

Approved February 6, 1992

Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

The meeting was called to order by SENATOR RICHARD L. BOND at _____
Chairperson

9:11 a.m./~~pm~~ on Wednesday, February 5, 1992 in room 123-S of the Capitol.

~~All~~ members ~~were~~ present ~~except~~:

Senators Bond, Francisco, Kerr, Moran, Parrish, Reilly, Salisbury,
Strick, Ward and Yost.

Committee staff present:

Fred Carman, Revisor
Richard Ryan, Research
June Kossover, Committee Secretary

Conferees appearing before the committee:

Sally Thompson, State Treasurer
Clark Young, Community Bankers Association
Mike Billinger, Association of County Treasurers

The meeting was called to order by Chairman Bond at 9:11 a.m.

Senator Strick made a motion, seconded by Senator Kerr, to approve the minutes of the meeting of February 4, 1992. The motion carried.

Chairman Bond opened the continued hearings on SB 480 and SB 482. Following her direct testimony on Tuesday, 2/4/92, State Treasurer Sally Thompson appeared before the committee to answer questions from committee members.

Senator Salisbury asked for clarification of the safety controls to prevent the recent events in Iowa from occurring in Kansas. Ms. Thompson responded that SB 482 establishes the Pooled Money Investment Board (PMIB), the qualifications for which are very stringent. The PMIB will have a separate staff to oversee investments.

Senator Reilly commented on the imprudence of Iowa allowing their funds to be invested in a private individual's name. Ms. Thompson advised that fraud charges are now pending against the individual in the Iowa case.

Senator Strick asked for more specifics of the commission fees paid to dealers handling the transactions. Ms. Thompson stated that although the commission would take away from the state's net return, the fees are very small.

Chairman Bond requested Ms. Thompson to explain bank collateral requirements on governmental deposits.

Senator Parrish questioned the language on page 16. Ms. Thompson explained that the intent is to phase in competitive bidding over a four year period. Senator Kerr asked whether this bill would raise the cost of capital to banks, and Ms. Thompson responded that the bill would raise the cost less than 1% to most banks. In response to Senator Kerr's query about additional staff required, Ms. Thompson said that 1 1/2 additional staff would be required: one half-time investment officer, one half-time analyst, and one half-time clerical staff.

In response to Senator Ward's question about where the anticipated \$30 million in increased revenue figure came from, Ms. Thompson explained that someone else is now taking these profits instead of state and local governments. Senator Ward asked if any bank failures are anticipated. Ms. Thompson replied in the negative.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 123-S, Statehouse, at 9:11 a.m./~~p.m.~~ on Wednesday, February 5, 1992, 19 .

Senator Yost inquired about the function of the PMIB. Ms. Thompson replied that the PMIB, of which the State Treasurer is chair, is the oversight body and would set policy. Staff would actually make the investments. The State Treasurer will do administrative work; i.e., collection of monies, disbursement, and reporting. With this, Ms. Thompson concluded her testimony before the committee.

Mr. Clark Young, Community Bankers Association, appeared before the committee to testify against SB 480 and SB 482. (Attachment #1.)

Mr. Mike Billinger from Hays, Kansas, representing the Association of County Treasurers, appeared before the committee to offer testimony in support of SB 480 and SB 482. (Attachment #2.)

Chairman Bond announced that the hearings on SB 480 and SB 482 will continue on Thursday, February 6, 1992. The bills which had been scheduled for hearing, SB 491, SB 492, and SB 512, will be rescheduled for Tuesday, February 11, 1992. The committee will meet on call of the Chairman on Monday, February 10, 1992.

The Committee adjourned at 10:02 a.m.

TESTIMONY BEFORE THE SENATE COMMITTEE ON

FINANCIAL INSTITUTIONS AND INSURANCE

SB480; INVESTMENT OF PUBLIC FUNDS

BY: CLARK P. YOUNG

FEBRUARY 5, 1992

Chairperson Bond, members of the Committee, it is an honor to appear before you and express my concern regarding the "Public Funds Investment" bill. My name is Clark P. Young. I am a director and the treasurer of the Stevens County Economic Development Board, a licensed attorney in the state of Kansas, and the Executive Vice President of the Citizens State Bank of Hugoton, a sixty-million dollar bank located in southwest Kansas. But don't let our size impress you. Only about five million dollars is actually the bank's capital. The other fifty-five million dollars are deposits we receive from the Hugoton area. It's the community's money and it should be used primarily for the benefit of the local economy. Under the Community Reinvestment Act, each bank is required to state its delineated area in which it will conduct business and to serve its loan customers from that area. But, each bank needs a deposit base from which it derives its ability to loan money. Idle public funds are an integral part of that base.

As of December 31, 1991, one-third of our entire bank's certificates of

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Attachment #1

deposits consisted of local public funds. This money is used to bolster our local community and create jobs as well as maintain the bank in a safe and sound manner. Every bank in Kansas should maintain the right to pay a competitive rate of interest on local public funds and to utilize these funds for local economic development.

Currently, nearly 90% of our Public funds are invested for a period of 1 month. However, the bank is paying the average 91 day T-Bill rate for these deposits. Thus, the bank has use of the funds, pledges securities equal to 100% of the market value, pays a reasonable rate of return and charges no fee for this service. The system has worked well for years.

Now we are asked to approve a new proposal to change the manner in which funds are utilized as well as change the place where these funds should be put to work and invested.

James Maag of the Kansas Bankers Association said it best when he posed the following question in a letter to the "Wichita Eagle":

Is the additional interest earned from out-of-state investments sufficient to offset the additional risk and potential loss of tax dollars and jobs that would have been generated by investing those dollars in Kansas?

One must look at the entire picture to see whether the benefits outweigh the disadvantages.

My primary concern with the proposed change is the safety and security of the

funds relative to the new investment authority granted to the PMIB. Any investor can tell you that the higher the rate of return - the more risk that's involved. I challenge you to assure that every step is taken to adequately maintain the safety and soundness of the investments of the PMIB and M.I.P.. Don't let "an expert" have control of the investment decisions without having other knowledgeable and responsible individuals overseeing the operation. I realize that the PMIB would be increasing its membership to 5 members with "investment experience." I only hope that there are experienced individuals in this field who are willing to give of their time and talent. In order to represent a state that is strongly rural, the Community Bankers Association urges you to consider having 1 or 2 members of the board appointed from rural Kansas in order to assure that the proposed changes do not adversely impact rural communities. This is very important since where the funds are invested will reap the greatest benefit.

Adequate funds should be made available to all 105 Counties in Kansas. I have some concern and so should you in regard to funds being channeled to only a few select "hot spots" of growth in urban areas of Kansas, while the rest of Kansas is drained of its seed money.

Also, bankers are not always correct in predicting their loan demand at a future date. It would be unfortunate if adequate funds were not available to meet an unforeseen loan demand - in fact, it would be detrimental.

We appreciate the treasurer's recognition of the importance of offering idle public funds to banks first in order for banks to have the first opportunity to utilize the funds. This will help Kansas banks remain strong.

We have learned a valuable lesson from the S & L fiasco. When broader investment authorities are granted, human nature can take hold and push the rate of return on an investment until needless risk is taken. Don't let this happen here.

I urge you to only pass legislation that has the proper safeguards that will allow Kansas banks to maintain their strong deposit base and allow idle funds to be invested properly, conservatively, and for the greatest benefit of our great state.

Keep idle public funds working in all Kansas communities. If you don't, no one will.

THANK YOU FOR YOUR TIME.



KANSAS COUNTY TREASURERS' ASSOCIATION

OFFICERS:

GARY WATSON
TREGO COUNTY
President

NANCY HEMPEN
DOUGLAS COUNTY
Vice-President

LOREN L. HIBBS
SUMNER COUNTY
Secretary

JOANN HAMILTON
OSAGE COUNTY
Treasurer

February 4, 1992

TO: Senator Richard Bond, Chairman
Financial Institutions and Insurance Committee

FROM: Mike Billinger, Chairman
Kansas County Treasurers' Association Legislative Committee

RE: Favorable Support of Senate Bill 480

Mr. Chairman and members of the Committee, I am Mike Billinger, Ellis County Treasurer, and I am here today on behalf of the Kansas County Treasurers' Association (KCTA) to speak in support of Senate Bill 480.

As chairman of the KCTA Legislative Committee, I have had the opportunity to discuss Senate Bill 480 with a number of County Treasurers from various parts of the State. I can assure this Committee that County Treasurers feel very committed to the principal that inactive funds should be invested in local financial institutions whenever possible. Unfortunately, in some areas of the State this is not always a profitable or realistic alternative.

The greatest dollar amounts are collected by County Treasurers on or a few days before December 20th and June 20th. The problem results from the short time we hold the monies at the county level. By law, millions of dollars are paid out to taxing districts by Treasurers approximately 25 days after the peak collection periods. Many financial institutions are not interested in these funds because of the short maturities. Also compounding the problem, is that the funds are counted toward the bank's depository insurance (FDIC) on December 31st and June 30th when premiums are calculated and paid, making short term public funds not very profitable for financial institutions.

Additional testimony will describe some actual experiences relating to placement of short term funds.

The KCTA feels several positive developments would result from Senate Bill 480:

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Financial Institutions and Insurance Committee

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1. Counties would adopt investment policies that would give specific authority to investment officials. These policies would define the limits of investment officials and set standardized audits for performance evaluations. In most counties we do not have this now.
2. Investment policies would define safety of capital. As Treasurers, we know full well the importance of safety of capital and the perceived or real public relations problems that come from potential investment losses, but we still have counties that use Peak Depository Agreements. For those of you who are not familiar with "Peak Deposit Agreements", it simply means you deposit funds that are not collateralized. There would be no need for Peak Deposit Agreements if Senate Bill 480 were adopted.
3. Public funds would first be offered to local financial institutions before one dollar would leave the county. All financial institutions would be given the opportunity to accept the funds at the market rate or have the right of refusal. KCTA supports this concept and will, through our educational certification program, offer many facets of cash management and investment program training. This would establish better cooperation between local investment officials and financial institutions. With increased training and cooperation, counties would increase interest income. At the same time, financial institutions would be able to maximize their profits because of better cash management by counties.

I will conclude my presentation by asking for your favorable support of Senate Bill 480. On behalf of the Kansas County Treasurers' Association, I would like to express our appreciation for your valuable time and consideration.