

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by Senator August "Gus" Bogina at
Chairperson

11:00 a.m./p.m./on April 2, 1985 in room 123-S of the Capitol.

All members were present except:
Senator Doyen

Committee staff present:

Research Department: Robin Hunn, Scott Rothe
Revisor's Office: Norman Furse
Committee Office: Judy Bromich, Doris Fager

Conferees appearing before the committee:

Jim Maag, Kansas Bankers Association
John Koepke, Kansas Assoticaion of School Boards
Ernie Mosier, League of Kansas Municipalities
Bev Bradley, Kansas Association of Counties
Susan Seltsam, State Treasurer's Office
James Turner, Kansas League of Savings Institutions
Dr. Robert Harder, Secretary, SRS
Marvin Umholtz, Kansas Credit Union League

HB 2122 - Securities for the deposit of public moneys

Mr. Maag distributed copies of his written testimony (Attachment A) and presented his statement to the committee. During his presentation, he indicated that not all banks are in favor of the provisions of HB 2122.

There were questions concerning present procedures for deposit of public moneys and the number of public entities involved.

Mr. Koepke said his organization wholeheartedly supports HB 2122. He stressed that protection of public funds is of vital interest. In answer to questions, he said that most school boards want to keep their funds in the local banks. Senator Werts asked about a provision of the Kansas statute that public funds can be secured with notes from real estate mortgages, and whether school districts have accepted that kind of security. Mr. Koepke said he had no knowledge of such security being used.

Mr. Turner stated that his organization also supports passage of HB 2122. He said members of the organization currently pledge 100% in security for deposit of public moneys. In connection with Senator Werts' question to Mr. Koepke, Mr. Turner said one institution has been able to utilize mortgage loans, but for the most part they are not used.

Mr. Mosier, Ms. Bradley and Ms. Seltsam each stated they support passage of HB 2122.

Motion was made by Senator Gaines and seconded by Senator Werts to delete all of subsection 6 on page 2 of HB 2122; and to delete all of subsection (h) on page 4 of HB 2122.

Mr. Turner suggested that it may be more appropriate to address this problem in terms of regulations. He added that the provision is not widely used, but is a local option. There was discussion by Senator Gaines and Mr. Turner concerning the amendment. Senator Gaines said his purpose was to provide liquidity of securities.

A substitute motion was made by Senator Johnston and seconded by Senator Harder to change the "75%" in line 144 to "50%". The substitute motion lost by a vote of 4-5.

The original motion carried by a vote of 5-4.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS

room 123-S, Statehouse, at 11:00 a.m./p.m./on April 2, 1985.

HB 2122 - Continued

Mr. Maag indicated that a technical amendment may be in order, since the bill will be reprinted as a result of the amendment voted upon by the committee. He suggested that a new section be added to HB 2122 to amend K.S.A. 9-1405 (included in Attachment A) to clarify that securities pledged to secure deposits of any municipal corporation or quasi-municipal corporation shall be deposited with a Kansas state or national bank.....

Motion was made by Senator Gaines and seconded by Senator Werts to amend HB 2122 to include the technical amendment suggested by Mr. Maag. The motion carried by voice vote.

Motion was made by Senator Gaines and seconded by Senator Werts to report HB 2122 as amended favorably for passage. The motion carried by roll call vote.

HB 2510 - Requiring financial organizations to provide information to the secretary of SRS

Dr. Harder distributed his statement to the committee (Attachment B) and then presented his views on HB 2510. Senator Feleciano asked how the program would be funded. Dr. Harder answered that he does not anticipate a rush of activity. Consequently, it is being handled as an "add-on." In answer to a question to Senator Werts, Dr. Harder said he had not endeavored to determine the economic impact of the proposal on banks, but it is his understanding it would not be significant.

Mr. Turner stated that the bill, as drafted in a permissive manner, is supported by his organization. He indicated he supports the underlying concept and the goal of SRS in attempting to attain financial information; and he suggested that it may be that the amount of recovery may pay the costs. Mr. Turner said he did not believe the cost to financial institutions would be substantial. He said he feels the impact of the bill leaves it to SRS and the financial institution to attempt to work on a pilot program.

Mr. Turner continued by stating that the key provision of the bill is sub-section (d), which affords protection to the institution participating in the pilot program.

There was discussion concerning manual operation versus computer operation of records in banks. Mr. Turner said it may be that no bank participates in the program. Mr. Maag suggested that realistically there will be only large urban banks involved in the voluntary program.

Mr. Umholtz stated that the Credit Unions opposed the bill when participation was mandatory, but have no position since it became voluntary.

Mr. Furse stated that technical amendments need to be made in the title of the bill. Motion was made by Senator Talkington and seconded by Senator Harder to amend HB 2510 with the technical amendments suggested by Mr. Furse. The motion carried by voice vote.

Motion was made by Senator Talkington and seconded by Senator Gannon to report HB 2510 as amended favorably for passage. The motion carried by roll call vote.

SB 355 - Increase of lobbyist registration fee

Senator Winter indicated that, since the bill was introduced, the Secretary of State and the Public Disclosure Commission have solved the problem which warranted introduction in the first place. He added that the need for the bill is gone.

Senator Bogina explained to the committee that he had a request from a lobbyist to permit lobbyists to purchase their own permanent badges. At the suggestion of Senator Werts, it was agreed that the committee ask for a recommendation from the Secretary of State.

No action was taken on SB 355.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS,
room 123-S, Statehouse, at 11:00 a.m./p.m./on April 2, 195.

INTRODUCTION OF BILL

Senator Harder requested introduction of a bill to change the beginning of terms of Chairpersons of the Joint Building Construction Committee from January 1 to July 1.

Motion was made by Senator Harder and seconded by Senator Kerr to introduce the bill noted above, and to request that it be referred to Committee of the Whole. The motion carried by voice vote.

The meeting was adjourned by the Chairman.



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 28, 1985

TO: Senate Ways & Means Committee

FROM: James S. Maag
Kansas Bankers Association

RE: HB 2122

Mr. Chairman and members of the Committee:

Thank you for this opportunity to discuss the provisions of HB 2122. The bill amends the Kansas statutes relating to the pledging of securities for deposits of state and local units of government. The safety of public funds deposits in Kansas banks has always been a high priority of the Kansas legislature and the Kansas banking industry and this bill is offered in the continuing desire to assure taxpayers that tax revenues deposited in Kansas banks will always be fully covered. We would emphasize there has never been a dime of public funds lost in Kansas banks and this bill is presented in the continuing tradition of assuring safety and soundness for public funds deposits.

The pledging requirements for deposits of local units of government are set forth in K.S.A. 9-1402 which outlines what securities can be used by Kansas banks and savings and loans to secure local public funds deposits. That particular statute also currently requires that if the rate paid by the bank or s&l is at or below the 91-day T-bill rate the deposit must be secured by securities with a market value which are equal to no less than 70% of the total deposit less federal insurance coverage. If banks or s&ls pay above the 91-day T-bill rate, then 100% pledging is required. Section one of HB 2122 would increase the required pledging to 100% for all deposits regardless of the rate paid and require that the securities being pledged are at market value.

Pledging requirements for deposits of the state of Kansas are set forth in K.S.A. 75-4218 and section 2 of HB 2122 amends that statute to require 100% pledging rather than the current 70% pledging of securities on state deposits. Under current law there is no time when the required pledging exceeds 70% of any deposit of state monies. Therefore, the statute for state deposits is somewhat different than that for local public funds.

The State Affairs Committee of the Kansas Bankers Association endorsed the introduction of HB 2122 because of the concern expressed by local and state officials. Incidents have arisen recently in other states where public funds deposits have not been adequately secured and local and state governments may lose significant amounts in the closing of financial institutions. As stated above, while there has never been a dime of Kansas public funds lost thanks to the diligent work of the Kansas legislature and the Kansas banking industry, we must always be concerned about the comfort level of elected officials and the public concerning the deposit of tax revenues. Therefore, to eliminate any concern on this issue, the decision was made by the State Affairs Committee to request this bill requiring 100% pledging.

It should be noted, however, that by moving the requirement to 100% pledging of public funds deposits it does create a situation where banks may find it difficult in certain circumstances to have adequate securities to cover large public funds deposits. In addition, they may not be as interested in bidding on these monies because of the increased pledging requirements. It might be well to note that one of the reasons for setting the pledging requirements at 70% originally was to attract a better rate of interest for public funds deposits and by moving the pledging requirement to 100% it may have a depressing effect on the rates which are bid on the funds of local units of government and the willingness of banks to bid for the state active account. Therefore, we believe state and local units need to weigh carefully the positive and negative aspects of this type of legislation.

Kansas banks are very proud of the long tradition of service and cooperation they have with local and state governments in Kansas and we stand ready to work with them in deciding what are the best policies for the investment of their tax revenues.

Again, Mr. Chairman and members of the Committee, we appreciate the opportunity to present this issue to the Committee and we would ask you to give favorable consideration to HB 2122.

9-1405. Deposit of bonds and securities; custody receipts. (a) All bonds and securities given by any bank, trust company, 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 safe-keeping 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, trust company, 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, trust company, savings and loan association or federally chartered savings bank securing such public deposits.

(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, trust company, savings and loan association or federally chartered savings bank taking or securing such deposit. In every report required to be published by any bank, trust company, 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.

(d) A bank, trust company, 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. (L. 1982, ch. 52, § 4; L. 1983, ch. 47, § 5; July 1.)

9-1406. Exemption from liability of public deposit. No public officer nor the sureties upon such officer's bond shall be liable for any loss sustained by the failure or default of any designated depository or depositories after a deposit or deposits have been made in an officially designated bank, trust company, savings and loan association or federally chartered savings bank as provided in this act. This exemption from liability shall apply even though other statutes shall require the furnishing of a bond or other securities by the designated depositories of public moneys. (L. 1947, ch. 102, § 68; L. 1983, ch. 47, § 6; July 1.)

9-1407. Exemption of security for insured portion of public deposits. That portion of any deposit of public moneys or funds which is insured by the federal deposit insurance corporation, or its successor, or the federal savings and loan insurance corporation, or its successor, need not be secured as provided in this act. (L. 1947, ch. 102, § 69; L. 1982, ch. 52, § 5; July 1.)

Article 42.—STATE MONEYS

75-4201. Definitions. As used in this act, unless the context otherwise requires:

- (a) "Treasurer" means state treasurer.
- (b) "Controller" means director of accounts and reports.
- (c) "Board" means the pooled money investment board.
- (d) "Bank" means a state or national bank or trust company doing business within the state of Kansas.
- (e) "State moneys" means all moneys in the treasury of the state or coming lawfully into the possession of the treasurer.
- (f) "Custodial moneys" means state moneys deposited with the treasurer which, in the written opinion of the attorney general, are required by contract, bequest or law to be segregated from other bank accounts.
- (g) "Special moneys" means moneys which are required to be or are deposited in a custodial bank account or a fee agency account by the state or any agency thereof.
- (h) "State bank account" means state or special moneys deposited in a designated bank in accordance with the provisions of this act.
- (i) "Active account" means a state bank account which (1) is payable or withdrawable, in whole or in part, on demand, and (2) is in a bank not having an inactive account.
- (j) "Inactive account" means a state bank account which is not payable on demand but shall not include custodial accounts.
- (k) "Time deposit, open account" means a state bank account which is a deposit, other than a time certificate of deposit, with respect to which there is in force a written contract which provides that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity or the expiration of the period of notice which must be given by the board in writing.
- (l) "Custodial account" means a state bank account of custodial moneys.
- (m) "Fee agency account" means a state bank account of any state agency consisting of fees, tuition or charges authorized by law prior to remittance to the state treasurer.
- (n) "Disbursement" means a payment of any kind whatsoever made from the state treasury or from any active account, except transfer of state or special moneys between or among active accounts and inactive accounts or either or both of them.
- (o) "Interest period" means three months commencing on the date an inactive account is initially deposited, and each three months thereafter, and in the case of time deposit, open accounts means the period of the deposit but not exceeding three months.
- (p) "Securities" means any one or more of the following:
 - (1) Direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof.
 - (2) Kansas municipal bonds which are general obligations of the municipality issuing the same.
 - (3) Revenue bonds of any agency or arm of the state of Kansas.
 - (4) Revenue bonds of any municipality, as defined by K.S.A. 10-101, within the state of Kansas or bonds issued by a public building commission as authorized by K.S.A. 12-1761 if approved by the state bank commissioner, except (A) bonds issued under the provisions of K.S.A. 12-1740 *et seq.* unless such bonds are

rated at least MIG-1 or Aa by Moody's Investors Service or AA by Standard & Poor's Corp. and (B) bonds secured by revenues of a utility which has been in operation for less than three years. Any expense incurred in connection with granting approval of revenue bonds shall be paid by the applicant for approval.

(5) Temporary notes of any municipal corporation or quasi-municipal corporation within the state of Kansas which are general obligations of the municipal corporation or quasi-municipal corporation issuing the same.

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

(7) Bonds of any municipal or quasi-municipal corporation of the state of Kansas which have been refunded in advance of their maturity and are fully secured as to payment of principal and interest thereon by deposit in trust, under escrow agreement with a bank, 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) All of such securities shall be current as to interest according to the terms thereof.

(9) 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. (L. 1982, ch. 362, § 1; L. 1983, ch. 49, § 96; May 12.)

75-4202. Active accounts. All state moneys and credits received by the treasurer shall be deposited daily in one or more active accounts or time deposit, open accounts except custodial moneys which shall be so deposited in custodial accounts. All disbursements shall be drawn from active accounts. All banks having a state bank account shall service all warrants, drafts or checks of the state or its agencies without charge. (L. 1967, ch. 447.)

75-4205. Active bank accounts; designation of banks; limitations on deposits; deposits in time deposit, open accounts and investments in repurchase agreements, when. (a) The board shall designate one or more banks to receive active accounts. The capital and surplus of any bank having an active account shall be not less than \$2,000,000. In determining the amount of the award of an active account to any bank designated under this subsection therefor, the board shall give consideration to the amount of service to be required of it. Active accounts shall bear no interest.

(b) The aggregate moneys in all active accounts shall not exceed \$40,000,000 at any time, except that in periods of anticipated peak disbursements, the board, in its discretion, may cause the aggregate moneys in the active accounts to exceed such amount for the duration of such periods of peak disbursements, not to exceed 10 days. At any time moneys in active accounts exceed 50% of the award of such accounts, additional moneys may be deposited in time deposit, open accounts.

(c) If the aggregate of all active accounts exceeds the limit prescribed in subsection (b), the board shall direct the treasurer to make withdrawals within 60

STATE DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

STATEMENT REGARDING H.B. 2510
As Amended by House Committee

Title

AN ACT directing financial organizations to provide information relating to applicants for or recipients of public assistance to certain persons; providing civil penalties.

Purpose

The proposed legislation authorizes treasurers of financial organizations to provide the Secretary of SRS, upon request, information relating to deposits, withdrawals, and interest transaction of applicants and recipients of public assistance. The legislation also provides that a reasonable fee may be charged the state so long as the fee does not exceed the actual cost of providing the information requested. Participation of financial institutions in this information disclosure system is voluntary.

Background

As evidenced by quality control findings for public assistance programs, assistance is being provided to persons who own resources that are in excess of the allowable levels. In some cases the receipt of assistance is a direct result of willful misrepresentation on the part of the client while in other instances there is no intent to defraud the department, such as when an application is filed on behalf of an elderly or disabled client by a friend or relative, without knowledge of a particular asset that may be available to the client. The department has no mechanism for routine inquiries relative to the resources owned by applicants and recipients.

The national tolerance level for Aid for Dependent Children and Medicaid errors is 3%. The food stamp tolerance level is 5% with legislation pending which would reduce that also to 3% or even lower. Errors exceeding these arbitrarily established percentage rates subject the state to fiscal penalties, or sanctions. Presently, a sanction of 1.9 million dollars is pending for errors exceeding the tolerance level in the Aid for Dependent Children Program for the 1981 federal fiscal year. As federal budget deficits continue there will likely be a continuation of the trend to require states to assume a greater fiscal responsibility for all program errors.

When a client owns excess resources, the total benefits issued to that client are considered to be incorrect payments. These errors not only subject the state to possible fiscal sanctions resulting from the quality control system, but also create a credibility gap in the department's ability to manage the income assistance programs in a cost effective and cost efficient manner.

If the state is forced to pay large federal sanctions for "excessive" program errors the result will, of course, be a loss of state dollars to operate assistance programs or meet other state priorities.

It should also be noted that the recommended procedure has been used by Massachusetts and other states with some success.

Alternatives which can be considered include:

1. Maintain the existing error prone system of relying on information provided by the applicant, recipient or interested party filing the application, or
2. Pass legislation to empower the Secretary to obtain resource information through a matching of SRS applicants and recipients with financial institutions' as proposed.

Effect of Passage

Passage of this bill will allow the Department of Social and Rehabilitation Services to obtain resource information from financial institutions for recipients of public assistance. The information would generally be obtained through computer matching of bank records against assistance records. Information from the financial institution would only be accessed for those individuals who are also public assistance recipients, and would be handled by the department to the laws of confidentiality. The bill also provides that a reasonable fee may be charged to the state, so long as the fee does not exceed the actual cost of providing the information. Participation by financial institutions in this information disclosure program is voluntary.

SRS Recommendation

It is recommended that, as outlined in alternative 2 above, legislation authorizing financial organizations to provide information to the Secretary regarding applicants or recipients of public assistance be adopted.

Fiscal Impact

Potential cost savings through reduction of uncorrected public assistance payments to ineligible individuals and resultant reduction in federal sanctions against the state for excessive error rates.

Robert C. Harder
Office of the Secretary
Social and Rehabilitation Services
296-3271
April 2, 1985

DRAFT BILL NO. _____

For Consideration by Committee on Ways and Means

AN ACT concerning the joint committee on state building construction; relating to the organization thereof; amending K.S.A. 1984 Supp. 46-1701 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 1984 Supp. 46-1701 is hereby amended to read as follows: 46-1701. (a) There is hereby created the joint committee on state building construction which shall be within the legislative branch of state government and which shall be composed of three senators and three members of the house of representatives. The three senate members shall be the chairperson of the committee on ways and means committee of the senate, or a member of the committee on ways and means committee of the senate appointed by the chairperson, a senator appointed by the president and a senator appointed by the minority leader. The three representative members shall be the chairperson of the committee on ways and means committee of the house of representatives, or a member of the committee on ways and means committee of the house of representatives appointed by the chairperson, a representative appointed by the speaker and a representative appointed by the minority leader.

(b) All members of the joint committee on state building construction shall serve for terms ending on the first day of the regular legislative session in odd-numbered years. The joint committee shall organize annually and elect a chairperson and vice-chairperson in accordance with this subsection. After June 30 in even-numbered odd-numbered years, the chairperson shall be one of the representative members of the joint committee elected by the members of the joint committee and the vice-chairperson

shall be one of the senate members elected by the members of the joint committee. After June 30 in odd-numbered even-numbered years, the chairperson shall be one of the senate members of the joint committee elected by the members of the joint committee and the vice-chairperson shall be one of the representative members of the joint committee elected by the members of the joint committee. The chairperson and vice-chairperson of the joint committee shall serve in such capacities until July 1 of the ensuing year. The vice-chairperson shall exercise all of the powers of the chairperson in the absence of the chairperson. If a vacancy occurs in the office of chairperson or vice-chairperson, a member of the joint committee, who is a member of the same house as the member who vacated the office, shall be elected by the members of the joint committee to fill such vacancy. Within 30 days after the effective date of this act, the joint committee shall reorganize and elect a chairperson and a vice-chairperson in accordance with the provisions of this act.

(c) A quorum of the joint committee on state building construction shall be four. All actions of the joint committee shall be taken by a majority of all of the members of the joint committee.

(d) The joint committee on state building construction may meet at any time and at any place within the state on the call of the chairperson.

(e) The provisions of the acts contained in article 12 of chapter 46 of the Kansas Statutes Annotated, and amendments thereto, applicable to special committees shall apply to the joint committee on state building construction to the extent that the same do not conflict with the specific provisions of this act applicable to the joint committee.

(f) In accordance with K.S.A. 46-1204 and amendments thereto, the legislative coordinating council may provide for such professional services as may be requested by the joint committee on state building construction.

(g) The joint committee on state building construction may introduce such legislation as it deems necessary in performing its functions.

Sec. 2. K.S.A. 1984 Supp. 46-1701 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.