

Approved: February 17, 1993
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Richard Bond at 9:08 a.m. on February 16, 1993 in Room 529-S of the Capitol.

Members present: Senators Hensley, Lawrence, Lee, Petty, Praeger, and Steffes.

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: JoLana Pinon, State Treasurer's Office
Jim Maag, Kansas Bankers Association

Others attending: See attached list

Senator Lawrence made a motion, seconded by Senator Steffes to approve the minutes of the meeting of February 15 as submitted. The motion carried.

Senator Hensley moved to recommend favorably to the Senate the appointment of Clarence Gideon to the State Banking Board. Senator Praeger seconded the motion. The motion carried.

The hearing was reopened on **SB 190**--Accident and health insurance, employee dismissal. Since there were no further conferees, the hearing was closed.

The hearing was reopened on **SB 139**--Investment of public funds, KDFA, SKILL projects. This bill had been heard previously and referred to a subcommittee chaired by Senator Steffes. Senator Steffes presented a balloon amendment (Attachment #1) and advised the committee that there were two main points that needed resolution: 1) Whether or not the State Treasurer should charge for the service of holding bonds and securities pledged to secure deposits of local units of government in Kansas banks, savings and loan associations and savings banks. Since the original bill amended the wrong statute, the first three pages are stricken and replaced with 9-1405, with the new language allowing the state treasurer to charge a reasonable and customary amount; and 2) The language in Section 5 (l) regarding the rate for liquidity investments was unclear. The proposed amendment would add, "...computed on the *effective* federal funds rate *as published by the federal reserve system for the previous week.*" Senator Steffes advised that these changes were agreed upon by all parties involved.

Richard Ryan, Legislative Research Department, also proposed two technical amendments. Senator Steffes moved to adopt the proposed amendments. Senator Lawrence seconded the motion. The motion carried.

Senator Steffes made a motion to move **SB 139** favorably as amended. The motion was seconded by Senator Lawrence. The motion carried. **SB 139** will be carried by Senator Steffes.

The hearing was opened on **SB 154**--Municipal bonds; call of bonds before maturity; refunding. JoLana Pinon, State Treasurers Office, appeared before the committee to testify in favor of this legislation. (Attachment #2.) The first section of the bill would allow the paying agent (usually the State Treasurer) an additional 15 days to process and mail the 30 day notice when a Kansas municipality decides to prematurely redeem a bond or temporary note. The second portion of the bill would allow municipalities that issue refunding bonds the option of placing the proceeds with the State Treasurer instead of with a Kansas bank with trust powers. Senator Praeger questioned whether this second portion of the bill would place the State Treasurers office in competition with local banks and Ms. Pinon agreed that this could happen; however, she said it would be more efficient for local governments to place the proceeds with the State Treasurer.

Jim Maag, Kansas Bankers Association, appeared before the committee as an opponent of **SB 154.** (Attachment #3.) Mr. Maag stated that the KBA sees no problem with section 1 of the bill but feels that section 2 puts Kansas banks at a disadvantage and requests that section 2 be stricken. In response to Senator Bond's question regarding the need for municipalities to hire an escrow agent, Mr. Maag stated that an expert in bond refunding could more appropriately answer questions concerning section 2.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
Room 529-S Statehouse, at 9:08 a.m. on February 16, 1993.

There being no other conferees, the hearing on **SB 154** was closed.

Discussion was reopened on **SB 190**. This bill, which was heard last week, would permit a municipality to terminate health coverage for an employee who was terminated as a result of "gross" misconduct. The language in the bill mirrors the COBRA provisions. After extended discussion regarding the effect termination of coverage would have on the terminated employee's dependents and the question of portability of coverage, for the former employee or members of his/her family, the action on **SB 190** was continued pending clarification from the State Insurance Department.

The committee adjourned at 9:45 a.m.

The next meeting is scheduled for February 17, 1993.

GUEST LIST

SENATE

COMMITTEE: FINANCIAL INSTITUTIONS AND INSURANCE

DATE: 2/16/93

[illegible]

SENATE BILL No. 139

By Committee on Financial Institutions and Insurance

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8 AN ACT relating to public funds; bonds of the Kansas development
9 finance authority; financing state agency projects and SKILL act
10 projects; amending K.S.A. 1992 Supp. 9-1402, 12-1675, 12-1677a,
11 12-1677b, 75-4201, 75-4209, 75-4212a and 75-4213 and repealing
12 the existing sections.

9-1405

13
14 *Be it enacted by the Legislature of the State of Kansas:*

15 Section 1. K.S.A. 1992 Supp. 9-1402 is hereby amended to read
16 as follows: 9-1402. (a) Before any deposit of public moneys or funds
17 shall be made by any municipal corporation or quasi-municipal cor-
18 poration of the state of Kansas with any state or national bank, state
19 or federally chartered savings and loan association or federally char-
20 tered savings bank, such municipal or quasi-municipal corporation
21 shall obtain security for such deposit in one of the following manners
22 prescribed by this section.

23 (b) Such bank, state or federally chartered savings and loan as-
24 sociation or federally chartered savings bank may give to the mu-
25 nicipal corporation or quasi-municipal corporation a personal bond
26 in double the amount which may be on deposit at any given time.

27 (c) Such bank, state or federally chartered savings and loan as-
28 sociation or federally chartered savings bank may give a corporate
29 surety bond of some surety corporation authorized to do business
30 in this state, which bond shall be in an amount equal to the public
31 moneys or funds on deposit at any given time and such bond shall
32 be conditioned that such deposit shall be paid promptly on the order
33 of the municipal corporation or quasi-municipal corporation making
34 such deposits.

35 (d) Any state or national bank, state or federally chartered savings
36 and loan association or federally chartered savings bank may deposit,
37 maintain, pledge and assign, or cause its agent, trustee or an affiliate
38 bank having identical ownership as the bank receiving the deposit
39 of public moneys or funds to deposit, maintain, pledge and assign,
40 for the benefit of the governing body of the municipal corporation
41 or quasi-municipal corporation in the manner provided in this act,
42 securities owned by it directly or indirectly through its agent or
43 trustee holding securities on its behalf, *which may be the state*

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Attachment #1

1 *treasurer* or owned by such affiliate bank, the market value of which
2 is equal to 100% of the total deposits at any given time, and such
3 securities may be accepted or rejected by the governing body of the
4 municipal corporation or quasi-municipal corporation and shall consist
5 of:

6 (1) Direct obligations of, or obligations that are insured as to
7 principal and interest by, the United States of America or any agency
8 thereof and obligations and securities of United States sponsored
9 corporations which under federal law may be accepted as security
10 for public funds;

11 (2) bonds of any municipal corporation or quasi-municipal cor-
12 poration of the state of Kansas which have been refunded in advance
13 of their maturity and are fully secured as to payment of principal
14 and interest thereon by deposit in trust, under escrow agreement
15 with a bank, of direct obligations of, or obligations the principal of
16 and the interest on which are unconditionally guaranteed by, the
17 United States of America;

18 (3) bonds of the state of Kansas;

19 (4) general obligation bonds of any municipal corporation or
20 quasi-municipal corporation of the state of Kansas;

21 (5) revenue bonds of any municipal corporation or quasi-munic-
22 ipal corporation of the state of Kansas if approved by the state bank
23 commissioner in the case of banks and by the savings and loan
24 commissioner in the case of savings and loan associations or federally
25 chartered savings banks;

26 (6) temporary notes of any municipal corporation or quasi-mu-
27 nicipal corporation of the state of Kansas which are general obli-
28 gations of the municipal or quasi-municipal corporation issuing the
29 same;

30 (7) warrants of any municipal corporation or quasi-municipal cor-
31 poration of the state of Kansas the issuance of which is authorized
32 by the state board of tax appeals and which are payable from the
33 proceeds of a mandatory tax levy;

34 (8) bonds of either a Kansas not-for-profit corporation or of a local
35 housing authority that are rated at least Aa by Moody's Investors
36 Service or AA by Standard & Poor's Corp.;

37 (9) bonds issued pursuant to K.S.A. 12-1740 *et seq.*, and amend-
38 ments thereto, that are rated at least MIG-1 or Aa by Moody's
39 Investors Service or AA by Standard & Poor's Corp.;

40 (10) notes of a Kansas not-for-profit corporation that are issued
41 to provide only the interim funds for a mortgage loan that is insured
42 by the federal housing administration;

43 (11) bonds issued pursuant to K.S.A. 74-8901 through 74-8916,

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1 and amendments thereto;

2 (12) bonds issued pursuant to K.S.A. 68-2319 through 68-2330,
3 and amendments thereto; or

4 (13) (A) negotiable promissory notes together with first lien mort-
5 gages on one to four family residential real estate located in Kansas
6 securing payment of such notes when such notes or mortgages:

7 (i) Are underwritten by the federal national mortgage association,
8 the federal home loan mortgage corporation, the federal housing
9 administration or the veterans administration standards; or are valued
10 pursuant to rules and regulations which shall be adopted by both
11 the state bank commissioner and the savings and loan commissioner
12 after having first being submitted to and approved by both the state
13 banking board under K.S.A. 9-1713, and amendments thereto, and
14 the savings and loan board. Such rules and regulations shall be
15 published in only one place in the Kansas administrative regulations
16 as directed by the state rules and regulations board;

17 (ii) have been in existence with the same borrower for at least
18 two years and with no history of any installment being unpaid for
19 30 days or more; and

20 (iii) are valued at not to exceed 50% of the lesser of the following
21 three values: outstanding mortgage balance; current appraised value
22 of the real estate; or discounted present value based upon current
23 federal national mortgage association or government national mort-
24 gage association interest rates quoted for conventional, federal hous-
25 ing administration or veterans administration mortgage loans.

26 (B) Securities under (A) shall be taken at their value for not more
27 than 50% of the security required under the provisions of this section.

28 (C) Securities under (A) shall be withdrawn immediately from
29 the collateral pool if any installment is unpaid for 30 days or more.

30 (D) A status report on all such loans shall be provided to the
31 investing governmental entity by the financial institution on a quar-
32 terly basis.

33 (e) No state or national bank, state or federally chartered savings
34 and loan association or federally chartered savings bank may deposit
35 and maintain for the benefit of the governing body of a municipal
36 or quasi-municipal corporation of the state of Kansas, any securities
37 which consist of:

38 (1) Bonds secured by revenues of a utility which has been in
39 operation for less than three years; or

40 (2) bonds issued under K.S.A. 12-1740 *et seq.*, and amendments
41 thereto, unless such bonds have been refunded in advance of their
42 maturity as provided in subsection (d) or such bonds are rated at
43 least Aa by Moody's Investors Service or AA by Standard & Poor's

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Section 1. K.S.A. 9-1405 is hereby amended to read as follows:

9-1405. Deposit of bonds and securities; custody receipts. (a) All bonds and securities given by any bank, state or federally chartered savings and loan association or federally chartered savings bank to secure public moneys of the United States or any board, commission or agency thereof, shall be deposited as required by the United States government or any of its designated agencies.

(b) All bonds and securities pledged to secure the deposits of any municipal corporation or quasi-municipal corporation shall be deposited with a Kansas state or national bank or trust company having adequate modern facilities for the safekeeping of securities or the federal home loan bank of Topeka, and a joint custody receipt taken therefor with one copy going to the municipal corporation or quasi-municipal corporation making the public deposit and one copy going to the bank, state or federally chartered savings and loan association or federally chartered savings bank which has secured such public deposits. No bonds or securities pledged to secure public deposits shall be left for safekeeping in any safe deposit vault owned or controlled directly or indirectly by the bank, state or federally chartered savings and loan association or federally chartered savings bank securing such public deposits.

or with the state treasurer

When bonds and securities are deposited with the state treasurer as authorized by this subsection, the state treasurer shall make a charge for such service which is equivalent to the reasonable and customary charge made therefor.

(c) All such bonds and securities shall be deposited under a joint custody receipt issued by a bank within the state of Kansas or the federal reserve bank of Kansas City or the federal home loan bank of Topeka. All bonds or securities held by any depository and for which a joint custody receipt has been issued shall be retained by such depository and not released except upon consent of both the municipal corporation or quasi-municipal corporation making the deposit and the bank, state or federally chartered savings and loan association or federally chartered savings bank taking or securing such deposit. In every report required to be published by any bank, state or federally chartered savings and loan association or federally chartered savings bank it shall show in full all of the assets pledged or deposited as security for public moneys.

or with the state treasurer

(d) A bank, state or federally chartered savings and loan association or federally chartered savings bank which fails to pay according to its terms any deposit of public moneys of any municipal or quasi-municipal corporation shall immediately take such actions as are required to enable bonds and securities pledged to secure such deposit to be sold to satisfy its obligation to the municipal or quasi-municipal corporation.

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1 Corp.

2 (f) Whenever a bond is authorized to be pledged as a security
3 under this section, such bond shall be accepted as a security if (1)
4 in the case of a certificated bond, it is assigned, delivered or pledged
5 to the holder of the deposit for security; (2) in the case of an un-
6 certificated bond, registration of a pledge of the bond is authorized
7 by the system and the pledge of the uncertificated bond is registered;
8 or (3) in a form approved by the attorney general, which assures
9 the availability of the bond proceeds pledged as a security for public
10 deposits.

11 (g) Any expense incurred in connection with granting approval
12 ~~of revenue bonds shall be paid by the applicant for approval.~~

13 Sec. 2. K.S.A. 1992 Supp. 12-1675 is hereby amended to read
14 as follows: 12-1675. (a) The governing body of any county, city,
15 township, school district, area vocational-technical school, community
16 college, firemen's relief association, community mental health center,
17 community facility for the mentally retarded or any other govern-
18 mental entity, unit or subdivision in the state of Kansas having
19 authority to receive, hold and expend public moneys or funds may
20 invest any moneys which are not immediately required for the pur-
21 poses for which the moneys were collected or received, and the
22 investment of which is not subject to or regulated by any other
23 statute.

Insert K.S.A. 9-1405

24 (b) Such moneys shall be invested only:

25 (1) In temporary notes or no-fund warrants issued by such in-
26 vesting governmental unit;

27 (2) in time deposit, open accounts or certificates of deposit with
28 maturities of not more than two years: (A) In commercial banks
29 which have offices located in such investing governmental unit; or
30 (B) if the office of no commercial bank is located in such investing
31 governmental unit, then in commercial banks which have offices in
32 the county or counties in which all or part of such investing gov-
33 ernmental unit is located;

34 (3) in time certificates of deposit with maturities of not more than
35 two years: (A) With state or federally chartered savings and loan
36 associations or federally chartered savings banks which have offices
37 located in such investing governmental unit; or (B) if the office of
38 no state or federally chartered savings and loan association or fed-
39 erally chartered savings bank is located in such governmental unit,
40 then with state or federally chartered savings and loan associations
41 or federally chartered savings banks which have offices in the county
42 or counties in which all or part of such investing governmental unit
43 is located;

1 (4) in repurchase agreements with: (A) Commercial banks, state
2 or federally chartered savings and loan associations or federally char-
3 tered savings banks which have offices located in such investing
4 governmental unit, for direct obligations of, or obligations that are
5 insured as to principal and interest by, the United States government
6 or any agency thereof; or (B) (i) if the office of no commercial bank,
7 state or federally chartered savings and loan association or federally
8 chartered savings bank is located in such investing governmental
9 unit; or (ii) if no commercial bank, state or federally chartered savings
10 and loan association or federally chartered savings bank has an office
11 located in such investing governmental unit is willing to enter into
12 such an agreement with the investing governmental unit at an in-
13 terest rate equal to or greater than the investment rate, as defined
14 in subsection (l) of K.S.A. 75-4201, and amendments thereto, then
15 such repurchase agreements may be entered into with commercial
16 banks, state or federally chartered savings and loan associations or
17 federally chartered savings banks which have offices in the county
18 or counties in which all or part of such investing governmental unit
19 is located; or (C) if no bank, state or federally chartered savings and
20 loan association or federally chartered savings bank which has its
21 office in such county or counties is willing to enter into such an
22 agreement with the investing governmental unit at an interest rate
23 equal to or greater than the investment rate, as defined in subsection
24 (l) of K.S.A. 75-4201, and amendments thereto, then such repurchase
25 agreements may be entered into with commercial banks, state or
26 federally chartered savings and loan associations or federally char-
27 tered savings banks which have offices in the state of Kansas;

28 (5) in United States treasury bills or notes with maturities as the
29 governing body shall determine, but not exceeding two years. Such
30 investment transactions shall only be conducted with the following,
31 which is doing business within the state of Kansas, any state or
32 national bank, state or federally chartered savings and loan associ-
33 ation, or federally chartered savings bank; *the federal reserve bank*
34 *of Kansas City, Missouri*; or with primary government securities
35 dealers which report to the market report division of the federal
36 reserve bank of New York, or any broker-dealer *engaged in the*
37 *business of selling government securities* which is registered in com-
38 pliance with the requirements of section 15 or 15C of the securities
39 exchange act of 1934 and registered pursuant to K.S.A. 17-1254, and
40 amendments thereto;

41 (6) in the municipal investment pool fund established in K.S.A.
42 1992 Supp. 12-1677a *and amendments thereto*;

43 (7) in the investments authorized and in accordance with the

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1 conditions prescribed in K.S.A. 1992 Supp. 12-1677b *and amend-*
2 *ments thereto*; or

3 (8) with the trust departments of commercial banks which have
4 offices located in such investing governmental unit or with trust
5 companies which have contracted to provide trust services under the
6 provisions of K.S.A. 9-2107, and amendments thereto, with com-
7 mercial banks which have offices located in the county or counties
8 in which such investing governmental unit is located. Public moneys
9 invested under this paragraph shall be secured in the same manner
10 as provided for under K.S.A. 9-1402, and amendments thereto. In-
11 vestments of public moneys under this paragraph shall be limited
12 to those investments authorized under subsection (b) of K.S.A. 1992
13 Supp. 12-1677a *and amendments thereto*.

14 (c) The investments authorized in paragraphs (5), (6), (7) or (8)
15 of subsection (b) shall be utilized only if the appropriate eligible
16 commercial banks, which have offices located in the investing gov-
17 ernmental unit or in the county or counties in which all or a part
18 of such investing governmental unit is located if no such bank has
19 an office which is located within such governmental unit, or the
20 appropriate eligible state or federally chartered savings and loan
21 associations or federally chartered savings banks, which have offices
22 located in the investing governmental unit or in the county or coun-
23 ties in which all or a part of such investing governmental unit is
24 located if no such state or federally chartered savings and loan as-
25 sociation or federally chartered savings bank has an office which is
26 located within such governmental unit, cannot or will not make the
27 investments authorized in paragraph (2) or (3) of subsection (b) avail-
28 able to the investing governmental unit at interest rates equal to or
29 greater than the investment rate, as defined in subsection (l) of
30 K.S.A. 75-4201, and amendments thereto.

31 (d) In selecting a depository pursuant to paragraph (2) or (3) of
32 subsection (b), if a commercial bank, state or federally chartered
33 savings and loan association or federally chartered savings bank has
34 an office located in the investing governmental unit and such financial
35 institution will make such deposits available to the investing gov-
36 ernmental unit at interest rates equal to or greater than the in-
37 vestment rate, as defined in subsection (l) of K.S.A. 75-4201, and
38 amendments thereto, and such financial institution otherwise qual-
39 ifies for such deposit, the investing governmental unit shall select
40 one or more of such financial institutions for deposit of funds pursuant
41 to this section. If no such financial institution qualifies for such
42 deposits, the investing governmental unit shall select for such de-
43 posits one or more commercial banks, state or federally chartered

the county or counties where
is located

1 savings and loan associations or federally chartered savings banks
2 which have offices in the county or counties in which all or a part
3 of such investing governmental unit is located which will make such
4 deposits available to the investing governmental unit at interest rates
5 equal to or greater than the investment rate, as defined in subsection
6 (l) of K.S.A. 75-4201, and amendments thereto, and which otherwise
7 qualify for such deposits.

8 (e) (1) All security purchases shall occur on a delivery versus
9 payment basis.

10 (2) All securities shall be perfected in the name of the investing
11 governmental unit and shall be delivered to the purchaser or a third
12 party custodian which may be the state treasurer.

13 Sec. 3. K.S.A. 1992 Supp. 12-1677a is hereby amended to read
14 as follows: 12-1677a. (a) Moneys deposited by any municipality with
15 the state treasurer for investment authorized in paragraph (6) of
16 subsection (b) of K.S.A. 12-1675, and amendments thereto, shall be
17 deposited in the municipal investment pool fund which is hereby
18 created in the state treasury.

19 (b) The pooled money investment board may invest and reinvest
20 moneys in the municipal investment pool fund in the following
21 investments:

22 (1) Direct obligations of, or obligations that are insured as to
23 principal and interest by, the United States of America or any agency
24 thereof and obligations and securities of United States sponsored
25 enterprises which under federal law may be accepted as security for
26 public funds, except that not more than 10% of the moneys available
27 for investment under this subsection may be invested in mortgage
28 backed securities of such enterprises and of the government national
29 mortgage association;

30 (2) interest-bearing time deposits in any of the following, which
31 is doing business within the state of Kansas, any state or national
32 bank, state or federally chartered savings and loan association, or
33 federally chartered savings bank; or

34 (3) repurchase agreements of less than 30 days' duration with
35 a Kansas bank, Kansas savings and loan association, a federally char-
36 tered savings bank having an office or offices in the state of Kansas
37 or with a primary government securities dealer which reports to the
38 market reports division of the federal reserve bank of New York for
39 direct obligations of, or obligations that are insured as to principal
40 and interest by, the United States government or any agency thereof
41 and obligations and securities of United States government sponsored
42 enterprises which under federal law may be accepted as security for
43 public funds.

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(c) All interest earnings received from investments of money in the municipal investment pool fund shall be credited to the municipal investment pool fund. Interest earnings experienced by the fund on investments attributable to each participating municipality shall be prorated and applied to the individual accounts of the municipalities, maintained by the state treasurer. Deferred earnings transferred from the municipal investment pool reserve fund to the municipal investment pool fund shall be prorated and applied to the individual accounts of the municipalities, maintained by the state treasurer. A statement for each municipality participating unit account showing deposits, withdrawals, earnings and losses distributions shall be provided periodically to the municipality. The state treasurer shall make comprehensive reports to those municipalities participating in the municipal investment pool fund, including a summary of transactions for the period as well as the current market value of the pool investments.

(d) The state treasurer may assess reasonable charges not to exceed 1% of the interest earned against the fund for reimbursement of expenses incurred in administering the fund. The state treasurer shall certify, periodically, the amount of the assessment and the director of accounts and reports shall transfer the amount certified from the municipal investment pool fund to the municipal investment pool fund fee fund, which is hereby created. All expenditures from the municipal investment pool fund fee fund shall be made in accordance with appropriation acts upon warrants of the director of accounts and reports issued pursuant to vouchers approved by the state treasurer or a person or persons designated by the state treasurer. Amounts of gains realized on disposition of investments of the municipal investment pool fund shall be periodically certified by the state treasurer, and the director of accounts and reports shall transfer the amount certified from the municipal investment pool fund to the municipal investment pool reserve fund which is hereby created in the state treasury. The state treasurer shall make a determination of the amount needed for a reserve for possible losses to the municipal investment pool fund and shall certify periodically such amount, and the director of accounts and reports shall transfer the amount so certified from the municipal investment pool fund fee fund to the municipal investment pool reserve fund. If the state treasurer makes a determination that significant losses or gains have occurred to the municipal investment pool fund, the state treasurer shall certify the amount thereof to the director of accounts and reports, and the director of accounts and reports shall transfer the amount so certified from the municipal investment pool reserve fund

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1 to the municipal investment pool fund.

2 (e) The state treasurer may adopt rules and regulations necessary
3 to carry out the provisions of this section and may enter into agree-
4 ments with any municipality as to methods of deposits, withdrawals
5 and investments.

6 (f) Investments under ~~paragraphs (1) and (2)~~ of subsection (b)
7 shall be for a period of not to exceed four years, except for mortgage
8 backed securities.

9 (g) A comparative investment performance review shall be con-
10 tracted for annually by the state treasurer's office.

11 (h) Deposits in the municipal investment pool fund may only be
12 made for the same maturity as the maturity which is offered under
13 paragraphs (2) and (3) of subsection (b) of K.S.A. 12-1675 and amend-
14 ments thereto.

15 (i) Moneys and investments in the municipal investment pool
16 fund shall be managed by the pooled money investment board in
17 accordance with investment policies provided by law and by rules
18 and regulations of such board. The pooled money investment board
19 shall not contract for management of investments by a money
20 manager.

21 (j) Investments in securities under paragraph (1) of subsection (b)
22 shall be limited to securities which do not have any more interest
23 rate risk than do direct United States government obligations of
24 similar maturities, except for the 10% limitation on mortgage-backed
25 securities. For purposes of this subsection, "interest rate risk" means
26 market value changes due to changes in current interest rates.

27 (k) For the purpose of this section, "municipality" means those
28 entities specified in subsection (a) of K.S.A. 12-1675, and amend-
29 ments thereto.

30 Sec. 4. K.S.A. 1992 Supp. 12-1677b is hereby amended to read
31 as follows: 12-1677b. (a) The governing body of any city or county
32 which has a written investment policy approved by the governing
33 body of such city or county and approved by the pooled money
34 investment board may invest and reinvest pursuant to the approved
35 investment policy in the following investments, as authorized under
36 paragraph (7) of subsection (b) of K.S.A. 12-1675, and amendments
37 thereto:

38 (1) Direct obligations of, or obligations that are insured as to
39 principal and interest by, the United States of America or any agency
40 thereof and obligations and securities of United States sponsored
41 enterprises which under federal law may be accepted as security for
42 public funds, except that not more than 10% of the moneys available
43 for investment under this subsection may be invested in mortgage

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1 backed securities of such enterprises and of the government national
2 mortgage association;

3 (2) interest-bearing time deposits in any of the following, which
4 is doing business within the state of Kansas, any state or national
5 bank, state or federally chartered savings and loan association, or
6 federally chartered savings bank; or

7 (3) repurchase agreements of ~~less than 30 days' duration~~ with
8 a Kansas bank, savings and loan association, a federally chartered
9 savings bank or with a primary government securities dealer which
10 reports to the market reports division of the federal reserve bank
11 of New York for direct obligations of, or obligations that are insured
12 as to principal and interest by, the United States government or
13 any agency thereof and obligations and securities of United States
14 government sponsored enterprises which under federal law may be
15 accepted as security for public funds.

16 (b) The investment policy of any city or county approved by the
17 pooled money investment board under this section shall be reviewed
18 and approved at least annually by such board or when such city or
19 county makes changes in such investment policy.

20 (c) City and county investment policies shall address liquidity,
21 diversification, safety of principal, yield, maturity and quality, and
22 capability of investment management staff.

23 (d) (1) All security purchases shall occur on a delivery versus
24 payment basis.

25 (2) All securities shall be perfected in the name of the city or
26 county and shall be delivered to the purchaser or a third party
27 custodian which may be the state treasurer.

28 (3) Investment transactions shall only be conducted with the fol-
29 lowing, which is doing business within the state of Kansas, any state
30 or national bank, state or federally chartered savings and loan as-
31 sociation, or federally chartered savings bank; or with primary gov-
32 ernment securities dealers which report to the market report division
33 of the federal reserve bank of New York; or any broker-dealer which
34 is registered in compliance with the requirements of section 15C of
35 the securities exchange act of 1934 and registered pursuant to K.S.A.
36 17-1254, and amendments thereto.

37 (4) The maximum maturity for investments under ~~paragraphs~~
38 ~~(1) and (2)~~ of subsection (a) shall be four years except for mortgage
39 backed securities which shall have a maximum maturity of seven
40 years and three months.

41 (e) Investments in securities under paragraph (1) of subsection
42 (a) shall be limited to securities which do not have any more interest
43 rate risk than do direct United States government obligations of

1 similar maturities, except for the 10% limitation on mortgage-backed
2 securities. For purposes of this subsection, "interest rate risk" means
3 market value changes due to changes in current interest rates.

4 (f) A city or county which violates subsection (c) or (d) of K.S.A.
5 12-1675 and amendments thereto or the rules and regulations of the
6 pooled money investment board shall forfeit its rights under this
7 section for a two year period and shall be reinstated only after a
8 complete review of its investment policy as provided for in subsection
9 (b). Such forfeiture shall be determined by the pooled money in-
10 vestment board after notice and opportunity to be heard in accor-
11 dance with the Kansas administrative procedure act.

12 Sec. 5. K.S.A. 1992 Supp. 75-4201 is hereby amended to read
13 as follows: 75-4201. As used in this act, unless the context otherwise
14 requires:

15 (a) "Treasurer" means state treasurer.

16 (b) "Controller" means director of accounts and reports.

17 (c) "Board" means the pooled money investment board.

18 (d) "Bank" means a state or national bank doing business within
19 the state of Kansas.

20 (e) "State moneys" means all moneys in the treasury of the state
21 or coming lawfully into the possession of the treasurer.

22 (f) "Custodial moneys" means state moneys deposited with the
23 treasurer which, in the written opinion of the attorney general, are
24 required by contract, bequest or law to be segregated from other
25 bank accounts.

26 (g) "Special moneys" means moneys which are required to be or
27 are deposited in a custodial bank account or a fee agency account
28 by the state or any agency thereof.

29 (h) "State bank account" means state moneys or special moneys
30 deposited in accordance with the provisions of this act.

31 (i) "Operating account" means a state bank account which is pay-
32 able or withdrawable, in whole or in part, on demand.

33 (j) "Investment account" means a state bank account which is not
34 payable on demand but shall not include custodial accounts.

35 (k) "Market rate" means the average of the average equivalent
36 yields, with equivalent maturities, of: (1) United States government
37 securities; and (2) debt obligations of the following United States
38 government agencies, federal home loan banks, federal national mort-
39 gage association and federal farm credit bank.

40 (l) "Investment rate" means a rate which is the equivalent yield
41 for United States government securities having a maturity date as
42 published in the Wall Street Journal, nearest the maturity date for
43 equivalent maturities. *For liquidity investments, the 0-90 day rate*

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1 *shall be computed on the average federal funds rate.*

2 (m) "Custodial account" means a state bank account of custodial
3 moneys.

4 (n) "Fee agency account" means a state bank account of any state
5 agency consisting of fees, tuition or charges authorized by law prior
6 to remittance to the state treasurer.

7 (o) "Disbursement" means a payment of any kind whatsoever
8 made from the state treasury or from any operating account, except
9 transfer of state or special moneys between or among operating
10 accounts and investment accounts or either or both of them.

11 (p) "Securities" means, for the purposes of K.S.A. 75-4218, and
12 amendments thereto, any one or more of the following:

13 (1) Direct obligations of, or obligations that are insured as to
14 principal and interest by, the United States government or any
15 agency thereof and obligations and securities of United States spon-
16 sored enterprises which under federal law may be accepted as se-
17 curity for public funds.

18 (2) Kansas municipal bonds which are general obligations of the
19 municipality issuing the same.

20 (3) Revenue bonds of any agency or arm of the state of Kansas.

21 (4) Revenue bonds of any municipality, as defined by K.S.A. 10-
22 101, and amendments thereto, within the state of Kansas or bonds
23 issued by a public building commission as authorized by K.S.A. 12-
24 1761, and amendments thereto, if approved by the state bank com-
25 missioner, except (A) bonds issued under the provisions of K.S.A.
26 12-1740 *et seq.*, and amendments thereto, unless such bonds are
27 rated at least MIG-1 or Aa by Moody's Investors Service or AA by
28 Standard & Poor's Corp. and (B) bonds secured by revenues of a
29 utility which has been in operation for less than three years. Any
30 expense incurred in connection with granting approval of revenue
31 bonds shall be paid by the applicant for approval.

32 (5) Temporary notes of any municipal corporation or quasi-mu-
33 nicipal corporation within the state of Kansas which are general
34 obligations of the municipal corporation or quasi-municipal corpo-
35 ration issuing the same.

36 (6) Warrants of any municipal corporation or quasi-municipal cor-
37 poration within the state of Kansas the issuance of which is authorized
38 by the state board of tax appeals and which are payable from the
39 proceeds of a mandatory tax levy.

40 (7) Bonds of any municipal or quasi-municipal corporation of the
41 state of Kansas which have been refunded in advance of their ma-
42 turity and are fully secured as to payment of principal and interest
43 thereon by deposit in trust, under escrow agreement with a bank,

effective

as published by the federal reserve system
for the previous week

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of direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America. A copy of such escrow agreement shall be furnished to the treasurer.

(8) Securities listed in paragraph (13) of subsection (d) of K.S.A. 9-1402 and amendments thereto within limitations of K.S.A. 9-1402 and amendments thereto. Such securities may be accepted or rejected by the treasurer.

(9) All of such securities shall be current as to interest according to the terms thereof.

(10) Whenever a bond is authorized to be pledged as a security under this section, such bond shall be accepted as a security if: (i) In the case of a certificated bond, it is assigned, delivered or pledged to the holder of the deposit for security; (ii) in the case of an uncertificated bond, registration of a pledge of the bond is authorized by the system and the pledge of the uncertificated bond is registered; or (iii) in a form approved by the attorney general, which assures the availability of the bond proceeds pledged as a security for public deposits.

(q) "Savings bank" means a federally chartered savings bank insured by the federal deposit insurance corporation and doing business within the state of Kansas.

(r) "Savings and loan association" means a state or federally chartered savings and loan association insured by the federal deposit insurance corporation and doing business within the state of Kansas.

Sec. 6. K.S.A. 1992 Supp. 75-4209 is hereby amended to read as follows: 75-4209. (a) After the board determines the liquidity needs for the state, and determines the varying maturities of the investment accounts to be offered and the amount of state moneys to be invested in each of the maturities offered, in accordance with rules and regulations adopted pursuant to K.S.A. 1992 Supp. 75-4232, the board shall make available state moneys eligible for investment accounts in the following manner:

(1) (A) The board shall offer to all banks, on a competitive bid basis, state moneys for deposit in investment accounts at maturities of not more than four years and such bids shall be at a rate of at least the market rate, as defined in subsection (k) of K.S.A. 75-4201 and amendments thereto.

(B) As part of the offering under subparagraph (A) the board shall offer to all banks, on a twelve-month average, 50% of the amount of state moneys available for investment or \$350,000,000, whichever amount is greater, at maturities of not more than four years and at the investment rate as defined in subsection (l) of K.S.A. 75-4201

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and amendments thereto. Such accounts shall be apportioned by the board among the banks which propose to receive such accounts and which qualify therefor on the basis of the ratio of each bank's combined capital, undivided profits and surplus to the total capital, undivided profits and surplus of all such banks.

(2) The board may invest and reinvest state moneys eligible for investment which are not invested in accordance with paragraph (1), in the following investments:

(A) Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America or any agency thereof and obligations and securities of the United States sponsored enterprises which under federal law may be accepted as security for public funds, except that not more than 10% of the moneys available for investment under this subsection may be invested in mortgage backed securities of such enterprises and of the government national mortgage association; or

(B) repurchase agreements of less than 30 days' duration with a Kansas bank or a primary government securities dealer which reports to the market reports division of the federal reserve bank of New York for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof and obligations and securities of United States government sponsored enterprises which under federal law may be accepted as security for public funds; or

(C) *investments in state agency and SKILL act projects and bonds pursuant to section 9.*

(b) At any time moneys are available for deposits or investments for a period of time which is insufficient to permit deposit in investment accounts or to provide for the liquidity needs for the state, the board may invest such moneys in repurchase agreements as authorized in subparagraph (B) of paragraph (2) of subsection (a).

(c) When moneys are available for deposits or investments, the board may invest in preferred stock of Kansas venture capital, inc., under terms and conditions prescribed by K.S.A. 74-8203, and amendments thereto, but such investments shall not in the aggregate exceed a total amount of \$10,000,000.

(d) When moneys are available for deposits or investments, the board may invest in loans pursuant to legislative mandates, except that not more than the lesser of 10% or \$80,000,000 of the state moneys shall be invested.

(e) Interest on investment accounts in banks is to be paid at maturity, but not less than annually, except that interest on such investment accounts awarded between August 1, 1992, and June 30,

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1 1993, is to be paid no later than June 30, 1993.

2 (f) Investments made by the board under the provisions of this
3 section shall be made with judgment and care, under circumstances
4 then prevailing, which persons of prudence, discretion and intelli-
5 gence exercise in the management of their own affairs, not for spec-
6 ulation, but for investment, considering the probable safety of their
7 capital as well as the probable income to be derived.

8 (g) Investments under ~~paragraph (1) and subparagraph (A) of~~
9 ~~paragraph (2) of~~ subsection (a) shall be for a period not to exceed
10 four years, except for investments in mortgage-backed securities.

11 (h) Investments in securities under subparagraph (A) of paragraph
12 (2) of subsection (a) shall be limited to securities which do not have
13 any more interest rate risk than do direct United States government
14 obligations of similar maturities except for the 10% limitation on
15 mortgage-backed securities. For purposes of this subsection, "interest
16 rate risk" means market value changes due to changes in current
17 interest rates.

18 Sec. 7. K.S.A. 1992 Supp. 75-4212a is hereby amended to read
19 as follows: 75-4212a. Whenever the balance in operating accounts is
20 insufficient to meet the state's obligations, and there are state moneys
21 in ~~investment accounts~~ *authorized investment*, the treasurer, with
22 approval of the board, may:

23 (a) Borrow upon the security of any one or more investment
24 accounts an amount sufficient to meet the state's obligations. Any
25 such loan shall be repaid in full within 60 days or prior to July 1,
26 whichever occurs first. Interest payment by the state for any loan
27 under this section shall be made only by way of setoff from interest
28 obligations to the state from the bank making such loan. The amount
29 borrowed under this section from any bank, shall never exceed an
30 amount equal to the amount of state moneys on deposit in such
31 bank; or

32 (b) *enter into reverse repurchase agreements utilizing securities*
33 *purchased by the board pursuant to subsection (a)(2)(A) of K.S.A.*
34 *1992 Supp. 75-4209 and amendments thereto. Such reverse repur-*
35 *chase agreements may be entered into with Kansas banks or primary*
36 *government securities dealers which report to the market reports*
37 *division of the federal reserve bank of New York. Expenses of reverse*
38 *repurchase agreements shall be paid by deducting such expenses*
39 *against other interest income to the state.*

40 Sec. 8. K.S.A. 1992 Supp. 75-4213 is hereby amended to read
41 as follows: 75-4213. Custodial accounts shall be arranged for by the
42 board, ~~but the aggregate of custodial accounts in any bank shall~~
43 ~~not exceed 10% of the deposits of such bank's statement of last~~

official call. Whenever it appears to the board that certain moneys may be required to be deposited in custodial accounts, the chairperson shall request the opinion of the attorney general, who shall render an opinion thereon within two weeks. ~~No commitment shall be made to maintain all or any portion of any custodial account for a period of more than 12 months.~~ Custodial moneys shall not be considered in determining limitations imposed by this act on other types of bank accounts. Custodial accounts may be demand deposits or interest bearing deposits, as determined by the board, and if the custodial accounts are interest bearing the rate thereof shall be the investment rate, as defined in subsection (1) of K.S.A. 75-4201, and amendments thereto. The board may invest custodial moneys in repurchase agreements of ~~less than 30 days' duration~~ with a Kansas bank or with a primary government securities dealer which reports to the market reports division of the federal reserve bank of New York for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency or enterprise thereof.

New Sec. 9. (a) Before the Kansas development finance authority issues any bonds for any state agency project or a project under the SKILL act, the authority shall conduct a feasibility analysis and recommend to the secretary of administration any project which appears appropriate for consideration to offer to the pooled money investment board as an alternative investment. If the secretary of administration approves the recommendation, the secretary shall give notice of such approval to the chairperson of the pooled money investment board in writing. If the pooled money investment board and the secretary of administration reach agreement on the terms and conditions of the financing, the pooled money investment board may invest in any such project.

(b) Unless the pooled money investment board has declined the investment, the Kansas development finance authority shall not proceed to issue bonds for any project offered to the pooled money investment board until at least 15 days after the secretary of administration's notice to the pooled money investment board under subsection (a).

(c) The authority shall give notice to the pooled money investment board of the public sale of bonds for any state agency or SKILL act projects. The pooled money investment board is authorized to purchase any such bonds.

Sec. 10. K.S.A. 1992 Supp. 9-1402, 12-1675, 12-1677a, 12-1677b, 75-4201, 75-4209, 75-4212a and 75-4213 are hereby repealed.

New Sec. 10. Moneys of a state agency or public instrumentality of this state which may be invested by the pooled money investment board expressly for such agency or instrumentality, or invested directly by the agency or instrumentality, may be invested in the municipal investment pool fund established in K.S.A. 1992 Supp. 12-1677a and amendments thereto. Such agency or instrumentality shall be treated as a municipality for purposes of participation in such fund.

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1 Sec. 11. This act shall take effect and be in force from and after
2 its publication in the statute book.

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STATE OF KANSAS

Sally Thompson

TREASURER

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TOPEKA, KANSAS 66612-1235

TELEPHONE
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Tuesday, February 16, 1993

Testimony in Support of S.B. 154
Presented to the Senate Committee on
Financial Institutions and Insurance
by Assistant State Treasurer JoLana R. Pinon

Mr. Chairman and members of the committee, it is a pleasure to come before you today to discuss potential amendments to two statutes involving municipal bonds.

The Office of the State Treasurer is a major servicer of Kansas municipal bonds. Our office acts as registrar and paying agent for over 4,000 issues and tracks more than 22,000 individual bondholders. In 1992, new issues totalled \$1.2 billion; bond transfers were in excess of \$900 million.

We service approximately 80 percent of all municipal bond issues outstanding in Kansas. In this role, the State Treasurer believes that more timely or more cost effective service can be provided to the municipalities and their bondholders with the passage of S.B. 154.

Section 1:KSA 10-129

Under the current statute, when a Kansas municipality decides to prematurely redeem or "call" a bond or temporary note, that municipality must provide the state treasurer and paying agent 30 days notice of this call. The paying agent, who is the State Treasurer the majority of the time, must notify the bondholder 30 days prior to the call to allow them sufficient time to send bonds for payment by the call date. This 30 day notice period to bondholders is an industry standard and is required by Depository Trust Company-the largest depository in the country. The additional 15 days provided in this amendment would allow time for the paying agent to process and mail the 30 day notice to the bondholders.

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Section 2: KSA 10-427a

In this section we propose an option for municipalities that issue refunding bonds. Under the current statute, if there are more than six months between the redemption of the earlier issue and the closing date of the new issue, the refunding proceeds are required to be placed in escrow under a trust agreement with a Kansas bank having full trust powers.

When the State Treasurer acts as paying agent for an refunding issue, the municipality must hire an escrow agent to hold the proceeds until subsequent payment is required. Before the required payment dates, the escrow agent pays those funds back to the State Treasurer who then pays the bondholders. It may be more efficient, in this case, to allow those proceeds to be placed directly with the Office of the State Treasurer.

When a bank is the paying agent, it may be equally efficient for the municipality to select a bank to act as escrow trustee.

The proposed language merely allows the municipality to choose the option that is most efficient.

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



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 16, 1993

TO: Senate Committee on Financial Institutions and Insurance
RE: **SB 154** - Relating to refunding bonds

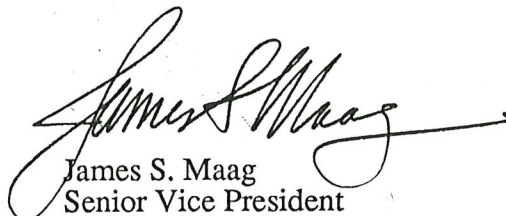
Mr. Chairman and Members of the Committee:

On behalf of the members of the Kansas Bankers Association, we appreciate the opportunity to appear before you today to discuss our concerns with certain provisions of **SB 154**. We have no objection to Section 1 of the bill as this addresses a notification problem for the State Treasurer in her capacity as a paying agent on bonds.

Section 2 of the bill, however, contains an amendment to K.S.A. 10-427a which would allow the State Treasurer to become an escrow agent for the proceeds of refunding bonds issued by a local unit of government and sold at least six months prior to the maturity or redemption date of the bonds being refunded. Under current law such proceeds must be placed in escrow with the trust department of a Kansas bank. The bank is then required to invest those proceeds in specified government obligations and any interest accruing is paid to the local unit.

Kansas banks have provided this escrow service for many years and we know of no problem which has arisen that would have caused problems or inconvenience for a local unit of government. To allow the State Treasurer to provide this same service would place Kansas banks at a competitive disadvantage since the overhead costs for a state agency could be significantly less. At a time when the trend is toward privatization of many governmental functions, it doesn't make much sense to authorize a state agency to use taxpayers' dollars (including those of banks) to compete with private sector institutions which have fulfilled the intent of the law.

We would respectfully request, therefore, that Section 2 of **SB 154** be stricken before the committee makes any final recommendations on the measure. Thank you for allowing us to discuss this important issue with the committee.


James S. Maag
Senior Vice President

Senate 7141
2/16/93

Office of Executive Vice President • 1500 Merchants National Building
Eighth and Jackson • Topeka, Kansas 66612 • (913) 232-3444
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Attachment #3

