

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Jay Emler at 11:50 a.m. on April 2, 2009, in Room 545-N of the Capitol.

All members were present except:

Senator Ruth Teichman - excused  
Senator David Wysong - excused

Committee staff present:

Michael Steiner, Kansas Legislative Research Department  
Jonathan Tang, Kansas Legislative Research Department  
Daniel Yoza, Office of the Revisor of Statutes  
Melinda Gaul, Chief of Staff  
Shirley Jepson, Committee Assistant

Conferees appearing before the Committee:

Scott Gates, General Counsel, State Treasurer's Office

Others attending:

See attached list.

**Hearing on HB 2331 - State treasurer; investment of state moneys.**

Chairman Emler explained that **HB 2331** would amend current law to establish a minimum interest rate of 0.50 percent on funds loaned by the State Treasurer. Currently, deposits are placed with lending institutions at a rate of 2.0 percent below the market rate. Because the market rate is presently below 2.0 percent, the state is earning no interest on these loans.

Scott Gates, General Counsel, State Treasurer, appeared before the Committee as a proponent of **HB 2331** (Attachment 1). Mr. Gates explained that current law allows the State Treasurer to loan state idle funds to banks so that the banks can use the funds to make loans to consumers at a lower rate for agricultural production, remediation of agricultural pollution and affordable housing. Currently, the State Treasurer has approximately \$50 million loaned out to banks. The rate for the state's loan to the banks is set at 2.0 percent below what the state earns on its other investments, which is called the market rate. Currently, the market rate is so low that the state is earning no interest. **HB 2331** would establish a minimum interest rate of 0.50 percent.

The hearing on **HB 2331** was closed.

Senator Umbarger moved to recommend **HB 2331** favorable for passage. The motion was seconded by Senator Kelly. Motion carried on a voice vote.

**Adjournment**

The meeting was adjourned at 12:05 p.m.

The next meeting is scheduled for "on call of chair".





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H.B. 2331

General Government Budget Committee

March 10, 2009

The Treasurer's Office currently runs three Linked deposit programs in which we loan state idle funds to banks so that the banks can use the funds to make loans to consumers at a lower rate for agricultural production, remediation of agricultural pollution, and affordable housing. The rate for the state's loan to the banks is set at 2% below what the state earns on its other investments, which is called the market rate. The banks can then loan the funds out at up to 2% above market rate giving them a 4% spread on the loan. When the market rate is below 2%, the state receives no interest for these deposits

I requested this bill to ensure that the state receives a minimum return on these deposits when the state's other investments earn less than 2%, as they currently are. The state currently has just under \$50 million loaned out to banks at 0% interest in these three linked deposit programs. The programs authorize deposits of up to \$120 Million. Ensuring a minimum .50% return on these deposits would bring in additional revenue of approximately \$250,000 based on current utilization and up to \$600,000 if these programs were completely full.

I have attached to my testimony a balloon amendment addressing two technical drafting errors. We would like the interest rate for agricultural remediation loans to reset twice a year to make them consistent with the other two programs. Also, the minimum .50% rate needs to take effect whenever the market rate is below 2.5 % because of the 2% spread between the linked deposit rate and the market rate.

I have discussed this proposal with the Kansas Bankers Association, and they understood that it is inappropriate to ask the state to make these loans for free. I'd be glad to answer any questions you have about these programs or this proposal.

Senate Ways & Means Cmte  
Date 4-02-2009  
Attachment 1