Approved: March 31, 2006
Date

MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE

The meeting was called to order by Chairman Ray Cox on March 13, 2006 at 3:30 P.M. in Room 519-S of the Capitol.

All members were present except:
Bob Grant- excused

Committee staff present:
Melissa Calderwood, Kansas Legislative Research Department
Bruce Kinzie, Revisor of Statutes Office
Patti Magathan, Committee Secretary

Conferees appearing before the committee:
Senator Dennis Wilson
Kent Needham - First State Bank & Trust of Tonganoxie
Dave Brownback - Citizens State Bank & Trust of Ellsworth
Doug Wareham - Kansas Bankers Association
Terry Neher - U.S. Bank of Topeka
Chuck Henry - Kansas County Treasurer's Association
Erik Sartorius - City of Overland Park
Sandy Jacquot - League of Ks. Municipalities
Tom Robbens - Johnson Co. Government
Jim Edward - Ks. Association of School Boards
Randall Allen - Ks. Association of Counties
John Fowler - First State Bank, Burlingame
Kathy Strunk - Community Banker's Association
Steve Handke - Union State Bank,
Representative Shari Webber
Matt Goddard - Heartland Banker's Association

Others attending:
See attached list.

Chairman Cox called the meeting to order and opened hearings on **SB 495-Credit union administrator; term of office**.

Melissa Calderwood, Kansas Legislative Research Department stated that this is a technical bill. She reported that the previous three administrators have left the position at varying times leaving some confusion regarding the term of office. This bill defines the term of office.

Chairman Cox asked if there were questions. There were none. He closed the hearing and asked for motions. **Representative Brunk** made a motion to pass out this bill favorably with a recommendation to place it on consent calendar. **Representative Olson** seconded the motion. Motion passed.

Chairman Cox opened the hearing for **Substitute SB264-Municipalities; deposit of public funds** and announced that testimony should be limited to four minutes and questions will be held after everyone has testified.

Proponents testifying:

Kent Needham, President First State Bank & Trust Tonganoxie stated that as a banker and as the past president of the Kansas Banker's Association (K.B.A) he supports **substitute SB 264.** The bill's impact on the banking industry and the communities they serve has been thoroughly reviewed by the KBA. They feel that the bill gives governmental entities a choice for investing idle funds while keeping the money locally invested. **(Attachment 1)**

David Brownback, President of Citizens State Bank & Trust Co., of Ellsworth, Ks. Testified that it is very important that Kansas maintain a public funds investment policy that encourages economic growth while also meeting the investment and service needs of local government bodies. Mr Brownback stated that his bank loans approximately 70% of it's deposits to locals residents and businesses. Public funds allow his bank to meet the local demand of their customers. **(Attachment 2)**

Doug Wareham of the Kansas Banker's Association (K.B.A) stated that the K.B.A. believes that investing public funds back into the local community is the best policy for Kansas as a whole, while also recognizing that there are other factors effecting the investment needs of some local governments including service, competition and community demographics. Mr. Wareham provided a county map of Kansas which identifies the counties in Kansas that currently have an out-of-state bank or savings & loan within its boundary. In addition, there are two federal laws in place that require financial institutions headquartered elsewhere to maintain minimum loan-to-deposit ratios when operating branch offices in the state of Kansas. (The community Reinvestment act of 1977 and the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994) Mr. Wareham also provided each committee member with a study "How Public Funds Investment Policy Impacts the Kansas Economy" by John D. Wong, J.D., Ph.D. This study is on file with the Kansas Bankers Association. **(Attachment 3)**

Terry Neher, Senior Vice President, U.S. Bank, N.A. Topeka said that diligence and fiduciary responsibility of our municipalities to maximize the use and safety of our tax dollars is important. With passage of this legislation municipalities will have options for maximizing their investments. **(Attachment 4)**

Chuck Henry representing the Kansas County Treasurers Association and the Unified Government of Wyandotte County/Kansas City, Ks. Said that he offers strong support for **substitute Senate Bill 264.** Mr. Henry said that most counties will still only have the choice of a state chartered bank, however in a more urban location such as he represents there are many choices of non state chartered banks. These non-state chartered banks employ many people, pay property taxes, handle deposits and loans for many residents and businesses, and make considerable charitable donations to the community. **(Attachment 5)**

Erik Sartorius of the City of Overland Park said they believe this substitute legislation is a fair compromise for cities, financial institutions, and taxpayers. The global economy has greatly reduced the number of state-chartered institutions in the financial services industry. Allowing cities to work with nationally chartered financial institutions will increase competition and maximize interest earnings for the use of taxpayer dollars. **(Attachment 6)**

Sandy Jacquot, Director of Law/General Counsel of League of Kansas Municipalities testified in strong support of **Substitute SB 264.** She said that this legislation will be beneficial for both large and small cities and their taxpayers. It reintroduces competition into the state banking market and allows local units to maximize the return on the public's tax dollar without impacting the safety of the public's money. **(Attachment 7)**

Senator Dennis Wilson testified that current law limits the options of large counties since they usually only get one or two responses on bids requests. This bill protects small counties and helps large counties.

Tom Robben of Johnson County presented a paper prepared by Thomas G. Franzen Director of Financial Management with Johnson County. Mr. Robben stated that **Substitute SB 264** would be beneficial to taxpayers by stimulating competition. He explained that financial institutions compete primarily on cost and service. Without sufficient competition, cost increases could be more prevalent, while service levels could decline. **(Attachment 8)**

Jim Edward of the Kansas Association of School Boards said that they believe that school boards should have the opportunity to invest their idle funds where they can get the best interest rates while also protecting local economies. **Substitute SB 264** provides freedom to local boards, commissions and councils to invest the $8.1 billion available for investment by local units of governments. **(Attachment 9)**

Randall Allen, Executive Director of Kansas Association of Counties said that the current law adversely affects those counties with very large fund balances in that there are fewer banks which can collateralize their deposits and service their needs. He stated that they believe in many cases throughout Kansas we suspect that no significant changes will be made in where the funds are deposited. However, for purposes of granting county decision makers the right to place county funds where they will have the best return on their deposits, they think **Substitute SB 264** is good public policy. **(Attachment 10)**

Opponents Testifying:

John Fowler, President First State Bank of Burlingame said that he is keenly aware of the symbiotic relationship between small community banks and the communities they serve. He said that his primary and foremost concern in regard to the deposit of public monies is that they benefit the public that paid the taxes to create them. He cited Dr. John Wong, author of a study commissioned by the KBA and Community Banker's Association, as saying that there would be no way a public fund unit could earn sufficient additional revenue from investment outside the community or local economy to overcome the loss of the benefit of those funds staying within that local economy. **(Attachment 11)**

Kathy Patton Strunk, Governmental Relations with Community Bankers Association (C.B.A.), said that the C.B.A. supports current Public Funds Law. Kansas tax dollars generated from local jurisdictions should remain at work in their area to be reinvested through loans to local citizens. This is simply a main street Kansas issue. **(Attachment 12)**

Steve Handke, member of the Community Bankers Association of Kansas, said that he is here as a concerned Kansan to oppose a piece of legislation that would be bad public economic policy for Kansas. This issue has been divided mostly by urban vs. rural sentiments, however, sound economic principals apply equally in city or rural markets. Public fund deposits account for 10-12% of statewide deposits This is a huge amount of money that commands a considerable economic power. It is good economic policy for both cities and rural areas to use Kansas funds in Kansas by requiring a Kansas charter or home office for all public funds holders. **(Attachment 13)**

Representative Shari Webber - spoke as a colleague and stated that she is adamantly opposed to changing the way idle public funds are invested in Kansas. Keeping local funds for local development is crucial to the state's economic well-being. She cited a study done in Missouri last year that proved their out-of-state investments for the past decade resulted in less capital accumulation and a lower state Gross Domestic Product. Local entities have options today for investment direction. In addition to their local bank, they have access to the State Municipal Investment Pool (M.I.P.) **(Attachment 14)**

Neutral Testifier:

Matthew Goddard of Heartland Community Bankers Association said that Substitute **SB 264** proposes a change for a long-time position on public fund investment. He supports the bill as being a good compromise for units of government to get a greater return on their money versus the need to support Kansas-based financial institutions. Heartland Community Bankers Association remains concerned regarding some of the processes, specifically, that they are being left out of the bid process in some instances. **(Attachment 15)**

In addition, written testimony was provided by:

Joe Lang - Proponent - City of Wichita
Dennis Schwartz - Proponent - Kansas Rural Water Association
Dan Coup - Proponent - President Community Banker's Association
Chuck Rowland - Opponent - Community Banker's Association
Thad Geiger - Opponent - Community Banker's Association
Frank Suellentrop - Opponent - Legacy Bank Wichita
Brian Vaubel - Opponent - St Mary's Bank
(Attachments 16-22)

At the conclusion of testimony Chairman Cox opened the floor for questions.

MINUTES OF THE House Financial Institutions Committee at 3:30 P.M. on in Room 527-S of the Capitol.

There were many questions including some regarding percentage investment of deposits, monitoring of existing public funds, and clarification as to what a branch bank is.

Following questions **Chairman Cox** asked for discussion. There was none. He then asked for amendments. **Representative Burroughs** made a motion to pass **Substitute SB 264** favorable. Motion was seconded by **Representative George**.

Representative Vickery offered an amendment that any branch that has an entrance thru another is business is excluded. There was no second.

Original motion passed with one dissenting.

Next meeting will be March 15 to hear **HB3003** and **HB 3008** on Identity Theft.

Meeting was adjourned at 5:15.

FINANCIAL INSTITUTIONS COMMITTEE
GUEST LIST

DATE: ~~**February 15**~~ March 13**, 2006**

NAME	REPRESENTING
Chuck Henry	Ks County Treasurers
Bill Henry	Ks Credit Union Assn.
Kathy Strele	Community Bankers Assoc of KS
[illegible]	US Bank
Sue Anderson	Community Bankers Assn
Erik Sartorius	City of Overland Park
John Fowler	Community Bankers Assn.
Steve Handke	Union State Bank
Matthew Goddard	Heartland Community Bankers Assoc.
Chuck Stones	Ks Bankers Assn
Dave Brownback	Citizens Bank, Ellsworth
Kent Needham	First State Bank, Tonganoxie
Jim Edwards	KASB
Whitney Damron	City of Topeka
Ron Gaches	GBBA
John P. Smith	KS. Dept. of Credit Unions

FIRST STATE
BANK & TRUST
Member FDIC
P.O. Box 219
400 Bury St.
Tonganoxie, KS 66086

Date: March 13, 2006

To: House Financial Institutions Committee

From: L. Kent Needham, President

Re: Substitute for Senate Bill 264

Chairman Cox and members of the Committee, I am Kent Needham appearing on behalf of First State Bank & Trust of Tonganoxie, Kansas. I would like to begin by describing our bank and the communities we serve. First State Bank and Trust is a $300 million independent community bank headquartered in Tonganoxie, Kansas. The bank has a long history of community service since being chartered in 1934. One hundred thirty three employees at 8 locations in 6 communities provide that service today. The communities we serve include Tonganoxie, Basehor, Lawrence, Perry, Clearwater and Wichita, Kansas. Our bank has been under the current ownership since 1979 and is committed to remaining an independent community bank.

Coming from a banking family, I grew up in the industry and have been involved in banking at a senior management level for approximately 35 years. I understood at a very young age the important role banking plays in any community. While banking has changed over the last 35 years, the role in the community has not.

As we are here to address the issue of public funds, I would state emphatically that public fund deposits are very important to First State Bank & Trust and our ability to meet the financial needs of our communities. We value the relationships that we have with the various cities, counties, school districts and other public entities in the communities we serve. Our relationship is strong and greatly appreciated. As of February 28th, First State Bank and Trust had approximately $55 million in public fund deposits. That represents approximately 23% of our total deposits. Our current loan to deposit ratio is approximately 97% which means that without the public fund deposits, we would either have to rely on wholesale funding, participate a portion of our loans to other institutions or deny loans due to lack of funding. Within the last several months we have been even more dependent on public funds with a ratio as high as 34.5% public funds to total deposits and a loan to deposit ratio of 98.5%. This issue is very important to our bank as we work hard to meet the financial needs of our communities.

First State Bank & Trust is a member of the Kansas Bankers Association (KBA) and I currently hold the position of Past Chairman of the KBA's Board of Directors. Our Association's review

House Financial Institutions
Mar. 13, 2006
Attachment 1

of this topic began nearly one year ago, during my term as KBA Board Chairman. In response to legislative pressure and the introduction of the original Senate Bill 264, I appointed a special committee of bankers to investigate and review our long standing policy regarding the investment of local government funds. I also encouraged our committee of bankers to investigate the concerns expressed by counties and municipalities seeking a change in public funds investment policy for our state.

As KBA Board Chairman and later Past Chairman, I was personally involved in each and every meeting our association had on this matter starting with the special committee of bankers I appointed early last summer. Our current position of support for this proposal has been banker driven and has been thoroughly vetted through our Association's policy development process. The special committee I appointed to begin discussing this issue was comprised of 12 bankers, representing both large and small banks from rural, urban and suburban communities. Our state affairs committee, which is comprised of 35 bankers from across Kansas, recommended supporting this compromise when they met last October. One month later (November, 2005), KBA's Board of Directors, which contains 16 bankers, discussed and approved this measure without any dissenting votes. This issue was vetted once more by KBA's 33-banker Governing Council in early December and once again was approved without any dissenting votes cast. The compromise language contained in Substitute for S.B. 264 has been thoroughly reviewed, discussed and approved by our banker-driven organization.

I would be remiss if I did not share with you that this was a difficult decision for the bankers directly involved in our policy development process. I do believe hearing the concerns expressed by representatives from cities, counties and other local government units at the stakeholder's summit we hosted last summer, created a desire on our part to identify a solution that would serve the best interests of our state as a whole. I am proud of the fact that KBA's policy development process was able to identify the middle ground proposal you are currently considering in the form of Substitute for Senate Bill 264.

In conclusion I would simply state that our bank, like many Kansas banks, has multiple locations. We take pride in providing financial services to the individuals, local businesses and government entities in all of the communities we reside in. As an in-state bank, we are currently eligible to bid on public dollars in the communities we serve with our full-service branch locations. Substitute for S.B. 264 simply provides out-of-state banks that operate a full-service branch with the same opportunity to compete for public funds. This proposal levels the playing field among financial institutions, while still maintaining the investment of local government dollars in the communities that produced them.

Once again, thank you for the opportunity to share my comments and I encourage you to support Substitute for S.B. 264. I would be happy to stand for questions now or at the appropriate time.

Citizens State Bank & Trust Company
Ellsworth, Kansas

Date: March 13, 2006

To: House Financial Institutions Committee

From: David W. Brownback, President

Re: Substitute for Senate Bill 264

Mr. Chairman and members of the Committee, I am David Brownback appearing on of behalf Citizens State Bank & Trust Co. of Ellsworth Kansas. I appreciate the opportunity to appear in support of Substitute for S.B. 264. Our bank is a member of the Kansas Bankers Association and I serve on the KBA State Affairs Committee that helped develop the compromise you are now considering. I also serve on the KBA's Governing Council. I have a unique perspective on this issue because I have served on our local school board for the past 15 years. I also serve on the Board of Directors of the Kansas Association of School Boards.

I would like to begin by describing our bank to you. Citizens State Bank & Trust Co. was founded in 1900. We are locally owned and operated and have only two locations. Our main bank and drive-in bank are both located in downtown Ellsworth. We have approximately $60 million in assets and $50 million in deposits. Our 25 employees combined represent the largest shareholder of our bank through an Employee Stock Ownership Plan. Citizens State Bank is the largest of 5 banking offices in Ellsworth County. We loan approximately 70% of our deposits to local residents and businesses. Mostly our loans finance homes, farms, businesses and consumer items in Ellsworth County.

Maintaining public funds in our local community is extremely important. Approximately 25% of our bank's deposits or almost $13 million were local public funds as of December 31, 2005. We simply would not be able to meet the loan demand of our customers without public funds. Even though most public fund deposits are short term, taken as a whole, they provide a stable source of loanable funds. For example, as the County's tax dollars are distributed, the County deposit totals are reduced and at the same time, city and township accounts increase. We also supplement seasonal deposit fluctuations with short term borrowing from the FHL Bank. Simply put, millions of dollars would not have been loaned to local homeowners, farmers and business owners without the use of public deposits.

House Financial Institutions
Mar. 13, 2006
Attachment 2

203 NORTH DOUGLAS • P.O. BOX 128 • ELLSWORTH, KANSAS 67439-0128 • (785) 472-3141 • FAX (785) 472-5664

Citizens State Bank & Trust Company
Ellsworth, Kansas

It is very important that Kansas maintain a public funds investment policy that encourages economic growth while also meeting the investment and service needs of local government bodies. The KBA's legislative proposal, which keeps public funds within the boundaries of the local governmental entity seems to me to be an acceptable compromise. It gives some public bodies more flexibility, while at the same time, keeps public funds in the communities where they were raised. No doubt there are rural bankers who are opposed to this compromise, and would like to see the law stay as is. My belief is that this compromise is vastly superior to the alternative of allowing public bodies to chase interest rates from one end of Kansas to the other. At least the funds stay home and have a chance to be loaned locally. Most rural counties, such as Ellsworth, do not have out of state banking offices, and therefore will not be affected by this compromise legislation.

Once again, thank you for the opportunity to appear in support of Substitute for S.B. 264 and I would be happy to stand for questions now or at the appropriate time.

203 NORTH DOUGLAS • P.O. BOX 128 • ELLSWORTH, KANSAS 67439-0128 • (785) 472-3141 • FAX (785) 472-5664

Kansas Bankers Association

Date: March 13, 2006

To: House Financial Institutions Committee

From: Doug Wareham, Senior Vice President-Government Relations

Re: Substitute for Senate Bill 264

Mr. Chairman and members of the Committee, I am Doug Wareham appearing on behalf of the Kansas Bankers Association (KBA). KBA's membership includes 352 Kansas banks, which operate more than 1,300 banking facilities in 440 towns and cities across the state. KBA appreciates the opportunity to appear in support of Substitute for S.B. 264.

KBA's fundamental belief regarding the investment of local public funds has been and continues to be that they should be invested locally where they can provide the greatest economic benefit for the community that initially produced those revenues. While we believe investing local tax revenues back into the local community is the best policy for Kansas as a whole, we also recognize that there are other factors, including service, competition and community demographics that come into play when one takes a closer look at the investment needs of some local government units in our state. You have already heard previous conferees explain how these additional factors caused the Kansas Bankers Association to revisit and modify its long-standing policy regarding the exclusion of out-of-state financial institutions as a possible option for the investment of idle public funds.

To help clarify the impact of this proposal, I have provided you with a county map of the State of Kansas which identifies the counties in Kansas that currently have an out-of-state bank or savings & loan within its boundary. I've also provided a listing of the banking firms in these counties for your review. The outcry for changing Kansas policy regarding the investment of local tax revenues has largely come from the urban centers of our state. As you can see from the map and listing provided, the areas most affected, or in the case of local government units, the areas most benefiting from this change are those urban centers.

I do believe it is important to share that KBA's willingness to support this change is largely based on the fact that there are two federal laws in place that require financial institutions headquartered elsewhere to maintain minimum loan-to-deposit ratios when operating branch offices in the state of Kansas. I am referring to the Community Reinvestment Act of 1977 and the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. In enacting the Community Reinvestment Act (CRA), Congress required Federal Banking Agencies to assess each bank's record of helping meet the credit needs of the local communities they operate in. The Riegle-Neal Act provides more specific guidelines for out-of-state banks by requiring their out-of-state branches to maintain a loan-to-deposit ratio of at least 50 percent of the relevant state's average loan-to-deposit ratio.

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Attached to my testimony, you will find a copy of the July 7, 2005 notice from The Federal Reserve Board pertaining to the Host State Loan-to-Deposit Ratios and the Riegle-Neal Interstate Branching and Efficiency Act. I would like to draw your attention to the second paragraph of this notice, which states:

"In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production."

You will note that the Federal Reserve posted 2005 Loan-to-Deposit Ratio for Kansas banks is 80%. In order to comply with the Riegle-Neal Act, out of state financial institutions must maintain a loan-to-deposit ratio of at least 40% to avoid facing scrutiny from their federal regulators. Federal regulators have the authority to close branches or restrict further expansion by a financial institution found to be using out-of-state branches solely for deposit production. While a 40% loan-to-deposit ratio is the minimum standard, you will hear in later testimony that out-of-state financial institutions reinvestment in the communities they serve is often much, much greater.

Finally, I would like to take a moment to address the study authored by Dr. John Wong entitled "How Public Funds Investment Policy Impacts the Kansas Economy". Dr. Wong was identified by our organization last summer and was commissioned at that time to develop this document in response to the original Senate Bill 264. KBA opposed the original Senate Bill 264, which would have allowed local government units to invest their idle funds with financial institutions having no presence in the communities that initially produced those funds. Dr. Wong's study makes a very strong argument for keeping public funds invested locally to maximize local economic development, to maximize local income and to maximize local tax revenues. As noted on the study's cover, the Community Bankers Association was also a sponsor of this research and our two organizations shared in the costs of providing this study to bankers across Kansas.

I believe Dr. Wong's study was an important factor considered by members of the Senate Financial Institutions Committee when at our request they struck the language contained in the original Senate Bill 264 and inserted the language you are now considering in this substitute bill. This proposal continues the long-standing policy of keeping public funds investments local, while also providing a wider array of investment options for communities whose marketplace includes banks and savings & loans whose headquarters are not located in our state.

I realize that Dr. Wong's study is now being referred to by opponents of this bill as justification for opposing any change to Kansas public funds investment law. Opponents of this compromise have claimed that the investment of public funds in out-of-state bank branches creates a greater risk of those funds leaving Kansas. We contend that bankers are bankers and that both in-state and out-of-state bank branches should be afforded the opportunity to compete on a level playing field for the public funds generated in the communities they serve.

Thank you for the opportunity to appear in support of Substitute for S.B. 264 and I would be happy to stand for questions now or at the appropriate time.

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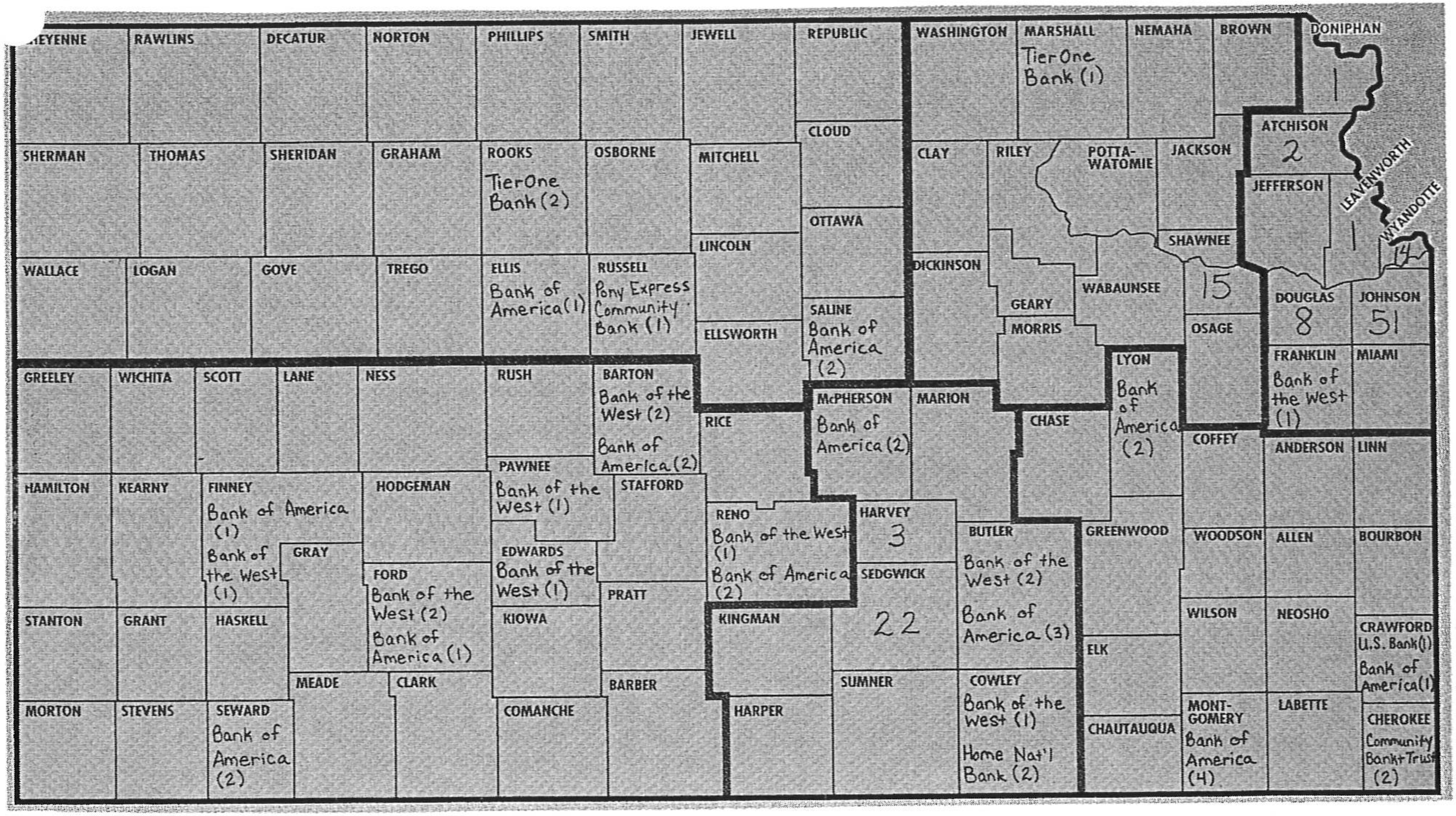

Counties With Out-of-State Bank Branches

3-3

Counties With Out-of-State Bank or Savings & Loan Branches

Atchison:
Bank Midwest, National Association (1)
World Savings Bank, FSB (1)

Barton:
Bank of the West (2)
Bank of America, National Association (2)

Butler:
Bank of the West (2)
Bank of America, National Association (3)

Cherokee:
Community Bank & Trust (2)

Cowley:
Bank of the West (1)
Home National Bank (2)

Crawford:
U.S. Bank National Association (1)
Bank of America, National Association (1)

Doniphan:
Pony Express Community Bank (1)

Douglas:
Bank of the West (1)
U.S. Bank National Association (6)
Bank of America, National Association (1)

Edwards:
Bank of the West (1)

Ellis:
Bank of America, National Association (1)

Finney:
Bank of the West (1)
Bank of America, National Association (1)

Ford:
Bank of the West (2)
Bank of America, National Association (1)

Franklin:

Bank of the West (1)

Harvey:
Bank of the West (1)
Bank of America, National Association (2)

Johnson:
Midwest Heritage Bank, FSB (2)
NorthStar Bank, National Association (1)
Missouri Bank and Trust Company of Kansas City (1)
Great Western Bank (1)
Enterprise Bank & Trust (1)
Los Padres Bank (2)
Bank Midwest, National Association (6)
Bank of the West (7)
World Savings Bank, FSB (5)
U.S. Bank National Association (11)
Bank of America, National Association (14)

Leavenworth:
Bank Midwest, National Association (1)

Lyon:
Bank of America, National Association (2)

Marshall:
TierOne Bank (1)

McPherson:
Bank of America, National Association (2)

Montgomery:
Bank of America, National Association (4)

Pawnee:
Bank of the West (1)

Reno:
Bank of the West (1)
Bank of America, National Association (2)

Rooks:
TierOne Bank (2)

Russell:
Pony Express Community Bank (1)

Saline:
Bank of America, National Association (2)

Sedgwick:
Bank of the West (6)
World Savings Bank, FSB (2)
Bank of America, National Association (14)

Seward:
Bank of America, National Association (2)

Shawnee:
U.S. Bank National Association (9)
Bank of America, National Association (6)

Wyandotte:
Douglass National Bank (2)
Bank Midwest, National Association (7)
U.S. Bank National Association (3)
Bank of America, National Association (2)

The Federal Reserve Board

Joint Press Release

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency

For Immediate Release July 7, 2005

Banking Agencies Issue Host State Loan-to-Deposit Ratios

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency today issued the host state loan-to-deposit ratios that the banking agencies will use to determine compliance with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. These ratios update data released on August 26, 2004.

In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 109 also prohibits branches of banks controlled by out-of-state bank holding companies from operating primarily for the purpose of deposit production.

Section 109 provides a process to test compliance with the statutory requirements. The first step in the process involves a loan-to-deposit ratio screen that compares a bank's statewide loan-to-deposit ratio to the host state loan-to-deposit ratio for banks in a particular state.

A second step is conducted if a bank's statewide loan-to-deposit ratio is less than one-half of the published ratio for that state or if data are not available at the bank to conduct the first step. The second step requires the appropriate banking agency to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank's interstate branches.

A bank that fails both steps is in violation of section 109 and is subject to sanctions by the appropriate banking agency.

The updated host state loan-to-deposit ratios are attached.

Attachment (136 KB PDF)

Media Contacts:

Federal Reserve	Andrew Williams	202-452-2955
FDIC	David Barr	202-898-6992
OCC	Dean DeBuck	202-874-5770

2005 Banking and consumer regulatory policy

SECTION 109 HOST STATE LOAN-TO-DEPOSIT RATIOS

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the agencies) today are making public the host state loan-to-deposit ratios[1] that the agencies will use to determine compliance with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act). In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 106 of the Gramm-Leach-Bliley Act of 1999 amended coverage of section 109 of the Interstate Act to include any branch of a bank controlled by an out-of-state bank holding company.

To determine compliance with section 109, the appropriate agency first compares a bank's statewide loan-to-deposit ratio[2] to the host state loan-to-deposit ratio for a particular state. If the bank's statewide loan-to-deposit ratio is at least one-half of the published host state loan-to-deposit ratio, the bank has complied with section 109. A second step is conducted if a bank's statewide loan-to-deposit ratio is less than one-half of the published ratio for that state or if data are not available at the bank to conduct the first step. The second step requires the appropriate banking agency to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank's interstate branches. A bank that fails both steps is in violation of section 109 and subject to sanctions by the appropriate agency.

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[1] The host state loan-to-deposit ratio is the ratio of total loans in a state to total deposits from the state for all banks that have that state as their home state. For state-chartered banks and FDIC-supervised savings banks, the home state is the state where the bank was chartered. For national banks, the home state is the state where the bank's main office is located. The home state of a foreign bank is determined by 12 USC 3103(c) and applicable agency regulations at 12 CFR 28.11(o) (OCC), 12 CFR 211.22 (Board), and 12 CFR 346.1(j) (FDIC).

[2] The statewide loan-to-deposit ratio relates to an individual bank and is the ratio of a bank's loans to its deposits in a particular state where the bank has interstate branches.

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Section 109 of the Interstate Banking and Branching Efficiency Act

2005 Host State Loan-to-Deposit Ratios
Using Data as of June 30, 2004
(Excludes wholesale or limited purpose CRA-designated banks, credit card banks, and special purpose banks)

State or U.S. Territory	Host State Loan-to-Deposit Ratio
Alabama	95%
Alaska	75%
Arizona	92%
Arkansas	78%
California	79%
Colorado	72%
Connecticut	88%
Delaware	109%
District of Columbia	77%
Florida	83%
Georgia	93%
Hawaii	70%
Idaho	83%
Illinois	84%
Indiana	149%
Iowa	83%
Kansas	80%
Kentucky	90%
Louisiana	78%
Maine	99%
Maryland	88%
Massachusetts	75%
Michigan	99%
Minnesota	91%
Mississippi	80%

Section 109 of the Interstate Banking and Branching Efficiency Act 2005 Host State Loan-to-Deposit Ratios Using Data as of June 30, 2004 (Excludes wholesale or limited purpose CRA-designated banks, credit card banks, and special purpose banks)	
State or U.S. Territory	**Host State Loan-to-Deposit Ratio**
Missouri	86%
Montana	87%
Nebraska	84%
Nevada	61%
New Hampshire	83%
New Jersey	56%
New Mexico	71%
New York	82%
North Carolina	79%
North Dakota	124%
Ohio	131%
Oklahoma	79%
Oregon	90%
Pennsylvania	75%
Rhode Island	79%
South Carolina	92%
South Dakota	85%
Tennessee	92%
Texas	71%
Utah	83%
Vermont	78%
Virginia	76%
Washington	97%
West Virginia	85%
Wisconsin	99%

3-10

Section 109 of the Interstate Banking and Branching Efficiency Act 2005 Host State Loan-to-Deposit Ratios Using Data as of June 30, 2004 (Excludes wholesale or limited purpose CRA-designated banks, credit card banks, and special purpose banks)	
State or U.S. Territory	**Host State Loan-to-Deposit Ratio**
Wyoming	76%
American Samoa	94%
Federated States of Micronesia	19%
Guam	59%
Puerto Rico	71%
Virgin Islands	44%

Due to the legislative intent against imposing regulatory burden, no additional data were collected from institutions to implement section 109. However, since insufficient lending data were available on a geographic basis to calculate the host state loan-to-deposit ratios directly, the agencies used a proxy to estimate the ratios. Accordingly, the agencies calculated the host state loan-to-deposit ratios using data obtained from the call reports and summary of deposits reports, as of June 30, 2004. For each home state bank, the agencies calculated the percentage of the bank's total deposits attributable to branches located in its home state (determined from the summary of deposits), and applied this percentage to the bank's total domestic loans (determined from the call reports) to estimate the amount of loans attributable to the home state. The host state loan-to-deposit ratio was then calculated by separately totaling the loans and deposits for the home state banks, and then dividing the sum of the loans by the sum of the deposits.

Section 109 of the Interstate Act directs the agencies to determine, from relevant sources, the host state loan-to-deposit ratios. As discussed in the preamble to the joint final rule, Prohibition Against Use of Interstate Branches Primarily for Deposit Production (62 FR 47728, 47731, September 10, 1997), implementing section 109, banks designated as limited purpose or wholesale banks under the Community Reinvestment Act (CRA) were excluded from the host state loan-to-deposit calculation, recognizing that these banks could have very large loan portfolios, but few, if any, deposits. Likewise, credit card banks, which typically have large loan portfolios but few deposits, were also excluded, regardless of whether they had a limited purpose designation for CRA purposes. Beginning in 2001, special purpose banks, including bankers' banks, were excluded because these banks do not engage in traditional deposit taking or lending.

The host state loan-to-deposit ratios, and any changes in the way the ratios are calculated, will be publicized on an annual basis.

usbank
Five Star Service Guaranteed

P.O. Box 178
Topeka, KS 66601-0178
785 291-1000

Date: February 15, 2006

To: House Financial Institutions Committee

From: Terry Neher, Senior Vice President, U.S. Bank, N.A.

Re: Substitute for Senate Bill 264

Mr. Chairman and members of the Committee, I am Terry Neher, Senior Vice President appearing on behalf U.S. Bank N.A. of Topeka, Kansas. I appreciate the opportunity to appear in support of Substitute for S.B. 264. U.S. Bank is a member of the Kansas Bankers Association and I want to thank KBA, Kansas Association of Counties, and Kansas League of Municipalities for identifying a compromise on this issue. Due diligence and the fiduciary responsibility of our municipalities to maximize the use and safety of our tax dollars is important. With these proposed adjustments, municipalities will be clear as to their legal options available to them. They will have an array of financial institutions and opportunities to choose from so they can maximize their goal of investment of funds while creating efficiencies in their day to day operational needs.

I would like to begin by describing our bank to you. U.S. Bank, N.A. in the state of Kansas is represented by 400 employees with some lengths of employment being 30 plus years. U.S. Bank, N.A. is located in three of the four congressional districts in Kansas and has 35 facilities and 48 ATM locations. We have been in these areas in some cases since the late 1800s with the traditional products and services. Over time, the banking industry has evolved from the traditional loans and deposits to providing efficiencies and speed along with security features through the use of technology. The technology available today is giving customers options to maximize their returns ranging from short term overnight investments to long term laddered sources of investing while creating operational efficiencies through automation of transactions and information. These types of services are provided by our bank and we earn a fee for the services provided and the personal touch of our employees.

From the lending perspective, U.S. Bank, N.A. provides various structures of loans, leases, letters of credit, temporary (temp) note financing, bond underwriting, etc. Our loan portfolio involves customers that have been with our financial institution for up to 50 years and we continue to ask for additional business in and around our communities. Our loan to deposit ratio in our various communities has been over 100%.

U.S. Bank is also an active supporter of the communities it serves by disbursing grants and sponsorships to various organizations, including the Lawrence Schools Foundation, the Kansas City Community Development Initiative, the Topeka Community Foundation and Habitat for Humanity in Kaw Valley.

At U.S. Bank, we pride ourselves on creating a prescription of products that meet the current and anticipated needs of our customers and prospects. We provide the ability for our customers to collect their funds quickly and efficiently, invest short term and long term while providing ongoing information at their finger tips. We have the ability to wire or ACH monies with various security thresholds determined by the customer and to compensate their employees affectively through the use of technology. Security is a constant and increasing issue that we also provide solutions for. In all consideration, the net effect is to allow municipalities the opportunity to obtain the products and services that for a fee will maximize the bottom line return and use of their resources.

In closing, I would simply state that I believe this is the correct policy for Kansas with respect to local public funds investments. The substitute for S.B. 264 will remove the question that various municipalities have had as to whether or not they can take advantage of the products and services that we provide. The substitute for S.B. 264 will create a level playing field for banks, large and small, by allowing more banks to bid to provide services to local governments in communities they already serve in. The compromise will also give local governmental units more choices for banking services and will allow financial institutions to provide them with the best possible services.

Once again, thank you for the opportunity to appear in support of Substitute for S.B. 264 and I would be happy to stand for questions now or at the appropriate time.

usbank
Five Star Service Guaranteed

P.O. Box 178
Topeka, KS 66601-0178
785 291-1000

Kansas and US Bank, N.A.

The basics:

- Population: 2,723,507
- Capital: Topeka
- Largest City: Wichita
- Nickname: "Sunflower State"

U.S. Bank, N.A. presence:

- Number of U.S. Bank employees: 398
- Statewide Market share (in deposits): 2.42 percent
- ATMs: 48
- Branches: 30
- Private Client Group Offices: 3
- U.S. Bank has mortgage branches in Kansas

U.S. Bank, N.A. Facilities per Congressional District

1st District:	0	3rd District:	23
2nd District:	11	4th District:	1

Recent grants:

- American Cancer Society - Topeka
- American Lung Association of Kansas
- Bishop Miege Foundation
- Catholic Charities of Kansas City
- Catholic Education Foundation - Overland Park
- City Gate Ministries Association
- Habitat For Humanity - Kaw Valley
- Heart of America Council Boy Scouts
- Housing & Credit Counseling, Inc.
- Johnson County Young Matrons, Inc. (JCYM)
- Juvenile Diabetes Research Foundation - Shawnee Mission
- Kansas City Community Development Initiative
- Kansas City Jazz Orchestra
- Lawrence Arts Center
- Lawrence Schools Foundation
- Marian Clinic
- St. Joseph Institute for the Deaf
- Topeka Community Foundation
- Topeka Festival Singers, Inc.
- United Way
- Washburn Endowment Association

U.S. Bank, N.A. Facilities

DISTRICT	ADDRESS	CITY	STATE	ZIP
2	2701 Iowa St	Lawrence	KS	66046-4155
2	309 N Broadway St	Pittsburg	KS	66762-4806
2	443 N Main St	Rossville	KS	66533-9803
2	10030 NW Hwy 24	Silver Lake	KS	66539
2	434 SW Jackson St	Topeka	KS	66603-3328
2	1017 SW Gage Blvd	Topeka	KS	66604-1797
2	5730 SW 21st St	Topeka	KS	66604-3720
2	1064 SW Wanamaker Rd	Topeka	KS	66604-3807
2	3600 SW Topeka Blvd	Topeka	KS	66611-2279
2	800 SW Jackson St	Topeka	KS	66612-1216
2	3625 NW 46th St	Topeka	KS	66618-2500
3	700 Central Ave	Kansas City	KS	66101-3548
3	5429 Turner Dr	Kansas City	KS	66106-1116
3	10959 Parallel Ave	Kansas City	KS	66109-4432
3	402 West Ninth St. (Motor Bank)	Lawrence	KS	66044
3	900 Massachusetts St	Lawrence	KS	66044-2868
3	1807 W 23rd St	Lawrence	KS	66046-2747
3	1600 E 23rd St	Lawrence	KS	66046-5014
3	3500 W 6th St	Lawrence	KS	66049-3245
3	4901 W 119th St	Leawood	KS	66209-1524
3	8600 Shawnee Mission Pkwy	Mission	KS	66202-2959
3	4700 W 50th Ter	Mission	KS	66205-1268
3	4700 W 50th Ter	Mission	KS	66205-1268
3	15380 W 119th St	Olathe	KS	66062-1073
3	16665 W 151st St	Olathe	KS	66062-5641
3	7000 W 75th St	Overland Park	KS	66204-3029
3	7500 College Blvd	Overland Park	KS	66210-1855
3	9900 W 87th St	Overland Park	KS	66212-4745
3	10100 W 119th St	Overland Park	KS	66213-1604
3	8401 W 135th St	Overland Park	KS	66223-1199
3	5100 W 95th St	Prairie Village	KS	66207-3305
3	6940 Mission Rd	Prairie Village	KS	66208-2609
3	Roeland Park	Roeland Park	KS	66205
3	15610 Shawnee Mission Pkwy	Shawnee	KS	66217-9324
4	7570 W 21st St N	Wichita	KS	67205-1734

KANSAS COUNTY TREASURERS ASSOCIATION

COMMITTEE ON FINANCIAL INSTITUTIONS
TESTIMONY IN SUPPORT OF SENATE BILL 264

March 13, 2006

Chairman Cox and Members of the Committee,

I am here on behalf of the Kansas County Treasurers Association and the Unified Government of Wyandotte County/Kansas City, Kansas to offer strong support for Senate Bill 264 and urge its passage.

The main change to this bill is the change in the definitions outlined in K.S.A. 9-1408 and K.S.A. 12-1675a. In particular, this bill allows local governments to place money in any bank with a physical presence in the jurisdiction. This is a significant change from the current statutes which limited us to placing funds only in those financial institutions with a Kansas Charter or "main" office in Kansas.

While most of the County Treasurers in Kansas only have choices among Kansas Chartered institutions, a number of counties are in the same situation as we are in Wyandotte County. Whether this bill directly and immediately impacts a particular county or not, the Kansas County Treasurers Association, as a whole, has been active in their pursuit of this type of legislation for several years. All Kansas Treasurers are aware that the bank they currently are doing business with could sell to a non-Kansas owner and, suddenly, this bill is important to them.

In our County, a lot of banks have a physical presence and an active banking presence. However, only a few of those have a Kansas Charter. In particular, consideration must be given to Douglass Bank, Bank Midwest, U.S. Bank, and Bank of America. Each of these institutions provide many jobs in our community, pay property taxes to us, handle deposit accounts for many of our residents, provide loans to many of our residents and businesses, make considerable charitable donations to organizations in our community, and undertake projects that are for the benefit of citizens of our community. Despite this effort to be positive citizens of our community, current law prevents the Unified Government from investing with them except under very complex circumstances.

U.S. Bank has underwritten loans for several housing projects in Wyandotte County. Included in a summary of their activity are: $1.4 million equity capital for a new 48 unit affordable housing project, over $3 million in equity capital and $1.35 million in debt financing to renovate townhomes for rental to families with income of 60% of the statistical median family income, and the arrangement of financing of over $9 million to renovate a 345 unit apartment complex for rental to low income citizens. U.S. Bank has also made cash donations of approximately $50,000 per year to charitable organizations that serve our citizens.

Bank of America was the financing partner on the first new multifamily development in downtown Kansas City Kansas in 30 years. This involved demolition of a blighted block and considerable new construction. Financing of this project included over $5 million in loans. They have also been the primary sponsor of a project which involves the renovation of the old City Hall in Kansas City into loft apartments. This project involved a loan in excess of $5 million and equity capital of nearly $4 million.

We would like to expressly thank the Kansas Bankers Association for arranging a conference last summer on this issue and proposing the language currently included in this bill. We appreciate their listening to the needs of local government in the development of their proposal. We strongly support this bill and urge the passage of it immediately. These changes are significant for our citizens and taxpayers.

Thank you for the opportunity to testify in support of Senate Bill 264.

Chuck Henry, Wyandotte County Treasurer

House Financial Institutions
Mar. 13, 2006
Attachment 5

The City of
Overland
Park
KANSAS

8500 Santa Fe Drive
Overland Park, Kansas 66212
• Fax: 913-895-5003
www.opkansas.org

Testimony Before The
House Financial Institutions Committee
Regarding Senate Bill 264
March 13, 2006

The City of Overland Park appreciates the opportunity to appear before the committee and present testimony in favor of the Substitute for Senate Bill 264. We believe this substitute legislation is a fair compromise for cities, financial institutions, and taxpayers.

Current law limits local units of government to dealing only with financial institutions chartered in the State of Kansas. While such a requirement may have been workable years ago, the reality of the global economy has greatly reduced the number of state-chartered institutions in the financial services industry. This artificial investment barrier for local governments does not protect the best interests of the taxpayer. The State of Kansas recognized the imprudence of limiting itself to state-chartered institutions, and no longer subjects itself to this limitation.

Allowing cities to work with nationally chartered financial institutions will increase competition for the use of taxpayer dollars. Increased competition will aid efforts to maximize interest earnings on idle funds, improving cities' revenue situations and helping offset the need for possible property tax increases.

A recent study authored by Dr. John Wong of Wichita State University provided an interesting look at the impact of public funds investing. Unfortunately, the study did not consider two important elements to the investment of idle funds issue. One is the role of elected bodies. Quite simply, the elected members of governing bodies will look carefully at the risks and benefits associated with the investment of idle public funds. We cannot conceive of a governing body making investment decisions that would be harmful to the communities they are elected to represent.

The second issue not discussed in Dr. Wong's report is the availability of banking services. Finding state chartered institutions that can provide necessary banking services – purchase card programs and credit card services, for example – is in some communities a daunting task. For the City of Overland Park and many other local jurisdictions, these services are as integral to our financial management as additional opportunities for the investment of idle public funds.

Again, we appreciate the hard work of all parties, particularly the financial institutions, in coming up with a compromise that meets the needs of cities in their investment of idle funds and the banking services they require. We request that you recommend Substitute for Senate Bill 264 favorably for passage.

LKM
League of Kansas Municipalities

300 SW 8th Avenue, Suite 100
Topeka, Kansas 66603-3951
Phone: (785) 354-9565
Fax: (785) 354-4186

To: House Financial Institutions Committee

From: Sandy Jacquot, Director of Law/General Counsel

RE: Support for Sub. SB 264

Date: March 13, 2006

First, I would like to thank the Committee for allowing the League to testify today in strong support of Sub. SB 264. Sub. SB 264 provides greater flexibility for cities, counties, and other local units of government, by allowing taxpayer dollars to be maximized. The League Convention of Voting Delegates, at our October Conference in Wichita, adopted the following as part of our action agenda:

> *"Support legislation which would increase competition for the placement of idle public funds..."*

We believe Sub. SB 264 accomplishes this very straight-forward goal. It has been brewing as an issue of concern to local governments for several years as a result of the continuing changes in the banking industry. We now have a situation where many of our larger units of government find that most of the banks which would logically be depositories for their funds are no longer eligible to hold these funds because they are not state chartered banks and do not have a main office located in the State of Kansas.

This legislation will be beneficial for both large and small cities and their taxpayers. Specifically, allowing banks which are not chartered in Kansas to bid on public moneys would reintroduce competition into the state banking market and thus allow local units to maximize the return on the public's tax dollar. This is a point which cannot be overstated as the difference of a .5% interest, when investing billions of dollars, is a sizeable amount of money, perhaps as much as $10,000,000 - $20,000,000 per year. It should also be stressed that the safety of the public's money will not be impacted. This is the case because the rules which apply to investments today would apply to investments tomorrow. The only difference would be fostering competition by allowing more banks to be eligible to bid on active and inactive funds of local governments in Kansas.

We fully support the compromise found in Sub. SB 264, and urge the Committee to report the bill favorably.

House Financial Institutions
Mar. 13, 2006
Attachment 7

HOUSE TAXATION COMMITTEE

Monday, March 13, 2006

Senate Bill No. 264

Testimony of Thomas G. Franzen. CTP
Director of Financial Management, Johnson County, KS

Chair and Members of the Committee:

My name is Thomas Franzen, and I am representing Johnson County Government. I am appearing in support of Senate Bill No. 264.

As currently proposed, Senate Bill No. 264, in effect, proposes to remove the requirement that any "municipal or quasi-municipal corporation" (governmental entity) utilize only depository financial institutions that have a Kansas state charter. The intent of this bill would be beneficial to taxpayers primarily because of the bill's impact on competition. By restricting depository financial institutions to only those with a Kansas state charter, the current environment limits competition between financial institutions, potentially keeping costs of banking services high and yields on cash balances low.

The financial services sector in general, and the banking industry in particular, continue to experience an increase in mergers and acquisitions in recent years. Conceivably, this continued trend could lead to a minimal number of depository financial institutions with Kansas state charters. Decreasing the pool of eligible depository financial institutions could lead to a deterioration of the competitive landscape between eligible institutions. Financial institutions compete primarily on cost and service. Without sufficient competition, cost increases could be more prevalent, while service levels could decline.

In certain geographical areas of the State, the number of eligible depository financial institutions may be limited. Acquisition by a national or regional banking organization without a Kansas state charter could force some governmental entities with limited choices to establish a new relationship with an eligible depository financial institution that is more costly, or less convenient, or both.

Current legislation limits choices regarding depository financial institutions. In light of the merger and acquisition activity within the financial services sector over the past decade, modifying the current legislation is a prudent step to allow governmental entities to conduct business at the lowest possible cost, thereby passing potential savings onto taxpayers in the form of a reduced mill levy.

Thank you for the opportunity to address this important issue before the committee. I would be pleased to answer any questions.

House Financial Institutions
Mar. 13, 2006
Attachment 8
TOM ROBBEN

KANSAS ASSOCIATION OF SCHOOL BOARDS
1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony on **Sub for SB 264**
before the
House Financial Institutions Committee

by

Jim Edwards, Governmental Relations Specialist
Kansas Association of School Boards

March 13, 2006

Chairman Cox and Members of the Committee:

I thank you for allowing me the opportunity to present KASB's position as it relates to the investment of idle public funds as described in **Sub for SB 264**. We appear as a proponent to this bill.

In short, we believe that local school boards should have the opportunity to invest their idle funds where they can get the best interest rates while also protecting local economies. **Sub for SB 264**, with compromise language that was drafted by the Kansas Bankers Association and agreed to by the Kansas Association of School Boards, the League of Kansas Municipalities and the Kansas Association of Counties, does exactly that. It would provide freedom to local boards, commissions and councils to invest the $8.1 billion available for investment by local units of government. These local units of government are elected by the patrons of their districts to represent them and to ensure that their tax dollars are used, and invested wisely. They, like you, take their elected offices seriously.

Thank you for allowing me to present KASB's position on this important matter and I would respond to questions at a later date, should it be requested.

KANSAS
ASSOCIATION OF
COUNTIES

TESTIMONY
concerning Sub. for SB 264
re. Fund Depositories for Municipalities
House Financial Institutions and Insurance
Presented by Randall Allen, Executive Director
Kansas Association of Counties
March 13, 2006

Chairman Cox and members of the committee, my name is Randall Allen, Executive Director of the Kansas Association of Counties. I am here today to express our support for Substitute for SB 264, reforming the statutory bank depository requirements for municipalities.

As you probably know the bill would allow counties to select any bank, savings and loan association or savings bank that has an office within the county as a depository for county funds, without regard to whether the bank is a federally chartered or state-chartered financial institution. Currently, only state-chartered banks are eligible to be depositories for county funds, which reduces the options that some of our counties have. The current law particularly affects (adversely) those counties with very large fund balances in that there are relatively fewer banks which can collateralize their deposits and service their needs.

Essentially, what Sub. for SB 264 does is to allow any bank within the jurisdiction which has a bricks and mortar presence to be eligible to hold the funds. Sub. for SB 264 removes the very old restriction which has been placed on municipalities which was long ago removed from the State and its banking practices. We want to emphasize that **nothing** in Sub. for SB 264 **requires** the board of county commissioners to move its funds from a bank or banks which currently hold the county's funds. In many cases throughout Kansas, we suspect that no significant changes will be made in where the funds are deposited as a result of this proposed legislation. However, for purposes of granting county decision makers the right to place county funds where they will have the best return on their deposits, we think this bill is good public policy.

Finally, we want to offer our thanks to the Kansas Bankers Association for convening a group of stakeholders last summer in an effort to work through this issue, which has long been a point of contention among our members. We have reached this compromise, which we think makes sense and which assists county commissioners and county treasurers in making the very best business decisions they can make.

Thank for your hearing our testimony. I would be happy to stand for questions at the appropriate time.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to Randall Allen or Judy Moler by calling (785) 272-2585.

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House Financial Institutions
Mar. 13, 2006
Attachment 10

BURLINGAME, KANSAS 66413
115 S. Topeka • P.O. Box 5
Phone 785-654-2421
FAX 785-654-3567

FIRST STATE BANK

OSAGE CITY, KANSAS 66523
18 Main • P.O. Box 275
Phone 785-528-3133
FAX 785-528-3160

Testimony before The Kansas House Financial Institutions Committee regarding Substitute Senate Bill No. 264

March 13, 2006

By John H. Fowler, President – First State Bank of Burlingame

Good Afternoon Mr. Chairman and members of the Committee. I am John Fowler, President of the First State Bank of Burlingame, Kansas and I am here to speak in opposition to Substitute Senate Bill No. 264. I appreciate the opportunity to address you on this issue of vital importance to both Kansas community banks and Kansas public entities.

I was raised in Burlingame, Kansas, a town of 1,200, the son of a banker, who was also the son of a banker. My grandfather started a bank in Arcadia, Kansas, which at the time had a population of around 1,000. He also started banks in Kansas in the towns of Weir and Arma, both some of the smallest communities in the state. These banks were run by uncles and aunts and after my grandfather's death, my grandmother was an active part of their boards. I tell you this to show that I am keenly aware of the symbiotic relationship between small community banks and the communities they serve. In addition to my over 10 years of experience in a small community bank with total assets of less than $60,000,000, I was also a field examiner for the state bank commissioner for five years before moving to the main office for another three years to review applications for bank changes. My position in the commissioner's main office was created to handle the introduction of inter-state banking in Kansas.

Much of what I have to say in regard to the interdependence of community banking and public fund deposits in the state of Kansas is backed up by a study jointly commissioned by the Community Bankers Association of Kansas and the Kansas Bankers Association. For this study, Dr. John D. Wong was engaged to determine how public funds investment policy impacts the Kansas economy.

Dr. Wong's bio is attached to this study and notes that he served on the Governor's Tax Equity Task Force as a consultant on the distributional impact of tax reform and the effect of taxation on economic development in 1995. He is presently the principal author of the annual Governor's Economic and Demographic Report and has previously served as a consultant for several cities and counties.

My primary and foremost concern in regard to the deposit of public monies is that they benefit the public that paid the taxes to create them. This has been the long standing intent of laws regulating the deposit of public funds for good reason. Carl C. Nielsen in his 1985 study "The Investment of Surplus Funds of Local Governments in the State of Kansas," noted that if there were to be deterioration in deposits caused by a change in legislation, one of two things would happen. Either the financial institutions would replace the lost deposits by purchasing deposits from other sources, perhaps at inflated rates, or they would find it necessary to reduce their levels of lending. If the former were to occur, the higher costs of funds would result in higher rates to borrowers. If the latter occurred, some customers; agricultural, commercial, or consumer; might find credit difficult to obtain. EITHER WAY, THE IMPACT ON BORROWERS WOULD BE DAMAGING. Mr. Nielsen went on to say that the most likely scenario, if local idle funds were removed from local financial institutions, would be reductions in loans. Such reductions in loanable funds, he concluded, would have an adverse effect of major segments of the Kansas economy. An analysis adapted from the model developed by Joseph Haslag in his 2004 study prepared for the two Missouri Bankers Associations concludes that if Senate Bill No. 264 were adopted, local governments in Kansas would be allowed to deposit funds in any financial institution that has an office in Kansas. Although the Community Reinvestment Act (CRA) limits the magnitude of the loss, this could result in a substantial loss of financial resources for many communities. An all too common example of this loss of financial resources is seen as we recently gained an agricultural customer who was dropped by one of the largest multi-state banking organizations in the nation because they decided they didn't want to financial agricultural projects anymore. Without local public funds deposits, which account for approximately 20% of our total deposits, we would not have been able to accommodate this borrower.

I do understand the desire to earn more on the assets one has and the administrators of public entities are no different. Another thing I understand is that it is important to have safeguards in place to ensure investments are not lost. Mr. Haslag also stated in his 2004 study that "the primary rationale for restricting local government investments is to protect local government funds." He went on to state that "state and local government revenues depend on tax receipts and relative returns paid on local government's investments. The upshot is that simply picking the highest yielding asset is not always the investment strategy that yields the highest general fund revenues. It should be kept in mind that because Kansas bankers specialize in assessing risks of Kansas borrowers, deposits placed in Kansas banks are more likely to be returned to the Kansas economy."

Dr. Wong notes that in a review of present Kansas law, there is a "safety net" provision in the law. Regardless of how few bids are received on local idle funds, the highest bid must equal or exceed the 91-day Treasury bill rate or alternatives are provided to the governmental unit. Hence, it would appear that even in units with no competition, their idle funds can be invested at market rates.

After review of Dr. Wong's study, it would appear the public entities supporting Substitute Senate Bill No. 264 have a very narrow view of their vital role in their communities' prosperity as a whole and are grasping for only that additional revenue which is obvious and requires little or no forethought. The term "shooting ones self in the foot" comes to mind.

One objection which has been addressed to me is that it appears community banks are uncomfortable with competing for the public funds in our taxing units. Let me first say that for us, First State Bank, in a community of approximately 1,000, many of the public funds we have in our bank were gained and are maintained by a competitive bid process. We also have been awarded bids on a county-wide basis in a county with a population of approximately only 17,000. We hold deposits for over 20 different public fund units with over $10,000,000 in total balances. We pay the 91-day Treasury bill rate on non-bid deposits and more on bid deposits. My question is why would a public fund entity want to remove their funds, which Dr. Wong's report clearly shows to be a "precious commodity," from within their unit? In discussions with Dr. Wong, a state recognized expert and authority on the Kansas economy as well as public finance and policy issues, <u>HE STATED IN NO UNCERTAIN TERMS that there would be no way a public fund unit could earn sufficient additional revenue from investment outside the community or local economy to overcome the loss of the benefit of those funds staying within that local economy</u>.

He likened the obsession with earning an additional 50 to 100 basis points in rate on funds without regard to other factors to someone counting the change in their front pocket while someone is stealing their wallet from their back pocket.

I once heard a quote - "I have never seen a successful bank in an unsuccessful community." It seems abundantly apparent to me that you cannot have a successful community without the participation of the community government.

Thank you for your time and I would be happy to answer any questions.

CBA
Community Bankers
Association of Kansas

Directed By The Members We Serve

House Financial Institutions Committee

March 13, 2006

Community Bankers Association of Kansas
Kathy Patton Strunk, Governmental Relations

Mr. Chairman and Members of the Committee.

The Community Bankers Association of Kansas sincerely appreciates the time to testify today.

The Community Bankers Association of Kansas supports current Public Funds Law. As one of our member banks from Paola explained the importance of public funds in their community. When the public entities invest with us, we invest back into the communities with home loans, business loans, commercial real estate projects, auto loans and home improvement loans—all of which flow back into the public entities. If that money would be removed from circulation from the local taxpayer not only would it would hamper economic development but the potential increase to the tax base. Kansas tax dollars, generated from local jurisdictions, should remain at work in their area to be reinvested through loans to local citizens.

Is the possibility of the following events occurring to Kansas' communities worth the risk of Public Funds deposits leaving a local area? As one of our member banks explained this would occur: (1) Diminished loan making possibilities, (2) Diminished rural economies, and (3) Diminished 'Main Street' growth. All of which would have a huge financial impact throughout the local economy. The loss in rural areas would be magnified by the fact it would be much more difficult for borrowers in these areas to secure alternative resources for small business and agricultural purposes.

The study by Dr. John Wong explained, "Picking the highest yielding asset is not always the investment strategy that yields the highest general fund revenue." Thus, deposits placed in Kansas banks are more likely to be returned to the Kansas economy.

As an example, a Missouri study by Joseph Haslag stressed that out-of-state investments may receive higher interest income, but at a cost in terms of lower state income and fewer jobs. The report went on to say deposits into Missouri banks resulted in an increase in the state's capital stock, implying higher aggregate state income. With larger capital stock, gross state product rises.

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After extensive discussion and deliberations about Public Funds and listening to Dr. Wong's presentation the Community Bankers continues to support current law with regard to Public Funds. A review of the study proved what we have known all along...that local county government units receive the highest benefit when taxes can be utilized for reinvestment by local financial entities. Quite frankly, public funds are simply core and stable deposits. Thus, we oppose the substitute for Senate Bill 264. The bankers emphasized the issue is not about urban and rural or large and small. It is about growing the economies of communities, counties and the state of Kansas as a whole.

As BankHaven stated so simply, "Changing this law adds an additional degree of difficulty to maintaining the very communities that make Kansas a desirable place to live and raise a family. Local dollars accumulated from local taxpayers and then loaned back to the local community for the benefit of local families and local businesses. This is simply a main street Kansas issue"

Thank you for your time.

Respectfully submitted.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE
REGARDING SB~~75~~ 264

~~February 19, 2003~~
March 13, 2006

Presented by
Steve Handke
Community Bankers Association of Kansas

Good Morning. My name is Steve Handke and I serve as CEO of the Union State Bank of Everest. Everest is a small town of 300 people located in northeast Kansas. Our bank has served the area residents of Atchison and Brown counties since 1902. Today I'm representing the Community Bankers Association of Kansas as a member of our State Legislative Committee.

Thank you for the opportunity to address you today on such an important economic issue. Our bank serves the northeastern Kansas counties of Brown, Atchison, and Doniphan. As way of introduction, my formal education was in economics. I earned a BS at Kansas State University and a Masters Degree in Economics at Oklahoma State University. I am fortunate to have the opportunity to use this training in the Kansas community that our family has lived for four generations. I am here today on behalf of the Community Banker's Association of Kansas in opposition of Senate Bill ~~75~~ 264. But more importantly, I am here today as a concerned Kansan to oppose a piece of legislation that would be bad public economic policy for Kansas.

It is hard to over emphasize the importance of the supply of money to economic growth. The Federal Reserve controls the whole direction of the US economy by merely shrinking and expanding the money supply. In Kansas, we can look at one component of our state's money supply as measured in deposits. Presently, in Kansas there are approximately $43 Billion in total deposits. According to the FDIC ~~latest~~ 2002 data ~~available~~. State and local public funds make up 10-12% of those total deposits, or in dollar terms approximately $4-5 billion. This is a huge amount of money that commands a considerable economic power in Kansas.

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In past years this issue was divided mostly by urban vs. rural sentiments. I also see the majority of the Senators on this committee represent urban counties. I hope my remarks will help to bridge this gap. Sound economic principals apply equally in city or rural markets. The only difference is that in rural areas our economics are smaller and easier to see the working of these principals and the importance of deposits or money in economic growth. Viewing this public funds issue with good economics is good for cities as well as rural areas and therefore best for all of Kansas.

The major proponents of changing Kansas' long standing policy of public funds investment appears to be representatives of local units of government. The government units are genuinely concerned about getting competitive rates for their funds, and some out of state banks are wanting access to one of Kansas largest source of funds. I would like to address each of these issues.

Proponents of allowing out of state banks and S&Ls access to public funds site concerns about lack of competition. They believe that without competition they will not earn a market rate of interest an their funds. This is precisely why the Pooled Money Investment Board was created in Kansas. If local units of government could not get a competitive bid locally for their funds, they could go to the state pooled funds for a market rate. Historically, not only did these local units get market interest rates at the pool, but they earned above market rates, which caused problems with the pools. Thankfully, the Pooled Money Investment Board and the Legislature have made changes to the program to get back to paying market rates.

An even more important issue, which I believe the local units of government may have missed, is the importance local deposits play in building tax bases. The business of local banking is to take a short term deposits, and by making a loan, create a long-term asset. These loans provide the local engine for the creation of new property that generally increases the tax base of the community. When new cars are purchased, new houses are built, businesses opened, tax bases increase and tax revenues go up. It just doesn't make sense to let deposits flow out of the state to build tax bases in other states. Since public funds are monies that come from our local communities, don't we owe it to people to first invest back into their communities?

Branch banking in essence creates a conduit or pipeline for management and funds to flow from one location to another through a branching network. With our current marketplace of interstate bank ownership, these pipelines are now well established over our Kansas boarders. My community is a vivid example of what these pipelines can do. In our market of the City of Atchison, the community is served by four banks and one savings & loan. The town is prospering with good economic growth in large part due to the competition of the local banks. Our toughest competitor is The Exchange National Bank, which is the largest bank in the market at approximately $~~150~~ 166 million in assets. It's a well-managed bank that is aggressively lending in the Atchison area using approximately 80% of their deposits for loans. Our bank is a smaller bank in the market at $~~43~~ 70 million in assets and we also are using over ~~80~~ 90% of our deposit for loans. In Atchison county during 2002, 1,008 real estate mortgages were filed at the county register of deeds. Nearly silent in those 1,008 mortgages is the second largest financial institution in the market that being World Saving and Loan Association, head quartered in Oakland, California. This out of state branch has $69 million in Atchison county deposit and has average 6 mortgage filings per year for the last five years. In the testimony I gave before this committee in 1997 I sited the fact that in 1996 World Savings made 1 mortgage loan. It made 2 mortgage loans in each of the years 1995, 1993, and 1992, and no mortgage loans in 1994. It should also be clarified of their 8 mortgage loans from 1992 through 1996, 3 loans were to their employees. These truths are as a valid today as they were ~~five~~ eleven years ago in my testimony in 1997. This is a vivid example to illustrate what out of state banks and S&Ls can create with their branch conduits for management and the flow of deposits. Can you imagine what it would do to our local tax base and ultimately tax revenues if we could get 80% of World Saving's deposits working in the Atchison community?

In conclusion, I strongly recommend that the current policy remain unchanged for the investment of idle funds and urge you to oppose SB ~~75~~ 264. Please don't let such a huge part of our state's money supply be sucked out across interstate deposit conduits. It is good sound economic policy for both cities and rural areas to make every attempt to use Kansas funds in Kansas by requiring a Kansas charters or home officers for all public funds holders.

March 13, 2006

Dear Mr. Chairman and Members of the House Financial Institutions Committee,

As your colleague, I wish to present some brief comments on Substitute for SB 264 which was pulled from the Governmental Organization and Elections Committee on Thursday, March 2 and rereferred to House Financial Institutions Committee.

As you know, currently our local taxpayer funds are to be invested in the cities or county in which the local government entity exists. The funds are bid upon by banks in the area so as to generate, by competition, a 'better' interest rate for the local government. Additionally, there is also the avenue of opportunity to invest public funds in the State Municipal Investment Pool (MIP) if the financial institutions in the local area do not bid a 'satisfactory' interest rate.

Since my first year of legislative service during 1995, I have been ADAMANTLY OPPOSED to changing the way both active and idle public funds are invested in Kansas. I know firsthand from my responsibilities as the director of a downtown development program called 'Main Street' from 1993 - 1997, that keeping local funds for local development is crucial to the area's and the state's economic well-being. Recently, this economic multiplier effect was documented in a study, "How Public Funds Investment Policy Impacts the Kansas Economy: An Analysis and Adaptation of Previous Research," by John D. Wong, J.D., Ph. D., in January 2006. I believe you have a copy of this study which was jointly commissioned last fall by Community Bankers Association of Kansas (CBA) and Kansas Bankers Association (KBA).

Additionally, last year a study in Missouri proved that their out-of-state investments for the past decade actually harmed their state's economic viability. The consequences of those 'out-of-state' investment decisions, according to the study, meant less capital accumulation and a lower state Gross Domestic Product (GDP) for Missouri. The complete study is available via the internet; however, I can provide you with the executive summary. This is yet another factual account of the way public policy for the investment of idle or active public funds can impact the state's economy, all in the name of pursuing an elevated interest rate for the short term interest return . . . trading off the far greater return of local credit available for local development. The studies show that public moneys taken even 'out-of-county' have a significant negative effect on the economy . . . much less out-of-state or out-of-country.

Along that same line of thought, I also have grave concerns about where ALL public funds in Kansas are being invested. Recently I was preparing a question to pose to the Legislative Post Audit Committee and I ran across some information from December 2005 that documented the Spring Hill school district had $22 million of taxpayer money invested in an entity that carried a German name. Are these public funds being invested in some monetary instrument or institution with a main location in another country perhaps, Germany? If this is allowable by law, is it appropriate? In addition to that fact, I understand that the policy of the Pooled Money Investment Board is to designate only 10% of its investments to be kept in Kansas entities. I believe this policy warrants review as well. While I am far from an expert on these topics, I would raise the issue of research for the upcoming interim as a work topic so as to cover all of the information which should be gathered from school districts, cities, counties, water districts, etc. and the Pooled Money Investment Board. We should ask the question, "How are all the public funds being generated by Kansas taxpayers being invested, or for that matter, not invested within our state?"

I shall close by noting that the last time (about the year 2000) a proposed legislative change in public funds investment policy saw action on the House floor, it was a very close vote that failed. I believe that is because legislators like you recognized the wisdom of the current law regarding public funds investment. Two years ago, another public funds bill, HB 2807, was introduced in House Local Government Committee. Although I do not know the origin of that legislation, I am certain that Representative Vickrey, the Chairman, could answer that question for you. I believe that bill remained in the Local Government Committee after review. Last year, SB 264, was introduced in Senate Federal and State Affairs Committee and was referred to the Senate Financial Institutions and Insurance Committee. After last session, a number of 'stakeholders' collaborated during the interim and arranged a 'compromise' which has now been inserted into SB 264, then passed out of Senate FI&I this 2006 session and recently passed the Senate floor just prior to turnaround with a 24-14 vote. Now this public funds discussion has been placed before you.

My respectful request of you is to be discerning in your committee deliberation. Either these taxpayer funds are invested in the county or they are out of the county! A 'bricks and mortar' facility does not mean that taxpayer dollars generated by Kansans will stay in Kansas to be utilized here. A look at all public funds investments in Kansas is necessary to tell if there is more to this story. There are detrimental consequences in changing the way current law has maintained those local public funds for local development over the past decades. Thank you for your consideration of my concerns on this issue.

Respectfully,

Representative Shari Weber
68th House District

HEARTLAND COMMUNITY BANKERS ASSOCIATION

Matthew S. Goddard, Vice President

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Topeka, Kansas 66603
Office (785) 232-8215 • Fax (785) 232-9320
mgoddard@hcbankers.com

To: House Financial Institutions Committee

From: Matthew Goddard
Heartland Community Bankers Association

Date: March 13, 2006

Re: Substitute for Senate Bill No. 264

The Heartland Community Bankers Association appreciates the opportunity to share some observations regarding Substitute for Senate Bill 264 with the House Committee on Financial Institutions.

The contents of the substitute bill reflect HCBA's long-time position on public funds. HCBA believes the compromise contained in Substitute for SB 264 balances the desire of units of government to get a greater return on their money versus the need to support Kansas-based financial institutions. We opposed Senate Bill 264 as it was originally drafted because the bill would have allowed public funds to be deposited with depositories that had no ties to, or investments in, the local communities from which they would be accepting deposits. However, we believe the substitute bill represents a fair compromise for all parties.

Despite the compromise on the issue of eligible depositories, we remain concerned with other parts of the current public funds process in Kansas. For all of the talk about the need for greater competition and more choices for local units of government, HCBA occasionally hears from member institutions that they are having difficulties with being allowed into the bidding process. We do not understand why the local units of government who want to broaden the pool of eligible depository institutions fail to make full use of already eligible depositories.

The way we read current law, if a bank, savings and loan or savings bank can provide "satisfactory security therefor," they "**shall** be designated as such official depositories." Several of our members have contacted governmental units in markets where they have a branch office and have encountered difficulties being designated as official depositories. In some instances repeated phone calls and letters inquiring as to the process for becoming an official depository go unanswered. These institutions have demonstrated their ability to provide satisfactory security for other units of government. In other instances, we hear from members who are designated as official depositories but are not given regular opportunities to bid on funds. They know of no, and are not given any, rationale for being excluded from the public funds process.

The trade associations for local units of government who support this bill have promised to work with their members to educate them about eligible public funds depositories. HCBA appreciates that commitment. It would be a shame if public funds were suddenly made available to out-of-state institutions while Kansas institutions are refused a seat at the bidding table.

Thank you for your consideration of these thoughts.

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CITY OF
WICHITA

House Financial Institutions Committee

Testimony in Support of
Sub SB 264 – Deposit of Public Funds
March 13, 2006

The City Council of the City of Wichita has taken the following position on Banking Services:

> The City of Wichita supports allowing local governments to use any federal or state chartered financial institution for banking and financial services. The current marketplace protection scheme costs the Wichita taxpayers nearly $500,000 annually as well as limits the type of services available. Local governments should be allowed to use any federal or state chartered institution that local officials determine offers the best value for the taxpayers they were elected to represent.

SB 264 would help accomplish this goal for the City of Wichita. The proposed legislation would give municipalities greater flexibility in the placement of public funds, to the benefit of the taxpayers of the community. The City of Wichita supports Substitute SB 264 as well as the original form of the bill.

Thank you for your consideration.

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JOE LANG

KANSAS
RURAL
WATER
association
Quality water, quality life

P.O. Box 226 • Seneca, KS 66538 • 785/336-3760
FAX 785/336-2751 • http://www.krwa.net

Comments on SB 264
Before the House Financial Institutions Committee
March 13, 2006

Mr. Chairman and Members of the Committee:

As President of the Board of Directors of Kansas Rural Water Association, I appreciate the opportunity to present written comments in support of SB 264. These comments are presented on behalf of the Association's 295 rural water district members and 465 municipal members.

Kansas Rural Water Association supports legislation that allows its rural water district and municipal members to provide best service possible for their water system customers. When it comes to investment of idle funds, rural water districts and cities should be able to obtain the best return on their investments. As the Association suggested in comments when SB 264 was heard in the Senate, many of the Association's members are located in rural areas. Those systems will still be faced with extremely limited options available to them under the law. To the extent however that SB 264 relaxes restrictions that limit where depository accounts can be maintained and where and how idle funds can be invested, KRWA's goal of improving investment opportunities for its members is being furthered.

Kansas Rural Water respectfully requests that the Committee give favorable consideration to SB 264.

Respectfully submitted,

Dennis F. Schwartz

Dennis F. Schwartz
President
Kansas Rural Water Association

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THE FIRST NATIONAL BANK

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Phone (785) 366-7225
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www.fnbks.com

To: Financial Institutions Committee
From: Dan Coup, President, Community Bankers Association of Kansas
Date: March 13, 2006

The Community Bankers Association of Kansas believes in current public funds law.

Kansans' tax dollars, generated in your counties, cities and school districts should remain at work in the area where they are generated. When the multiplier effect is used, this ,amounts to a huge economic benefit locally and to our state. It is plain and simple economic development that generates additional tax dollars.

It is ironic Kansas spends a lot of money each year to promote tourism in order to bring money into this state. In fact, millions are spent to encourage economic development and tourism. However, the substitute for SB 264 will allow Kansas' capital to move out of our local areas. Is this what Kansans really want? The CBA doesn't think so. This issue is a real one for the banks in cities and towns across our state. The CBA Legislative/Regulatory Committee took this issue very seriously. They addressed it with an economic and businesslike approach. Thus, the CBA supports current public funds law and is opposed to the substitute for SB 264.

As our member bank in Oakley stated, "With a dwindling population we need local deposits. The public funds are one way to fund loans. This is one way to keep money locally. We must keep the deposits in order to make loans to the businesses, consumers and agriculture customers. Our bank continues to support our schools and government."

I sincerely apologize for not being at your hearing. Last week was our national convention, Independent Community Bankers of America, so I just returned to Kansas today.

Thank you for your time.

Alden State Bank

P.O. Box 185
Alden, Kansas 67512
620-534-2135

P.O. Box 288
Sterling, Kansas 67579
620-278-2244

March 13, 2006

HOUSE FINANCIAL INSTITUTIONS COMMITTEE

Regarding SB 264

I am the President and CEO of a small family owned bank in south central Kansas.
While SB 264 does not directly effect our local government funds in Rice County, this bill does set a terrible precedence that would enable funds to be transferred from Kansas to some other higher paying location. Once this process is started, there would never be a reversal. Probably from 80 to 90 percent of local funds within the State of Kansas could be transferred out of Kansas - for investment purposes.
This type of realization, invest where we can achieve the most earnings is very short sided. Of course more earning could probably be realized investing with out-of-state financial institutions.

According to the Wong Report, funds invested outside the local tax unit would have to earn at least 2 3/4 percentage points above the local earning rate , or the local unit would show a measurable economic loss. Outside earning would have to earn 30% more than local earnings before there would be an actual advantage to invest elsewhere.
The local unit suffers because those funds are no longer able to be invested and reinvested in the local economy.

I have been a member of the governing council and also the Board of Directors of Kansas Bankers Association, but do not agree with the KBA on this issue.

In conclusion, I do not think we can take the Wong Report lightly.
If SB 264 is passed, the taxpayers of Kansas will be the losers.
The immediate gain realized by initially higher earning rates will be swallowed by the loss of reinvestable funds that will in turn slow the economic growth and vitality of the taxing unit investing taxpayers funds elsewhere.

Sincerely,

C. P. Rowland

C. P. Rowland, pres.

CBA

Community Bankers
Association of Kansas

Directed By The Members We Serve

House Financial Institutions Committee
March 13, 2006
Community Bankers Association of Kansas

TO: Chairman Cox and Members of the House Financial Institutions Committee
FROM: Thad Geiger, Troy State Bank, CBA Legislative/Regulatory Committee

The Community Bankers Association believes in the current Public Fund Policy. The 2006 study, "How Public Funds Investment Policy Impacts the Kansas Economy" by Dr. John Dr. Wong, J.D., Ph.D., states that Kansas Communities are better off with the current public funds law.

If taxes are moved out of the local economic channels in a county like mine who would be impacted? The local taxpayer would feel the impact the hardest. The ability to loan funds to the local community would change dramatically. Moving money out would destroy the ability of local financial institutions to properly and efficiently serve the local economy. It would make small businessmen, consumers and farmers seek financing elsewhere. The bankers are there for the community and vice versa. We continue to support county, community and school functions. It is definitely a mutual understanding that works well in cities and towns across this state.

Dr. Wong looked at research from three other recent studies to reach these conclusions. It is obvious rural areas would feel the financial impact the hardest. However, he also stated that a loss of economic activity and property tax revenues would be experienced by urban areas like Douglas, Johnson, Shawnee, Wyandotte and Sedgwick.

Just a month ago the CBA Legislative/Regulatory Committee met with Dr. Wong to review the results of his just released research. The review confirmed that local county government units receive the highest benefit

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when citizens' taxes can be used for reinvestment by local financial entities. We continue to support current law and oppose the sub for SB 264.

I personally feel an important advantage to placing the public fund deposits in financial institutions in Kansas is that funds are more likely to be placed with Kansas' borrowers. More importantly, it should be stressed those deposits in turn result in an increase in the state's capitol stock, translating into increased economic activity and incomes.

Thank you for your service to the state and for your time.

LEGACY Bank

Fund your future.

DATE: March 13, 2006
TO: The House Financial Institutions Committee
FROM: Frank Suellentrop, President, Legacy Bank, Wichita, KS

On behalf of community banks in the state of Kansas, the Community Bankers Association (CBA) voices our concerns over substitute for SB #264 that alters current Public funds law that support strong, viable local banks in your communities. At issue is the subject of local government investments of public funds. Currently public funds are to be invested in the cities or counties in which the local government entity exists. This bill would allow those invested funds to be sent out of county and out of state. On the surface this may seem good but there are long-term damaging effects to local communities and counties in Kansas if public funds are not locally invested. This is confirmed by Dr. John Wong's 2006 Public funds study, "How Public Funds Investment Policy Impacts the Kansas Economy: An Analysis and Adaptation of Previous Research".

Why will this bill be detrimental to local communities, counties and the state as a whole? When public funds are invested out of county or state because of a higher interest rate --local funds are no longer available for loans for small businesses, homes, farm and ranch land, and home repairs via a community bank. Lobbyists for cities and counties will support the concept. However, there are unintended consequences for such a short-sighted monetary investment policy. A recent study in Missouri by Joseph H. Haslag proved that their out-of-state investments for the past decade actually harmed their state's economic viability. The consequences of those investment decisions according to the study meant less capital accumulation and a lower state Gross Domestic Product for Missouri.

In Summary: Please vote NO for the substitute for SB 264 or any effort to add this to other legislation. Kansas' money should stay in Kansas.

- Local banks utilize these funds to make loans in their communities for economic development
- Deposits in Kansas' banks result in an increase in the state's capital stock, translating into increased economic activity and incomes
- The impact of the loss in rural areas would be magnified because of the lack of expertise of lenders outside of the local market
- Allowing local governments to move their funds will result in reduced income and lower tax revenues for local governments and the state as a whole
- Kansas tax dollars, generated from local taxpayers should remain at work in Kansas
- Removing these monies will impact the future prosperity of communities, counties and Kansas

The Community Banker Association remains strongly opposed to the substitute for SB 264!

Thank you for your time.

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Colwich, KS 67030
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8725 W. Central
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7555 W. 21st
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2055 N. Woodlawn

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Testimony before the Kansas House Financial Institutions Committee
Substitute Senate Bill No. 264

March 13, 2006

Brian L. Vaubel – President, St. Marys State Bank, St. Marys, KS

Good afternoon Chairman & committee members. I am Brian Vaubel, President of the St. Marys State Bank in St. Marys, KS. I very much appreciate the opportunity to speak in support of current public funds policy.
For a bit about my background, I have a degree in accounting, I spent five years as an examiner with the FDIC in Overland Park and I have been a commercial banker for 26 years. I have been with the St. Marys State Bank for 21 years, the last four as President.

St. Marys is a town of approximately 2,500 people and is located just 20 miles West of Topeka. We have two financial institutions in our city: our bank has been in St. Marys since 1927 and a branch of the Clifton bank moved into town approximately 12 years ago.

I know this committee has already heard testimony containing the theories, the research, the technical economics, the so-called "models", etc., etc., etc. My goal today is to give you a short simple picture of what it is like in the "trenches" of Kansas banking. I would like to start by telling you a little about how our bank works. We have approximately $70,000,000 in assets of which $50,000,000 are loans. We fund these assets with a mix of $7,000,000 in owners' capital, $10,000,000 of borrowed money and $53,000,000 in deposits. Of those deposits, approximately $4,500,000 are public funds. The local school district and the City of St. Marys are the major source of public funds in St. Marys and they are shared with the local branch bank on a 5-year rotating basis. From the numbers you can see that our loan-to-deposit ratio is 94%, i.e. 94% of the money we have on deposit is loaned to our customers. In my days as a bank examiner, this would warrant some extreme supervision because of liquidity problems. Today it is of less concern because banks like ours are able to borrow funds from the Federal Home Loan Bank in Topeka, and, we do that as indicated by our $10,000,000 in borrowed money. But, this is an expensive source of funds. The problem I face every day is where am I going to find additional funds to loan to my customers. My community is growing and the loan demand is great but the deposits just aren't there. Why not you ask? Like many small communities in Kansas, our core depositors are retired folks who have their life savings in our bank. But unfortunately, these folks sometimes pass on and the money is passed to the children who have moved away to other areas of the country. I have personally seen this happen in our bank many times in the last few years. There goes my deposit base and off I go to the Federal Home Loan Bank to borrow more money, to loan to my customers, so my community can keep growing.

And now today we are here discussing ways to take more money out of my community, tax dollars that were paid by my customers, and redirect them to some investment counselor who can promise a few more basis points on their return. My source of funds for loans for local businesses, farmers, cars, homes, remodeling etc. is slowly being eaten away.

I have been a member of the Community Bankers Association of Kansas for over 18 years and have met some very good bankers during this time. I don't know anybody that is prouder of their community and the role they play in making that community a special place to live than a Kansas banker. Please don't make it harder for us to do our job. Let's keep Kansas tax dollars at work in Kansas.

Therefore, I must oppose Senate Bill 264 as I feel it would have a dramatic and detrimental effect on the economic development of my community, my county and the State of Kansas. Let's keep the status quo and continue to make Kansas the great place it is to work and play.

Thank you.

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