March 7, 2014

The Honorable Rob Olson, Chairperson
Senate Committee on Financial Institutions and Insurance
Statehouse, Room 236-E
Topeka, Kansas  66612

Dear Senator Olson:

SUBJECT:  Fiscal Note for SB 422 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 422 is respectfully submitted to your committee.

SB 422 would amend existing law to allow the governing body of any local government to add federal agency securities (except for mortgage-backed securities) to the list of allowable investment alternatives for public funds.

According to the Pooled Money Investment Board (PMIB), passage of SB 422 could cause a modest decline in the overall balance of the Municipal Investment Pool (MIP), which is one of the many investment alternatives available for local governments. Balances in the MIP are invested along with the state’s idle funds in the Pooled Money Investment Portfolio (PMIP). Investors in the MIP are paid a fixed rate of return with the PMIB collecting a fee for its expenses. Any amount collected after covering PMIB expenses is paid to the State General Fund. Nonetheless, the goal of the MIP is not to raise revenue for the State General Fund, but to provide an investment option for local governments if they need it, while covering the PMIB expenses for the service. While the PMIB is unable to determine how many municipalities would withdraw funds from the MIP to take advantage of the new investment option, it estimates that a 10.0 percent drop in the overall MIP balance could result in a negligible decline in revenue to the State General Fund.

Over the long term, passage of the bill could result in a further decline of the MIP as more local governments explored the new investment alternative. However, the PMIB points out that at present over 80.0 percent of the MIP balance resides in the Overnight Municipal Investment Pool (OMIP) option, suggesting a need for daily liquidity by participants. This need for liquidity may limit the ability of municipalities to take advantage of the new investment
option and reduce any effect passage of the bill might otherwise have on the state. Any fiscal effect associated with SB 422 is not reflected in The FY 2015 Governor’s Budget Report.

Sincerely,

Jon Hummell,  
Interim Director of the Budget

cc: Derek Kreifels, Treasurer’s Office  
Scott Miller, PMIB