

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS

The meeting was called to order by Representative David G. Miller at
Chairperson

3:30 ~~xxx~~ a.m./p.m. on February 20, 1986 in room 527-S of the Capitol.

All members were present except: Rep. Dyck, excused; Rep. Louis, excused; Rep. Wilbert.

Committee staff present: Bill Wolff, Legislative Research Department
Bruce Kinzie, Revisor of Statutes Office
Virginia Conard, Secretary

Conferees appearing before the committee: Jim Turner, Kansas League of Savings Institutions
Jim Maag, Kansas Bankers Association
John Koepke, Kansas Association of School Boards
Ernie Mosher, League of Municipalities
Steve Wiechman, Kansas Association of Counties

Vice-Chairperson David Miller called the meeting to order and asked Dr. Bill Wolff to brief the committee on Sub. for SB139. Following Dr. Wolfe's briefing, Rep. Miller called on first conferee Jim Turner, President of Kansas League of Savings Institutions, who asked the Committee's support of the passage of Sub. for SB139. (See Attachment I for details.)

In response to questioning on peak pledging, Mr. Turner distributed Attachment II.

Second conferee Jim Maag of the Kansas Bankers Association testified in favor of passage of Sub. for SB139. (See Attachment III for details of his testimony.)

Also testifying before the Committee in favor of passage of Sub. for SB139 were John Koepke, Executive Director of the Kansas Association of School Boards; Ernie Mosher, Secretary of the League of Municipalities; and Steve Wiechman, Kansas Association of Counties.

Acting Chairperson Miller then directed the committee's attention to HB2837 on which hearings had been held Tuesday.

Rep. Ken Francisco moved that HB2837 be amended by striking the word "existing" from line 20 and changing line 24 to read "Kansas Register" in lieu of "statute book". Rep. Dorothy Nichols seconded the motion. Motion carried.

Rep. Dick Eckert moved that the word "No" be stricken and the word "A" be inserted in Line 20 and that the word "not" be inserted in Line 20 between the words "shall" and "change". Rep. Susan Roenbaugh seconded the motion. Motion carried.

Rep. Nichols moved that HB2837 be recommended favorably for passage, as amended. Rep. Eckert seconded. Motion carried.

Rep. Bob Ott moved to report HB2838 favorably. Rep. Sand seconded. Motion was adopted.

Rep. J. C. Long moved that the minutes of the Feb. 18 meeting be approved. Rep. Eckert seconded. Motion carried.

Meeting adjourned at 4:30 p.m.

A. Hachman

KLSI Kansas League of Savings Institutions

JAMES R. TURNER, President • Suite 612 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

February 20, 1986

TO: HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS
FROM: JIM TURNER, KANSAS LEAGUE OF SAVINGS INSTITUTIONS
RE: SUB. S.B. 139 (LOCAL PUBLIC FUNDS DEPOSITS, S&L OFFICES)

The Kansas League of Savings Institutions appreciates the opportunity to appear before the House Commercial and Financial Institutions Committee in support of the passage of Sub. S.B. 139. This bill would expand the investment opportunities for local units of government by deleting the restrictions in 1985 Supp. 9-1401 and 12-1675 that public funds may be placed only in the home offices of savings and loan associations and banks. The enactment of Sub. S.B. 139 would allow local units to seek competitive bids from savings and loan branch offices and limited facility branches of commercial banks.

This measure has the support of the Kansas Association of School Boards, League of Kansas Municipalities, and the Kansas Bankers Association and was enacted by the Senate 40-0.

While a number of ancillary issues or concerns may be advanced regarding Sub. S.B. 139, there are really only two basic issues before the committee that must be addressed:

1. Shall local units of government have the option and the opportunity to place their idle funds as they analyze would be in the best interest of the unit they represent or shall the monopoly over such deposits be continued by the commercial banking industry in this state?
2. Should the disparity resulting from the passage of multi-bank holding company legislation be continued whereby multi-bank branches are allowed to bid but savings and loan branches are not?

With the increased demand on local units to maximize the use of the tax dollars collected and to improve the yield on their investments, the continued denial of competitive bidding in so many Kansas communities is both imprudent and unfair. There are presently 64 counties that must invest their funds primarily in Kansas banks. Of this number, 45 counties have a branch office of a savings and loan association and no home office and 19 counties do not have a savings and loan office.

Attachment I
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House C&FI Committee

In addition, there are 88 Kansas cities with limited choice of investing public funds as these are communities with branch offices and no home office. Included in this group would be communities such as Abilene, Arkansas City, Clay Center, Colby, Derby, Goodland, Great Bend, Iola, Lenexa, Norton, Paola, Pratt, Sterling, and Wamego.....to list but a few.

Further, while such evidence is difficult to document, there are indications that those communities in which competitive bidding is not available that local units receive one-half to one percent less on their investments. With the total local unit base approximating 1.5 billion, this represents a considerable subsidy to selected commercial banks.

A survey this past month of 50% of the League membership, representing 57% of the state's assets, revealed that the respondents had \$83 million of the total \$595 million of local funds available on deposit.....or 14% of the total. Obviously, these communities are receiving competitive bids. Also, it exposes the myth that allowing savings and loans to bid competitively would result in the money being "sucked out of the banks."

It is especially important to note that the survey respondents indicated that in communities where they have branch offices, but are not allowed to bid, there is presently \$455 million of local public funds. we project this total approximates \$650 million on a state-wide basis. These numbers reveal not only the restrictions and limited opportunities imposed on local units in the exercise of their investment decisions, it points up the continued unfair aspect of a bank monopoly in this area that results in a taxpayer subsidy to selected banks.

Also, S.B. 139 addresses the issue of inequity created by the 1985 passage of the multi-bank holding company legislation. Enclosed find a recent listing from Kansas Business News of the 10 largest multi-bank holding companies. Regardless of arguments put forth regarding structures, boards, officers, etc.....we view the 8 banks acquired by Fourth National Bank as a branch network of the Fourthand no different than the branch network of a savings and loan association. The ultimate investment decisions, those impacting rates paid to investors whether individuals or local units, will be influenced if not dictated by the parent company.

We deem it to be totally unfair to allow these acquired banks (branches) to be allowed to continue to bid on local public funds absent the passage of Sub. S.B. 139. Conversely, the passage of Sub. S.B. 139 would end the debate over financial institutions bidding as all S&L and Bank offices could bid.....provided they are domiciled Kansas companies.

In closing, we would like to emphasize that the intent of Sub. S.B. 139 is to allow local units to expand the number of financial institutions from which they can secure competitive bids for their idle funds. It does not mandate that they use a savings and loan institution. It should also be noted that the local unit has the sole discretion as to the type and quality of security collateral that they will accept.

Accordingly, we would request that the committee end the present inequities and allow local units the opportunity to control their investment decisions by reporting Sub. S.B. 139 favorably for passage.

James R. Turner
President

JRT:bw

Encl.

PUBLIC FUNDS SURVEY
(Comparisons)
1-15-86

1. Survey response percentage (27/59 = 46%).

2. Local public funds presently held by the home offices:

	<u>Amount Held</u>	<u>Amount Available</u>	<u>Percentage (%)</u>
City	\$ 23,262,866	\$223,710,000	10.4 %
County	\$ 13,253,058	\$258,700,000	5.1 %
School District	\$ 46,866,520	\$113,182,000	44.0 %
TOTALS	<u>\$ 83,382,444</u>	<u>\$595,592,000</u>	14.0 %

3. Total amount of local public funds presently available at the branch offices, but which we cannot bid on:

City	\$ 139,338,000
County	\$ 238,264,800
School Districts	\$ 78,219,000
TOTALS	<u>\$ 455,821,800</u>

4. Average rate of return:

City	8.22 %
County	8.05 %
School District	7.71 %

5. Is your association regularly notified of funds available for bid by local units?

YES 74% NO 23%

6. If bidding at branches were to be allowed by the Legislature;

A. Would your association bid? YES 70% NO 15%

B. Do you feel local units would pursue bids from your branches?

YES 69% NO 15%

7. Of the total survey responses, they represent 57% of the total assets of Kansas.

$$\frac{7,435,978,353}{13,097,584,147} = 57 \%$$

Largest multi-bank organizations

Rank	Organization	Assets (000s)	
1	Fourth Financial Corporation, Wichita, Kansas		
	Fourth National Bank & Trust, Wichita	1,285,543	
	Fourth Charter Bank, Wichita	2,577	
	Kansas State Bank, Newton	79,345	
	First National Bank, Coffeyville	106,008	
	National Bank of Pittsburg	86,924	
	Patron's State Bank, Olathe	130,038	
	Planters Bank & Trust, Salina	99,217	
	Citizens National Bank & Trust, Emporia	98,887	
First National Bank of Topeka	445,747	2,334,286	
2	First Bancorp of Kansas, Wichita, Kansas		
	First National Bank of Wichita	649,615	
	National Bank of Eldorado	25,000	674,615
3	Merchants Bancorporation, Topeka, Kansas		
	Merchants National Bank, Topeka	228,788	
	Kansas State Bank, Manhattan	35,613	
	First National Bank of Lawrence	124,274	388,675
4	Sierra Petroleum Co., Wichita, Kansas (See also W.A. Michaelis Jr.)		
	Hutchinson National Bank & Trust, Hutchinson	176,786	
	National Bank of Wichita	45,287	
	Twin Lakes State Bank, Wichita	49,400	
	United American State Bank, Wichita	72,170	343,643
5	CNB Financial Corporation, Kansas City, Kansas		
	Commercial National Bank, Kansas City	278,083	
	City National Bank, Atchison	53,443	331,526
6	Kansas State Financial Corporation, Wichita, Kansas		
	Kansas State Bank & Trust, Wichita	237,755	
	Central Bank & Trust, Wichita	84,700	322,455
7	Starr Bank Consultants, Hutchinson, Kansas (See note)		
	First National Bank, Meade	24,735	
	Fourth Bank of Garden City	17,573	
	Commerce Bank of Hutchinson	17,074	
	Haskell County State Bank, Sublette	39,038	
	Valley State Bank of Syracuse	18,720	117,140
8	Kansas Bank Corporation, Liberal, Kansas		
	First National Bank, Liberal	76,316	
	Citizens Bank & Trust, Abilene	39,573	115,889
9	Midwest Bancorporation, Hays, Kansas		
	Farmers State Bank & Trust, Hays	89,089	
	Bushton State Bank, Bushton	8,611	111,357
10	Kansas Bancorp II, Concordia, Kansas		
	First Bank & Trust, Concordia	56,934	
	First National Bank of Glasco	9,401	66,335

Note: Ownership of these banks is divided among Merle Starr, Pat Thompson, and various other individuals. Starr Bank Consultants provides funds management and certain other services to each affiliated bank.

Source: *Kansas Business News*

RE: "PEAK PLEDGING" - Public Funds

The present provisions of 1985 Supp. 9-1403 allows for a one-half reduction of pledgeable securities during periods of peak deposits occurring at tax paying and distribution times, provided the local unit has entered into a written agreement with the financial institution for such peak period deposits not to exceed 60 continuous days.

We feel there is no need to amend the aforementioned statute for the following reasons:

1. Pledging is a local decision. A local unit may refuse to enter into a written agreement for peak pledging thereby maintaining a 100% required securities pledge. Several local units have already taken such action.
2. The passage of Sub. S.B. 139 will expand the number of depositories available to local units thereby spreading the peak period deposits.
3. The passage of supervisory bank branches, supported by KLSI, will add further protection during peak periods and maintain the available depositories.
4. County Treasurers presently have the option to make early distribution to various local units thereby expanding the base of federal insurance for such deposits.

Attachment III



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 20, 1986

TO: House Committee on Commercial and Financial Institutions

RE: Sub. for SB 139

Mr. Chairman and members of the Committee:

Thank you for the opportunity to appear before the committee and discuss the provisions of Sub. for SB 139. The bill makes several significant amendments to the local public funds statutes and will not only impact where local public funds are placed, but could also have an impact on the Kansas economy.

You are all well aware of the difficulties we are experiencing in Kansas with our agricultural economy and any time agriculture is struggling it is bound to have an impact on the financial institutions serving agriculture. In 1985, there were 13 banks closed in Kansas and in five of those instances the bank was not reopened. In three of the five instances the community was then left without any banking services which creates tremendous hardships--especially for senior citizens. It is important to understand that Kansas has 323 one-bank communities and thus the possibility of additional communities being without banking services is a very important issue which we believe should be addressed by the legislature with all due speed.

Because there is a strong concern that there will continue to be a dearth of bidders to establish a newly-chartered bank in communities where the one bank has been declared insolvent, the Kansas Bankers Association is recommending legislation which would allow a Kansas bank to acquire the assets and liabilities of the insolvent bank in a one-bank community and establish a detached facility there. This would obviously mean the acquiring bank would be establishing a detached facility or branch beyond the boundaries of the city or town where the home office of the acquiring bank is located.

An important part of the deposit base which the acquiring bank receive would be the deposits of local units of government. In most bank local public funds deposits will constitute from 5% to 15% of total deposits. Under the present public funds law, it would be impossible for the bank planning to establish a detached facility at the site of the insolvent bank to hold those public funds deposits. To exclude these deposits from the deposit base would diminish significantly the desire of any bank to bid on the assets and liabilities of the insolvent bank. Therefore, we believe it is important that legislation allowing the acquiring bank to maintain those deposits be passed and it is our opinion that Sub. for SB 139 would accomplish that goal.

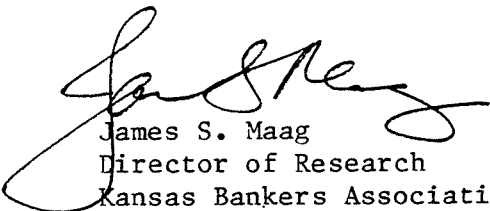
Attachment III

2/20/86 House C&FI Committee
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We would also call to the committee's attention to the amendment to K.S.A. 12-1675 which would nullify what we believe to be an incorrect interpretation of that statute by the Attorney-General. In a situation involving a hospital district the Attorney-General has ruled that subsections (b)(2) and (b)(3) must be interpreted separately and are not inter-related in their application. We believe this is completely contrary to legislative intent as set forth when this statute was extensively amended in 1982 and the interpretation negates the long-standing legislative philosophy that tax dollars should be invested as nearly as possible within the boundaries of the local units were those tax revenues were collected. Your careful consideration of that amendment is greatly appreciated.

Thank you for the opportunity to appear before the committee and we urge you to give favorable consideration to Sub. for SB 139 as amended.



James S. Maag
Director of Research
Kansas Bankers Association