SESSION OF 2006

SUPPLEMENTAL NOTE ON SUBSTITUTE FOR SENATE BILL NO. 264

As Recommended by Senate Committee on Financial Institutions and Insurance

Brief*

Sub. for SB 264 would amend the restriction that governs the location of a public depository in the banking code and the law governing public money investment by governmental subdivisions and also would enact new law. The bill would remove the requirement in KSA 9-1401 that banks, savings and loan associations or savings banks organized under the United States law or the laws of another state which do not have a main office in this state may be designated as depositories of funds from municipal or quasi-municipal corporations, if these institutions have branch offices in the county or counties in which all or part of the corporation is located, if such institutions have been designated as an official depository. The bill instead would allow for the depositing of public funds with banks, savings and loan associations or savings banks which have main or branch offices in an adjoining county to the county in which all or part of the municipal or quasi-municipal corporation is located if the institutions have been designated as official depositories and the corporation can obtain satisfactory security thereafter.

The bill would amend the current definitions of the designated financial institutions to include banks or other defined institutions incorporated under the laws of "any other state" and allow for either a main or branch office location in the state. The term "branch" is amended to allow for an office that is approved as a branch by a federal or state supervisory agency. Additionally, a loan production office would not qualify as a branch office.

The bill also would amend the repurchase agreement requirements in KSA 2005 Supp 12-1675 to allow that the agreements may be entered into with banks, savings and loan associations or savings banks located within this state. Definitions would be modified in KSA 2005 Supp 12-1675a to accommodate the amended definitions

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org in the banking code for the financial institutions, including banks, savings and loan associations, and savings banks and the term "branch." An identical exclusion would apply to loan production offices.

The bill also would enact new law to authorize governmental units to reoffer public funds for deposit to eligible banks, savings and loan associations, and savings banks at the time of the maturity of the funds.

Background

The Senate Committee on Financial Institutions and Insurance recommended a substitute bill. The substitute bill was requested by the Kansas Bankers Association, in consultation with a number of parties appearing as proponents to the substitute bill. After adoption of the substitute, the Committee heard testimony on the substitute bill. Proponents of the substitute bill indicated that the bill would make more clear the legal options for investment available to them by specifying that local units would be permitted to invest their active and idle funds in branches of an out-of-state bank or savings and loan if, and only if, they have a branch in the taxing district of the government unit investing those funds. Proponents of the substitute bill included the Kansas Bankers Association; U.S. Bank; the City of Overland Park; a financial representative of the Johnson County Government; the Unified Government of Wyandotte County and Kansas City, Kansas; the Kansas Association of Counties; the League of Kansas Municipalities; the Kansas Association of School Boards; and the Kansas Rural Water Association. The Heartland Community Bankers Association appeared neutral on the bill, highlighting difficulties its member institutions have had in being designated as official depositories. The Committee also received information on public investment policy and its impact on the Kansas economy. The original version of the bill was introduced by the Senate Federal and State Affairs Committee.

Opponents to the bill spoke of concerns about the risk of public fund deposits leaving rural banks which lead to diminished loan making possibilities, diminished rural economies, and diminished "Main Street" growth. Opponents included the Community Bankers Association of Kansas and presidents of two state banks, First State Bank, Burlingame and St. Marys State Bank, St. Marys.

The revised fiscal note prepared by the Division of the Budget on the original version of the bill indicates that, according to information provided by the Kansas Association of Counties, there are at least $1.0 billion in idle funds invested by cities and counties. The original bill was anticipated to increase competition in the deposit for these funds and based on annual increase of 1.0 percent of investments, the Association estimated that county and city governments could increase their investment returns by $10.0 to $20.0 million annually. The Kansas Bankers Association stated that the bill would decrease State General Fund (SGF) revenues. The anticipated decrease is due to fewer loans (banks and savings and loans use deposited moneys to finance loans) being issued when public moneys are being deposited or invested outside Kansas. The decrease in SGF would be caused by a reduction in economic activity, which would in turn reduce tax receipts for the state. The Office of the State Bank Commissioner stated that SB 264 would have no fiscal effect on its budget. The fiscal impact of the substitute bill is not known.