

SESSION OF 2010

**SUPPLEMENTAL NOTE ON SENATE BILL NO. 415**

As Amended by House Committee on  
Financial Institutions

**Brief\***

SB 415, as amended, would amend provisions applying to the investment of certain bond proceeds by governing bodies of certain municipalities.

Among the modifications:

- **General Bond Law** (KSA 10-131) – The bill would amend the law that applies to taxing subdivisions that have the power to issue general obligation bonds to allow for authorized investments to include the Government National Mortgage Association. [These investments are commonly referred to as Ginnie Maes, pools of mortgage funds guaranteed by the GNMA].
- **Revenue Bond Law** (KSA 2009 Supp. 10-1009) – The bill also would amend the law governing the power granted to municipalities to issue revenue bonds to extend the time limitation specified for the maximum stated rate of interest which may be fixed on fixed- or variable-rate bonds issued by a municipality or taxing subdivision (of the State of Kansas) from June 30, 2010 to June 30, 2012. Under existing law, the specified maximum stated interest rate is to be determined on the day the bonds are sold and shall not exceed the daily yield for the ten-year treasury bonds published by the Bond Buyer in New York, New York, plus a certain interest percentage. Specifically, the bill would increase the interest percentages from 5 to 6 percent (if the interest on the bonds is excluded from gross income

---

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

for federal tax purposes) or from 6 to 7 percent (if interest is included).

- **Investment of Idle Funds** (KSA 2009 Supp. 12-1675) – The bill would amend one of the investment types (idle funds) permitted by existing law to include investments in savings deposits.

The bill would allow the investment in general obligation bonds of any Kansas municipality. This investment would be subject to the provision in law that first requires a municipality to offer its idle funds to eligible financial institutions (institution given the ability to offer to match the PMIB-published investment rate in KSA 2009 Supp. 12-1675(a)).

## **Background**

The bill was introduced at the request of the Johnson County Government. A representative of Gilmore & Bell (Kansas City, MO), indicated that the bill would allow governmental jurisdictions the ability to earn a little higher rate on return on their bond proceeds and idle funds; the continuation of the higher interest rate cap, the representative noted, is helpful since there are now certain categories of taxable bonds under federal tax law (cited Build America Bonds and Recovery Zone bonds in his remarks). A representative of the League of Kansas Municipalities testified in support of the bill, indicating that the bill would give municipalities and other taxing subdivisions of the state greater flexibility to issue bonds with an interest rate that is high enough to ensure that the bonds are sold on the open market.

Opponents to the bill at the Committee hearing included the Heartland Community Bankers Association (HCBA) and the Kansas Bankers Association (KBA). The HCBA representative indicated that the bill amended the statute that allowed public moneys to be invested in municipal bonds or other obligations but this provision was not made subject to the provision in law

(KSA 2009 Supp. 12-1675(c)) which requires units of government to give eligible public fund depositories an opportunity to match the published investment rate. The representative also cited concern about allowing the investment in any obligation unconditionally guaranteed by the U.S. government. The KBA representative requested an amendment to subject the investment of idle funds in municipal bonds or other obligations of the state, as proposed by the bill (KSA 2009 Supp. 12-1675(c)).

The Senate Committee on Financial Institutions and Insurance recommended amendments to the bill to delete the expansion of investments in direct obligations of the U.S. government which would have included any obligation unconditionally guaranteed by the U.S. government, to authorize investments in Ginnie Maes, and to subject the investment of idle funds in the general obligation bonds of any Kansas municipality to the requirement for the investment of public funds (offering to eligible financial institutions). The first two amendments were requested by a representative of the City of Olathe. The remaining amendment was requested by a representative of the Kansas Bankers Association.

The House Committee on Financial Institutions recommended an amendment to add savings deposits to one of the investment methods permitted for the investment of idle funds. (Under current law, moneys can be invested in time deposit, open accounts, certificates of deposit, or time certificates of deposit with maturities of no more than two years, subject to location requirements for specified financial institutions.) The amendment was requested by a representative of the Kansas Bankers Association; the representative indicated the amendment would allow an investment option in a new deposit placement service (an Insured Cash Sweep [ICS] Service), which allows funds to be deposited into interest-bearing savings accounts.

The fiscal note prepared by the Division of the Budget on the original bill states that according to the League of Kansas Municipalities and the Kansas Association of Counties, passage

of the bill could result in increased revenues to cities by providing greater flexibility in investing funds and in issuing bonds with an interest rate high enough to ensure that the bonds are sold on the open market. The bill also could increase costs, with the higher interest rates on the bonds. The reporting agencies could not predict specific amounts of the fiscal effect. Passage of the bill would have no effect on the state budget.