.13	— — —	0.00	4,562,385.84	— — —	0.00
Inact. Accts.	0.00	0.00	— — —	0.00	63,401,608.70	3.890	3,541,512.26
TOTAL	1,245,298,820.33	1,116,508,629.27	4.358	2,145,441.96	1,076,143,852.58	4.125	15,921,624.23
Int. Transfers*				(456,371.63)			(2,648,488.89)
NET EARNINGS				1,689,070.33			13,273,135.34

\*Int. transfer to funds  
entitled to retain int. earnings  
IDLE-3A

p-c  
66/E/c 12/16



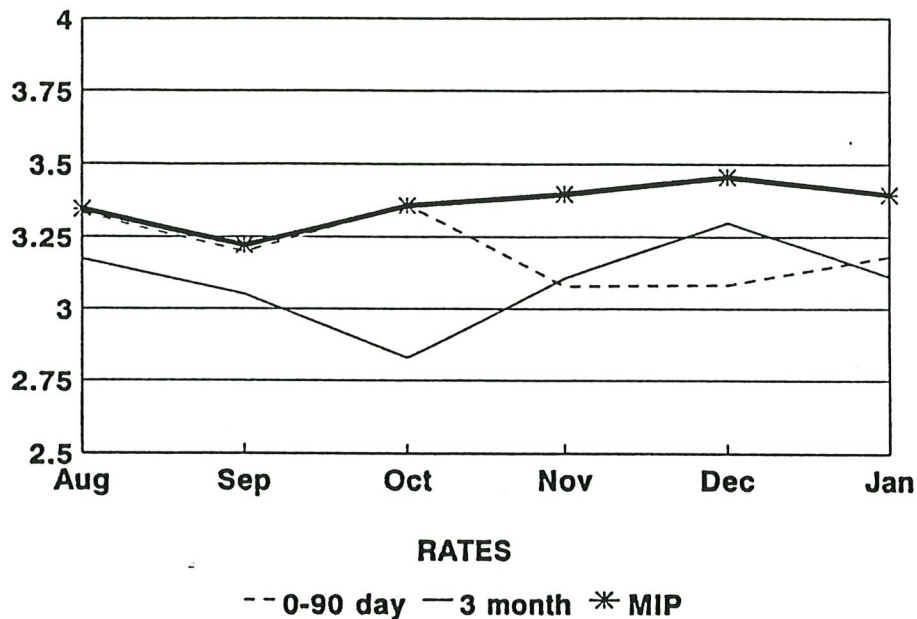
SALLY THOMPSON  
STATE TREASURER  
PEGGY HANNA  
DIRECTOR OF CASH MANAGEMENT  
SUSAN COPELAND  
CHIEF INVESTMENT OFFICER

# Municipal

## INVESTMENT POOL

OFFICE OF THE STATE TREASURER  
900 SW JACKSON, SUITE 201  
TOPEKA, KANSAS 66612-1235  
(913) 296-3171 FACSIMILE: (913) 296-2857

## MIP YIELD vs INV RATE



### MUNICIPAL INVESTMENT POOL (MIP) FACTS

- \*\* 63 participants of which 39 are active (see attached list)
- \*\* Highest balance - \$411 million
- \*\* Current blended MIP yield - 3.372%
- \*\* Current weighted average maturity (WAM) - 119 days
- \*\* WAM has ranged from 1 day to 301 days
- \*\* Participant maturities currently range from 1 to 733 days



# KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

Joan Finney  
Governor

Wm. F. Caton  
President

**TESTIMONY ON SENATE BILL 139**  
**BY: BILL CATON, PRESIDENT**  
**KANSAS DEVELOPMENT FINANCE AUTHORITY (KDFA)**

FEBRUARY 3, 1993

The new Section 9 of Senate Bill 139 provides an avenue to the State to be more efficient in its debt management as well as allows the Pooled Money Investment Board (PMIB) to invest in short term obligations at taxable market rates.

The cost of issuance of short term bonds can be prohibitive and drive the true cost of money considerably higher than the stated interest rate on the bond. The PMIB could purchase these bonds at taxable interest rate levels and still be more cost effective because there would be little or no cost of issuance.

Recent bonds issued by KDFA for the Board of Regents needs are good examples of how the new section 9 could benefit the State. Short term temporary bonds were issued to provide funding for planning and development stages for two projects. It was not feasible to issue the permanent bonds because the projects did not have plans and specs completed or a final cost estimate calculated (it is not good business to over-issue bonds and then have to prepay or call them). The PMIB could have made a temporary loan for the projects and could have been repaid by the permanent bond issue.

The State of Kansas Investment in Lifelong Learning (SKILL) program creates job training financing for newly created jobs in Kansas. Repayment of the State's share of the obligation comes from the state income withholding tax created by the new jobs. Smaller projects could be financed by the PMIB on terms that would be favorable to both the PMIB and the Kansas Department of Commerce and Housing (the Program Administrator) and KDFA (the Debt Issuer).

Any time we have a short term obligation in which we have negative arbitrage (reinvesting unused bond proceeds at lower interest rates than bonds bear), there is a potential for using the PMIB as a financing tool to be better stewards of State resources. The new section 9 is a positive step in this direction.

*Senate 7141 2/3/93*





The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

February 3, 1993

TO: Senate 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 discuss the provisions of SB 139 with the committee. The bill makes a number of amendments to the investment laws for the state and for local units of government. While several of the proposed amendments are technical in nature, several others involve significant policy changes and should be carefully considered.

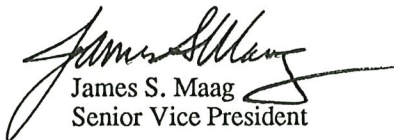
The KBA has concerns about the provisions of Section 1 which amends the pledging statute (K.S.A. 9-1402) to allow the State Treasurer to provide third-party safekeeping services for securities pledged on public funds deposits of local units. Current law provides that such safekeeping must be done with Kansas banks or trust companies, the Federal Reserve in Kansas City, or the Federal Home Loan Bank in Topeka. We know of no problem which has arisen due to this arrangement nor are we aware of any complaints by governmental units concerning this statutory provision. We see no reason to alter a law to involve a state agency when the required service is being adequately provided.

We would further request that the committee look at the proposed amendment to Section 5 of the bill which amends K.S.A. 75-4201 (l) relating to the "investment rate" for local public funds. We strongly believe there should be a statutory definition of what benchmark is to be used in determining the 0-90 day rate. The present use of the average of the highest fed funds rate for the previous week does not meet the statutory requirements for determining the investment rate and has resulted in many weeks where the 0-90 day rate has exceeded the 3-month and 6-month rate by several basis points.

We would recommend that the 0-90 rate be a percentage of the average fed funds rate or the 91-day Treasury bill rate in order to get a more realistic rate structure.

The other amendments in the bill relating to the lengthening of the repurchase agreement time frame and the use of "reverse repos" are really policy decisions for the Legislature. Is there increased risk for the state and local units of government, and if there is, does the monetary reward justify such risk?

The KBA stands ready to work with the committee and with the State Treasurer on SB 139 in order to assure the existence of a fair, equitable, and workable set of public funds laws.

  
James S. Maag  
Senior Vice President

*Senate 7141 2/3/93*  
*Attachment #4*

