

SESSION OF 2009

SUPPLEMENTAL NOTE ON SENATE BILL NO. 39

As Amended by House Committee on
Financial Institutions

Brief*

SB 39, as amended, would amend a statute governing the investment of public moneys by certain counties and municipalities to allow school districts the same expanded investment authority currently allowed for cities and counties. Expanded investment authority would allow investments in United States government and agency securities, interest-bearing time deposits, and repurchase agreements with maximum maturities of four years.

The bill would further provide that, in approving the investment policy of any city, county or school district, the Pooled Money Investment Board (PMIB) must require that the policy addresses liquidity, diversification, safety of principal, yield, maturity, and quality and capability of investment management staff. In addition, the bill states, the policy is to provide procedures for compliance with KSA 12-1675(c) [a requirement that municipalities must first offer their idle funds to local financial institutions] and a certification from the investment management staff that those procedures have been followed.

The bill also would create a second condition for the approval of the investment policy for the PMIB. The investment policy would be required to contain a certification from the investment management staff that those procedures [compliance with KSA 12-1675(c) as outlined above] have been followed, and a listing of the banks, savings and loan associations, and savings banks from which the city, county, or school district requested bids in the preceding year.

*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>

[Without the expanded investment authority, cities and counties are permitted to invest only in temporary notes or no-fund warrants, time deposits, open accounts, certificates of deposit (CDs), repurchase agreements and US Treasury Bills or Notes with maximum maturities of two years. Expanded investment authority is currently allowed only if the municipality or county has a written investment policy that is approved annually by the PMIB.]

Background

The bill was introduced by the Senate Education Committee at the request of Senator Vratil. Senator Vratil testified at the Senate Committee on Financial Institutions and Insurance hearing, indicating that enactment of the bill would enable school districts to maximize the investment potential of the districts' idle funds therefore reducing the burden placed on taxpayers to fund schools. Proponents appearing in support of the bill included representatives of the Kansas Association of School Boards and Blue Valley, USD 229. There were no opponents present at the time of the Committee hearing.

The Senate Committee on Financial Institutions and Insurance recommended amendments to expand the current procedure for approval of an investment policy to provide procedures for compliance with a provision governing the investment of idle funds with eligible financial institutions, the certification that this procedure has been followed, and a certification that this investment procedure has been followed that includes a list of financial institutions solicited for bid in the preceding year. The amendments were requested by the Kansas Bankers Association.

The House Committee on Financial Institutions recommended amendments to clarify the approval of written investment policies. The PMIB is directed to require that these policies address qualifications outlined in the bill.

The fiscal note prepared by the Division of the Budget on the original bill states that, according to the PMIB, allowing school districts to have an expanded investment authority would increase the workload for the PMIB and staff. However, the PMIB does not know how many of the 295 Kansas school districts would actually seek expanded investment authority. The PMIB also notes that it currently has approved expanded investment authority for six cities and three counties to date. If a substantial number of school districts would choose to seek an expanded investment authority, additional staff would be required. However, the PMIB states, that absent a large number of school districts seeking expanded investment authority, the agency could implement the provisions of the bill within current staffing and expenditures.

The bill, the fiscal note continues, could have an effect on the PMIB's future incomes and expenses. As of December 31, 2008, 42 school districts currently have investments totaling \$368.0 million in the Municipal Investment Pool (MIP). If school districts receive expanded investment authority, districts may choose to move investments from the MIP to their own investment portfolio. This would result in a loss of fee revenue to the PMIB. The agency notes that a "worse-case scenario" of losing all MIP deposits for Kansas school districts would result in a loss of approximately \$550,000 in fee revenues. However, the actual loss of revenue would depend on the number and size of school districts that would choose to leave the MIP. Any fiscal effect resulting from the enactment of the bill has not been included in *The FY 2010 Governor's Budget Report*.