

STATE AFFAIRS COMMITTEE

March 20, 1963

The meeting was called to order and the Chairman stated that H.B. 153 would be considered and introduced Mr. Baringer to discuss the proposal. He stated that he had talked to various bankers in the State of Kansas and had made a study of this type of legislation in other states. (see attached statement).

Mr. Dean asked to be heard in opposition to the bill (from the Kansas Bankers Association), and stated that Banks are the target in these measures. He stated that banks must secure these funds 100% and that on demand deposits such as this, 20% as proposed, could not be invested. He stated that additional enabling legislation would be necessary and that when you start this type of legislation, you go on and on. He stated that this act, if passed, would take money from the Kansas banks and be a detriment to the economy of Kansas. He further stated that contrary to many beliefs, banks earned only .83 of 1% on these assets, because they are demand deposits; that banks in 1962 paid a million, two hundred eighty thousand dollars in intangible taxes and he feels they are carrying their load.

After a number of questions and considerable discussion, it was moved by Mr. Baringer that HB 153 be passed out favorably. Motion was seconded by Mr. Brown of Reno and upon vote, lost by a vote of 6 yes and 7 no.

Thereupon, Mr. Behee discussed HB 431, and stated that he had amendments which he proposed. In essence, he stated, they provide for leaving the licensing in the home area, but making the requirements more stringent, and like those required for the liquor dealers. Mr. Unruh stated that he felt the penalty should also be greater. Mr. Marshall established that the license fee would be the same as it is at the present; that only the requirements were made more stringent. It was decided that the amendments had not been drawn as Mr. Behee had requested and the Chairman asked if Mr. Behee would have the bill amendments drafted properly and asked the Committee to allow Mr. Gardner to be the "official inspector" and that the bill then be recommended favorably as amended. There were no dissents and Mr. Behee moved that the bill be recommended favorably as amended. Motion was seconded by Mr. Riddle and passed with one dissenting vote.

Meeting was adjourned.

Through the regular tax program of this state there accumulates in the state's treasury a sum of money which is not used to defray current expense. This money is carried on the books of the state treasury as an inactive account, *& deposited in the banks of the state.*

The history of this inactive fund account and the fact most of the states in the U.S.A. have a similar situation indicates this fund will continue to grow. We believe it the duty of this Legislature to handle this fund wisely and fairly for the benefit of all Kansans. A study of the present use and the potential of this fund prompts us to introduce HB 153, which we wish to discuss.

First, we wish to discuss the bill -- This bill, Sec. 1-<sup>sub. sec.</sup>~~item~~ (2) lines 90 to 94 inclusive simply provides that the banks of the state who accept deposit of this money, pay a rate of interest on 80% of such deposit equal to the rate of interest U.S treasury (91) day bills have averaged paying for the last five years immediately preceding the rate adjustment which adjustment shall be determined at six month intervals.

HB 153, Sec. 1-<sup>sub. sec.</sup>~~item~~ (3) provides for handling of the funds not subscribed by the banks in the manner stated in lines 147 in italics through all of line 159 inclusive.

147 Such portion of the inactive funds not  
148 subscribed by the banks as under subsection 2 of this section,  
149 the board of treasury examiners shall invest in securities  
of the  
150 United States government or Kansas state and municipal bonds  
151 or revenue bonds of the board of regents of the state of Kan-  
152 sas issued under authority of article 6a of chapter 76 of the  
153 General Statutes of 1949, or amendments thereto, or bonds and  
154 debentures issued either singly or collectively by any of the  
155 twelve (12) federal land banks, the twelve (12) intermediate  
156 credit banks, or the thirteen (13) banks for co-operatives under  
157 the supervision of the farm credit administration: Provided,

158 however, Twenty percent (20%) of all moneys so invested shall  
159 be invested in United States treasury ninety-one (91) day bills.

Second - The Fund. In 1939 on June 30 this fund contained \$6,769,450 and by Jan. 21 of 1963 it had increased to the rather fantastic sum of \$88,422,662. This is a yearly average increase of nearly \$4 million.

At present this \$88 + millions is deposited on an equal ratio basis among some 572 banks of the state.

These banks pay 1% interest on 80% of this money which is a time deposit, of 12 or 24 months.

Twenty per cent of this deposit is demand account and is interest free.

The banks can use this money in any manner they wish.

These deposits are covered by the regular reserve requirements, namely - 12½% for demand deposits, 5% for time deposits.

The interest yield to the state on this \$88,422,662 for fiscal 1962 was \$652,387,39.

For the purpose of a comparison the Employment Security Trust Fund in amount of \$61,766,352,37 deposited in the U.S. Treasury earned \$1,946,843.22. This was a greater yield by \$1,294,455.83 on \$9 million less money. (The rate was 2.97% for two quarters and 3.03% for two quarters).

The Kansas Public Employes Retirement fund of \$6,319,336.97 will return some \$270,202 at a rate of 4.28%.

The Kansas School Retirement Fund returned \$932,146.26 in interest on the sum of \$30,300,000 invested in 1962.

Our Research Department has figured that had this bill been law over the last five years and the banks had cooperated it would have increased the interest yield to the state on this fund by \$1,186,964 (Feb. 62 to Feb 63) in the year just past, and the increased yield over the five year period would have been \$5,361,622. Had the banks not cooperated the yield would have been greater, for the state would have invested the

20% which the banks now get free of interest.

The state cannot afford to lose this much money.

Opponents of this type of legislation are fond of stating that ~~their~~ investment of this money in the state municipal bonds keeps the interest rate low on these bonds. They fail however to mention this one fact, "That the predominant factor which determines the interest rate on any bond <sup>issue</sup> is the potential paying power of the organization issuing the bonds".

If the argument that this money keeps the bond interest rate low in Kansas has any virtue it also has a discriminating feature which is not admirable; for the wealthy organization with the strong redeeming potential gets the low rate while the weaker organization has to pay ~~over~~ the higher rate.

The weaker organization can justly say. "If we are using the state's money to keep bond interest rates low then let's keep our interest rates the same."

On the other hand the private investor and taxpayer in Kansas can argue that the state takes his tax money and uses it in competition against his personal investment program which can hardly be considered fair.

I would remind you of the efforts to get "Refunding of Bonds Legislation", through this session of the state legislature. This effort was sparked by the fact there is plenty of money available to take up bond issues at low interest rates, still the state is not putting out additional inactive funds now.

I would call your attention to the fact that should the banks invest the entire 80% of this money in Local Government Bonds of Kansas excluding revenue bonds they could purchase only slightly over 11% of the total outstanding issues.

Furthermore, we must remember every bond issue is an investment unto itself.

To the statement that the banks must secure this money at 100% of value there is in our judgment but one answer--If the money is used to purchase the bond used for its own security then the bank is only acting as a broker to handle the states money and every cent the bank clears on the transaction rightfully belongs to the state.

If the bank secures the money with its personally owned bond then it is collecting double interest on its original investment and the profit on the state's money rightfully belongs to the state.

HB 153 provides that the state act as its own broker.

In an effort to avert confusion we have purposely delayed mentioning the provisions for handling those monies which might accumulate in the "Emergency Fund" as described under item (c) sub. section (3) of Sec. 1-- This proviso beginning in line 172--page 6, and continuing through and including all of line 176, sets up a system where by the state can realize an income on such portion of it's tax revenue, which may accumulate and lay idle in the treasury between those periods of distribution of the states inactive funds to the banks.

That portion of the present law shown stricken, starting with line 177 page 6 and continuing on through and including all of line 206 deals with a special fund which under the provisions of this bill would not exist.