KANSAS BANKERS ASSOCIATION

Date: **March 13, 2025**

To: **Senate Committee on Financial Institutions and Insurance**
Senator Brenda Dietrich, Chair

From: **Alex Orel, Senior Vice President – Government Relations**
Kelly VanZwoll, Vice President – Government Relations & Staff Attorney

Re: **Proponent Testimony – Sub HB 2152**

Madam Chair and committee members, I am Alex Orel, Senior Vice President – Government Relations appearing on behalf of the Kansas Bankers Association (KBA). It is also my pleasure to introduce Kelly VanZwoll, Vice President – Government Relations & Staff Attorney and Mark Schifferdecker, KBA Past Chairman and Chairman, President & CEO of GNBank in Girard who is available online.

On behalf of our team and industry, we want to extend our appreciation for your dedication and service to our state. It is an honor collaborating with each of you on matters concerning the financial industry and the Kansas economy. We look forward to continuing to support you through this legislative session.

Thank you for the opportunity to testify today in support of policy changes that would benefit Kansas banks and the state's economy. Our organization represents Kansas banks and advocates for policies that strengthen the banking industry and promote economic growth across the state. I am here today to discuss several key policy changes that would help keep more public funds invested locally in Kansas banks, supporting our communities and driving economic development. These recommendations are based on extensive research and analysis, including a recent study by Fort Hays State University's Docking Institute of Public Affairs.

Kansas Bankers Association Background Information:

The KBA was founded in 1887, and is a voluntary, non-profit trade association governed by its membership. The KBA is headquartered in Topeka, Kansas, and is led by our 24-member board of directors. The KBA staff includes 41 professionals, including 12 attorneys, that provide services to Kansas bankers ranging from legislative advocacy to educational training to insurance services to legal and regulatory compliance support. Our mission statement is below.

"The Kansas Bankers Association strengthens and supports the Kansas banking industry by advocating for sound financial policies, promoting innovation, and fostering economic growth across the state to ensure a vibrant financial future for all Kansans."

KBA's membership includes 98% of the headquartered banks in Kansas. Our membership also includes 20 out-of-state commercial banks operating in Kansas. Our member banks employ more than 21,000 Kansans that provide financial services in every county across the state. While our member banks range in assets from the smallest in our state to the largest in our state, each member bank that belongs to the KBA has one vote on policy positions adopted by either our general membership or our Board of Directors. One member, one vote.

The Importance of Local Bank Deposits

Before diving into specific policy recommendations, we want to emphasize why it's so critical to keep more public funds deposited in Kansas banks. When local government funds are invested out-of-state, it reduces the capital available for loans and investments within Kansas communities. This has a ripple effect throughout our local economies. The Docking Institute study found that state and local government revenues increase when deposits are kept in Kansas financial institutions, if the interest rate differential is less than 3.15%

In other words, out-of-state investments would need to offer rates exceeding 3.15% above those of Kansas banks to match the economic benefits of keeping that money local. As Dr. Emily Breit stated in the study: "The primary advantage of placing deposits in Kansas financial institutions is that these funds are more likely to be loaned to Kansas borrowers, supporting investment projects. This, in turn, boosts the state's capital stock, economic activity, and income."

When public funds leave Kansas, there are fewer resources available for local lending and investment. This can lead to:

- Reduced capital for Kansas businesses looking to expand
- Fewer loans for Kansans to purchase homes or vehicles
- Less funding for local infrastructure and development projects
- Diminished economic activity and job creation

By keeping more public dollars invested locally, we can create a robust cycle that strengthens Kansas banks, supports Kansas borrowers and businesses, and ultimately grows our state's economy.

Current Public Funds Investment Landscape

To understand the need for policy changes, it's important to look at how public funds are currently being invested in Kansas. The Pooled Money Investment Board (PMIB) manages $9.266 billion in state idle funds and local public funds held within a state-managed municipal investment pool.

However, only about 0.49% of these funds - approximately $45.4 million - are currently invested in Kansas bank CDs. The vast majority is allocated to U.S. domiciled Canadian headquartered banks or out-of-state investments such as agency discount notes, US Treasury bills, overnight repos, and commercial paper.

This represents a significant outflow of capital from our state, and in our opinion warrants policy changes. We have an opportunity to keep billions more dollars invested locally, where those dollars can have a much greater positive impact on Kansas communities and our state's economy.

Policy Recommendations

Based on the research and analysis conducted, including stakeholder feedback from groups from the Office of the State Treasurer, League of Kansas Municipalities, Kansas Association of Counties and Kansas Association of School Boards we would like to propose several policy changes for the committee's consideration, many of which were unanimously recommended by the 2024 Special Committee on Centralized Pooled Collateral and PMIB Modernization:

Local Government Investment Modernization

Single Bank Collateral Pool

Under current Kansas law, when a bank takes in public funds to hold as deposits, the deposits must be collateralized up to 100% excluding the amount that is covered by FDIC insurance. This law is meant to ensure the protection of taxpayer dollars. In practice this means that when Bank A works with their local City, County, and School District, Bank A must use its own collateral to secure each account individually. This can cause the bank to be over collateralized by millions, tying up the capital so that it can no longer be used to fund other loans.

In order to streamline the process for a bank to pledge their collateral for public deposits, other states (such as Nebraska and Colorado) have created single bank collateral pools. These pools allow a bank to aggregate the pledging of their collateral over their public deposit accounts. In practice this would mean that Bank A could take the accounts for their local City, County, and School District and aggregate their collateral over all of the accounts instead of pledging to each account individually. By allowing a bank to aggregate the accounts are still fully collateralized, but Bank A is no longer over pledged by millions. An important point is that these are single bank pools meaning that Bank A and Bank B are not mixing or sharing collateral. Each bank is simply able to "pool" its own collateral over its own accounts.

Another benefit of the single bank pool program is that it increases the safety and oversight of public funds. Under this bill the Kansas State Treasurer will oversee the program which will be required for all banks and governmental units. He will verify the collateralization to ensure the accounts are properly covered at all times. Additionally, the pool will increase the statutory

requirement to collateralize the funds from at least 100% to at least 102%. The type of collateral that is acceptable is currently listed in K.S.A. 9-1402 and 12-1675. The pool program will make it clear that all collateral listed in statute will be accepted. The pool will also add in a requirement that if a bank is ever found to be under collateralized, they have five days to adjust the collateral or they will receive a fine and/or penalty. There is no bank fine or timeline to adjust collateral under current law.

This bill would create a single bank pool program which will allow for a more effective and safer process for the collateralization of public deposits. Increased oversight adds a layer of protection that public funds do not have under current law. And finally, safely freeing up collateral allows banks to put more capital to work back in their communities!

Oversight Process for Public Funds

This bill would make a few changes to the public funds statutes to create an oversight process for public funds. Under current law there is no system in place to report or investigate a violation of the law. This bill would create a process for an executive officer of an eligible bank to file a complaint with the Treasurer's Office. They will then investigate any claims and if there is a violation, that will be reported to the Attorney General and Pooled Money Investment Board (PMIB). The first violation requires additional educational training on Kansas public funds laws. Every violation after will receive a fine of up to $500. This education and then fine process is standard for most local government violations.

This bill would also require government entities to submit proof of local bank bids before entering the state's Municipal Investment Pool (MIP). Right now, a government entity must first bid their public funds out locally. If there is no local bank that meets the statutory rate, the government entity may instead place their funds in the MIP, which is run by the Pooled Money Investment Board. This bill would require the government entity to show proof of the local bank bid before entering the MIP in order to ensure that they followed the law and bid the funds out. This check will make sure the law is being followed without placing an overly burdensome punishment or restriction on the government entity.

Finally, this bill would add some additional reporting requirements to government entities that have been granted expanded investment powers under K.S.A. 12-1677b. These groups already have some annual reporting requirements, and this would add that they must report their portfolio holdings and investment service costs as well to the PMIB and Legislature.

Other Changes

This bill would also make a few other changes to the public funds statutes. It would require governmental entities to give a bank two business days to respond to a bid. There is no timeline under the current law and some banks have been given bids with only four working hours to respond. Adding a bidding timeline will give banks certainty that they have a chance to respond to the bid.

It would also clarify the current practice that government entities and banks may negotiate the rate and terms of these deposits. Under current law there is a statutory investment rate a bank must offer to guarantee local placement of the funds. That rate is a guarantee, not a requirement. The government entity and bank have the ability to negotiate the rate and terms of the deposits, true home rule. These negotiations take place all across the state and this language simply puts that practice into statute.

Finally, it would state that when government entities work with third party investment advisors to assist them with the bidding process, the investment advisor cannot also be a bidder of those funds. A government entity is still allowed to work with an investment advisor.

State Government Investment Modernization

The PMIB is the investment board for the state of Kansas. Their funds include the Municipal Investment Fund, the healthcare stabilization fund, the rainy-day fund, and others. Within the PMIB funds they also have a Bank CD Program. Right now, that program only holds .49% of the state's funds. The means that of the more than $9 billion the state has in reserves, only .49% of them are held in Kansas Banks. 20 years ago, that number was close to 10%.

One of the reasons this program has shrunk is that statute requires the PMIB to set the program rate at the highest rate possible, which is currently the commercial paper rate. In reality this rate is not workable for Kansas banks. The bill would give the PMIB flexibility when setting the Bank CD Program Rate to better adjust to market conditions. The PMIB could then set the rate based off of U.S. Treasuries or the Federal Home Loan Bank. They would have the ability to see which rate would still offer a great return for the state and make the program more viable for banks to accept these deposits. Growing the Bank CD Program increases the percentage of PMIB funds invested in Kansas banks—instead of sending these taxpayer dollars of state.

Economic Impact and Impact on Community Banks

This legislation is particularly crucial for supporting the sustainability of community banks, especially in rural areas. Community banks play a vital role in serving smaller, less densely populated markets where they create personal relationships with their customers. By modernizing public funds statutes, we can help these institutions continue to serve as economic drivers in their communities. Economic Analysis Research indicates that keeping public funds in Kansas banks can lead to:

Furthermore, the analysis shows that state and local government revenues should increase as long as at least 9.52% of local government deposits in Kansas financial institutions are loaned out to support in-state activities.

In estimates that redirecting $10M in deposits to Kansas banks (with 20% held in reserves) generates $8M in loans. These loans spark a multiplier effect—businesses expand, construction

booms, and consumers spend. Applying Kansas's 10.1% state and local tax rate (Tax Policy Center, 2023), this yields $1.3M in new tax revenue per $10M deposited. **Scaled to $1B—the potential redirection from out-of-state holdings—this could generate $130M in new taxes.**

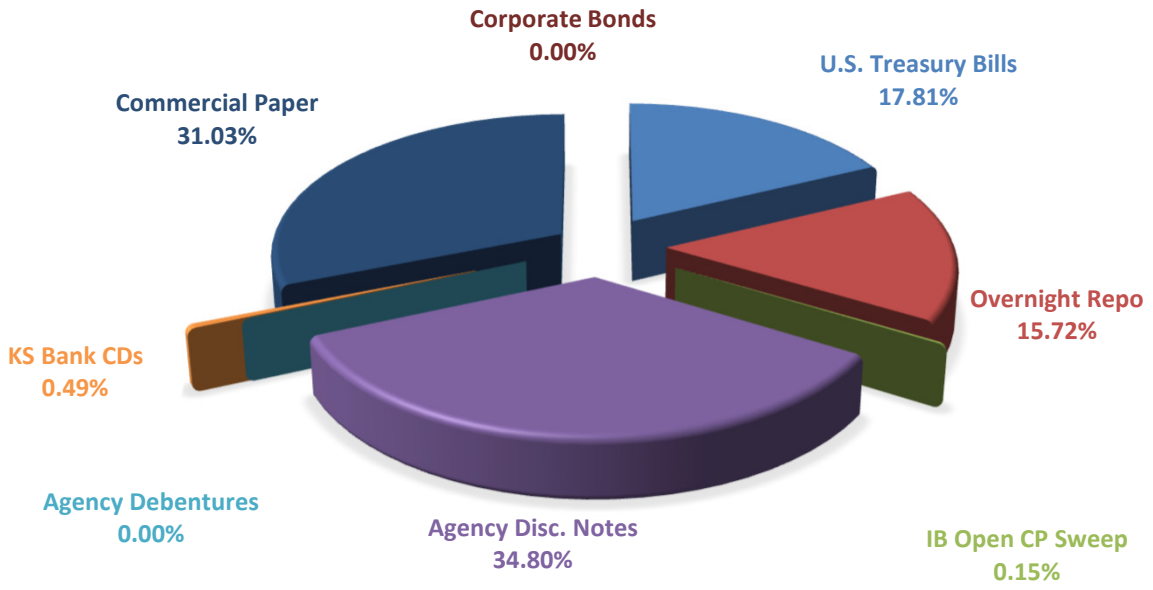
Conclusion

In conclusion, this legislation presents a remarkable opportunity to redirect up to $1 billion of our own tax dollars—currently invested outside Kansas and even beyond our nation's borders—back into the heart of our state. By doing so, we can create a powerful economic ripple effect, as this $1 billion investment circulates through communities statewide, yielding returns that far exceed any short-term loss in investment income. This proposal is a clear victory for Kansas, benefiting both our economy and our citizens. It's a decision we can stand behind with pride, confidently telling our constituents that we've brought their tax dollars home to strengthen and uplift our local communities.

We have more than $9 billion in public funds currently under management. Shifting even a fraction of that back to Kansas banks could have a transformative impact on our local economies. The multiplier effect means every dollar kept local can generate several more in economic activity.

We urge the committee to give serious consideration to the policy recommendations contained in Sub for HB 2152. They represent common-sense changes that align public fund investment practices with the best interests of Kansas communities and taxpayers. Thank you for your time and attention.

The Pooled Money Investment Portfolio Holdings



Asset Allocation as of: 1/31/2025

$9.266 Billion (Par Value)

Overnight Repo: 15.72%
U.S. Treasury Bills: 17.81%
Agency Disc. Notes: 34.80%
Agency Debentures: 0.00%
KS Bank CDs: 0.49%
Commercial Paper: 31.03%
Corporate Bonds: 0.00%
IB Open CP Sweep: 0.15%

The Pooled Money Investment Portfolio Holdings

Percentage of Portfolio as of: 1/31/2025

Investment Type	% of Portfolio
Overnight Repo	15.72%
IB Open CP Sweep	0.15%
U.S. Treasury Bills	17.81%
FNMA (Fannie Mae)	0.00%
FHLMC (Freddie Mac)	0.00%
FHLB (Home Loan Bank)	34.80%
FFCB (Farm Credit Bank)	0.00%
Kansas Bank CDs	0.49%
Amazon.com, Inc.	0.00%
Apple, Inc.	0.00%
Bank of Montreal	3.78%
Bank of Nova Scotia	0.00%
Exxon Mobil Corp.	0.00%
Honeywell International, Inc.	1.35%
ING (US) Funding LLC	1.08%
Johnson & Johnson	2.70%
JP Morgan Securities LLC	1.08%
Microsoft	0.00%
MetLife Short-term Funding	4.86%
National Bank of Canada	0.00%
National Securities Clearing Corp.	1.08%
Nestle Companies	1.08%
Pepsico	4.32%
Pricoa	3.24%
Prudential Funding LLC	0.00%
Royal Bank of Canada	1.08%
Toronto Dominion Bank	2.16%
Toyota Motor Credit Corp.	3.24%
US Bancorp	0.00%
Wal*Mart, Inc.	0.00%
Total	100.00%

Pooled Money Investment Board
Municipal Investment Pool
February 28, 2025

Active Participants

Cities	49
Counties	21
Schools	36
Other	23
State Agencies	2
Total	131

Month End Balances

OMIP	828,192,423
FX-30	150,356,223
FX-90	64,604,986
FX-180	35,350,153
FX-365	12,297,518
FX-550	0
FX-730	0
Total	1,090,801,303

Month End Rate Comparison

	Current Month Feb-25	Last Month Jan-25	Last Year Feb-24
OMIP	3.02%	3.02%	4.02%
FX-30	3.83%	3.83%	4.83%
FX-90	3.77%	3.73%	4.80%
FX-180	3.76%	3.76%	4.71%
FX-365	3.77%	3.74%	4.29%
FX-550	3.75%	3.75%	4.09%
FX-730	3.71%	3.78%	3.94%

How Public Funds Investment Policy Impacts the Kansas Economy: An Analysis and Adaptation of Previous Research

Prepared for

Kansas Bankers Association and

Community Bankers Association of Kansas

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How Public Funds Investment Policy Impacts the Kansas Economy: An Analysis and Adaptation of Previous Research

By

Emily Breit, Ph.D.

Policy Fellow

Docking Institute of Public Affairs

Prepared for

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Community Bankers Association of Kansas

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Introduction

This report does not recommend specific policies for the Kansas Bankers Association or the Community Bankers Association of Kansas. Instead, it provides background, data, and analysis to support policy discussions for the state.

According to the Advisory Commission on Intergovernmental Relations (ACIR):

The second service performed by banks is more elusive to determine but nevertheless must be kept in mind. It relates to the economic functions performed by the banking element. The efficacy with which this function is performed may affect the economic wellbeing of the municipality. For example, undoubtedly the municipality can benefit from loan activities of a bank. Where loans are made for construction of commercial enterprises or residential properties, the city directly benefits from an increase in taxable values so added. The extent to which the economy is maintained through approximate full employment of the labor force in a local town or city is also a factor since this is reflected, in some degree, in the ability of taxpayers to meet taxes imposed by the municipality (Investment of Idle Cash Balances, 1961).

This report seeks to analyze the impact of local government investment decisions on their local economies, as well as the broader economy and budget of the State of Kansas. When municipal funds are transferred outside their local market, fewer funds may be available for loans to local customers, leading to reduced economic activity. This initial decline in economic activity would have a multiplier effect, further diminishing economic activity beyond the initial decrease. This analysis draws extensively from previous studies, including Darwin W. Daicoff's (1966) study on "Surplus Funds of Kansas Local Government," Carl C. Nielsen's (1985) research on "The Investment of Surplus Funds of Local Governments in the State of Kansas," Joseph H. Haslag's (2004) study for the Missouri Bankers Association and the Missouri Independent Bankers Association and John D. Wong's (2006) research "How Public Funds Investment Policy Impacts the Kansas Economy: An Analysis and Adaptation of Previous Research".

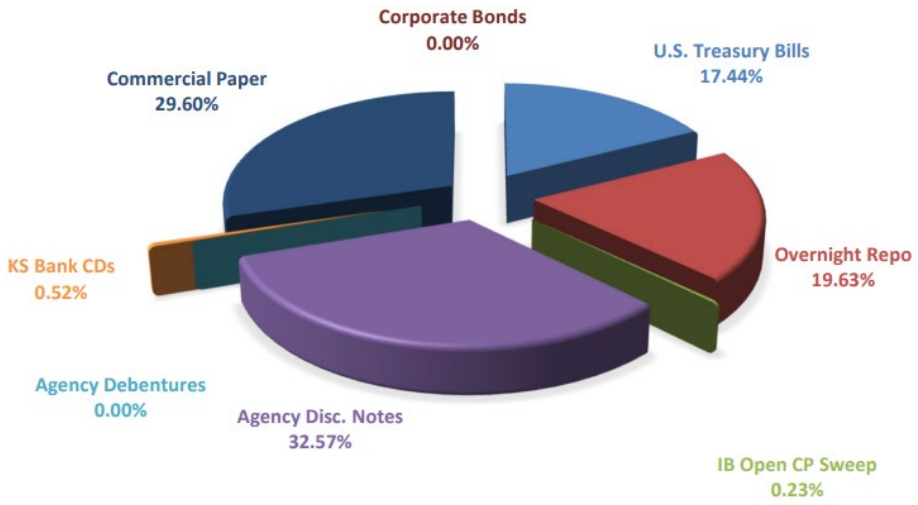
Over the last four decades, there has been a noticeable trend in local government investments, with more funds being allocated to out-of-state investments. Consequently, fewer funds are deposited in Kansas financial institutions. This shift has been justified by the potential for greater liquidity and higher returns offered by out-of-state investments. All else being equal, local governments are inclined to favor investments that provide a better yield and increased liquidity. However, this shift comes with trade-offs. As more funds are moved out of local institutions, there are fewer investment opportunities available within Kansas. This reduction in local investment can lead to a loss of economic development capital, income, and associated tax revenues for both local governments and the state overall. The primary motivation for restricting local government investments is to safeguard these funds, with state statutes typically emphasizing the importance of safety over generating additional revenue sources for local governments (Wong, 2006; Haslag, 2004).

Facing tighter budget constraints, local governments have turned to alternative investment instruments beyond traditional deposits in local financial institutions, such as United States Treasury securities, repurchase agreements, commercial paper, and banker's acceptances. Generally, these alternative investments can offer higher returns and greater liquidity compared

to traditional time deposits in local financial institutions. As a result, the potential sources of funding for local uses are reduced, leading to a smaller pool of capital, higher interest rates for potential borrowers, and lower income and tax revenues for the community. These implications apply to the state. There is a balance to be struck between the higher returns provided by out-of-state investments and the reduced resources that this leaves available for local borrowers, alongside the decreased income and tax revenues from the decline in local deposits (Wong, 2006; Haslag, 2004).

The Pooled Money Investment Board (PMIB) invests the money available from the State of Kansas General Fund and other state funds deposited with the State Treasurer. The investable state moneys are combined with Kansas Municipal Investment Pool deposits to create the Pooled Money Investment Portfolio (PMIP). Currently a large portion of the PMIP is allocated to Agency Discount Notes, US Treasury Bills, Overnight Repos, and Commercial Paper (over 12.6% of which is in Canada based banks). Only .52% of the funds are in Kansas Bank CDs.

The Pooled Money Investment Portfolio Holdings

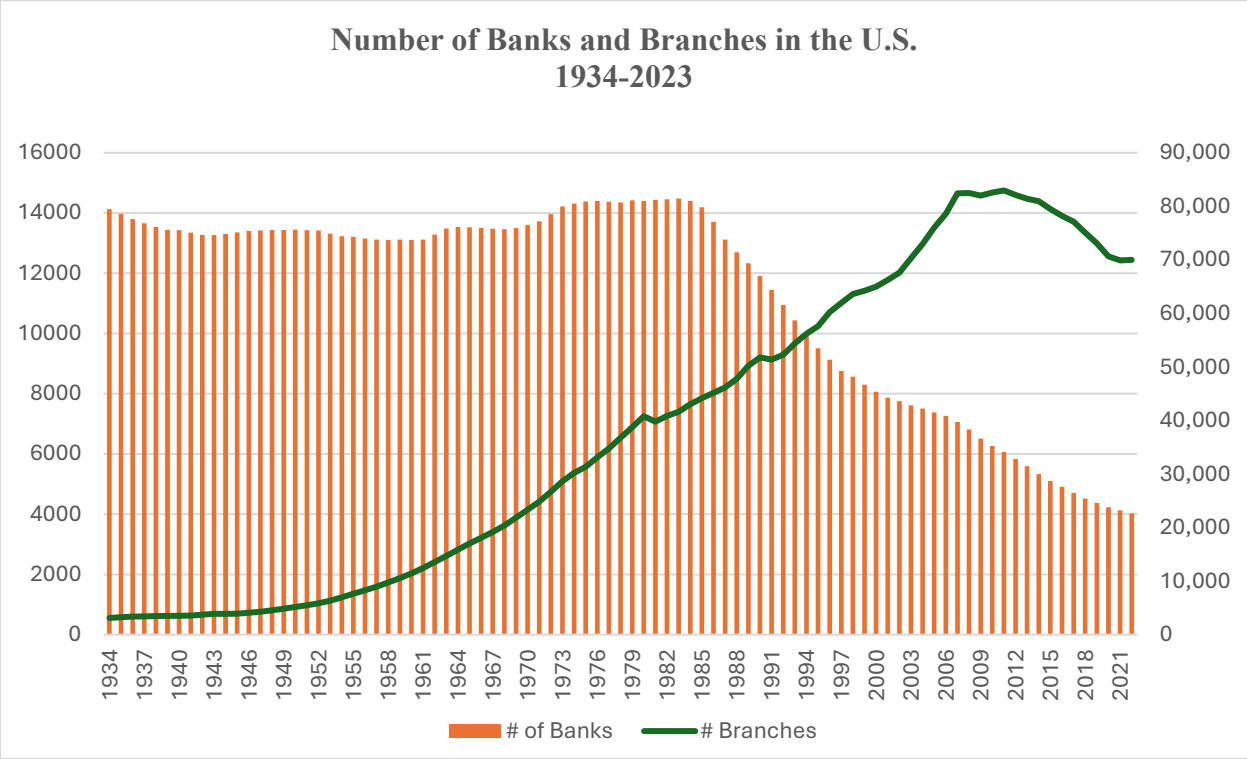


Asset Allocation as of: 8/31/2024
$9.458 Billion (Par Value)

Transformation of the U.S Banking Industry: 1934-2024

In 1934 there were 14,146 FDIC insured banks in the U.S. This number remained fairly constant for 50 years until changes in regulations occurred in the 1980s. From 1984 to year-end 2003, the number of banks had declined by almost 48% (Hanc, 2004). From 1984-2023 the number of banks fell from 14,483 to 4,027 and the number of savings institutions fell from 3,549 to 563. This represents a decline of 72% and 84% respectively. During this same period there was a growing concentration of industry assets among a few extremely large financial institutions. The

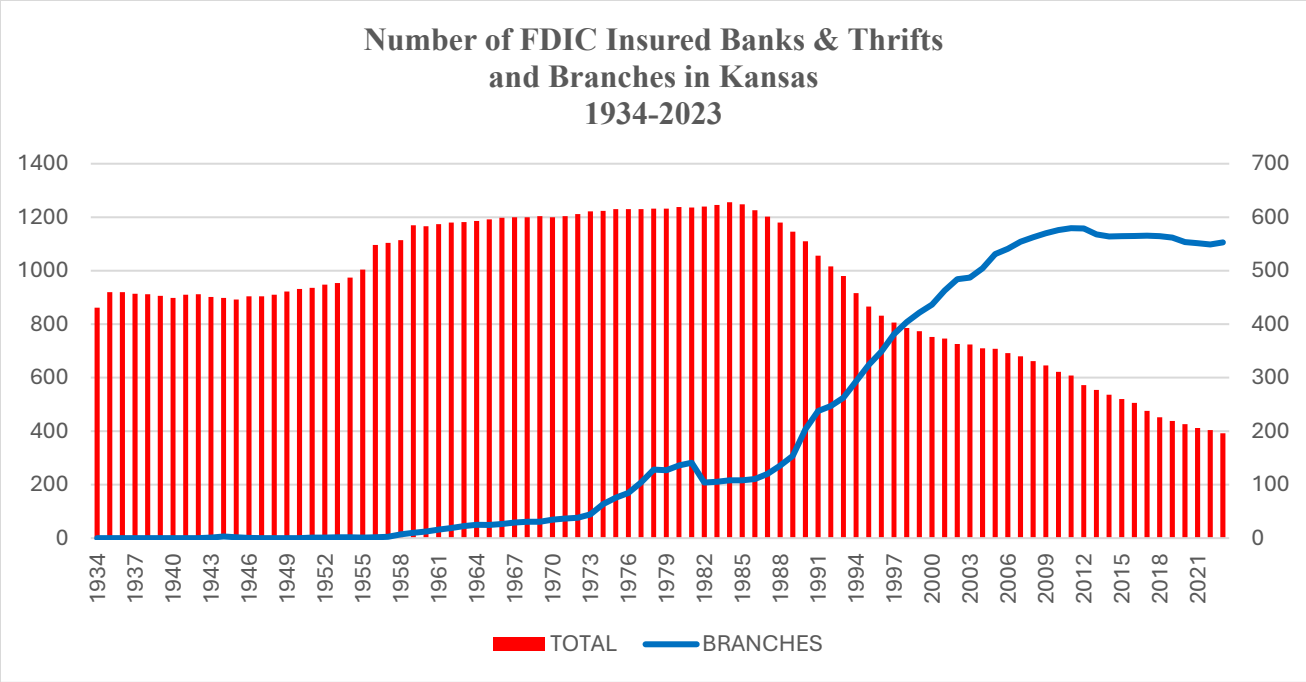
number of community banks, defined as those with assets of less than $10 billion, declined from just over 8,300 in 2000 to 4,277 as of June 2020. During this same period of time, the number of branches increased dramatically until the increased use of technology and mobile banking caused a nearly 13,000 decrease in branches. Branch locations reached a peak of nearly 83,000 in 2012 to just under 70,000 by year-end 2023.



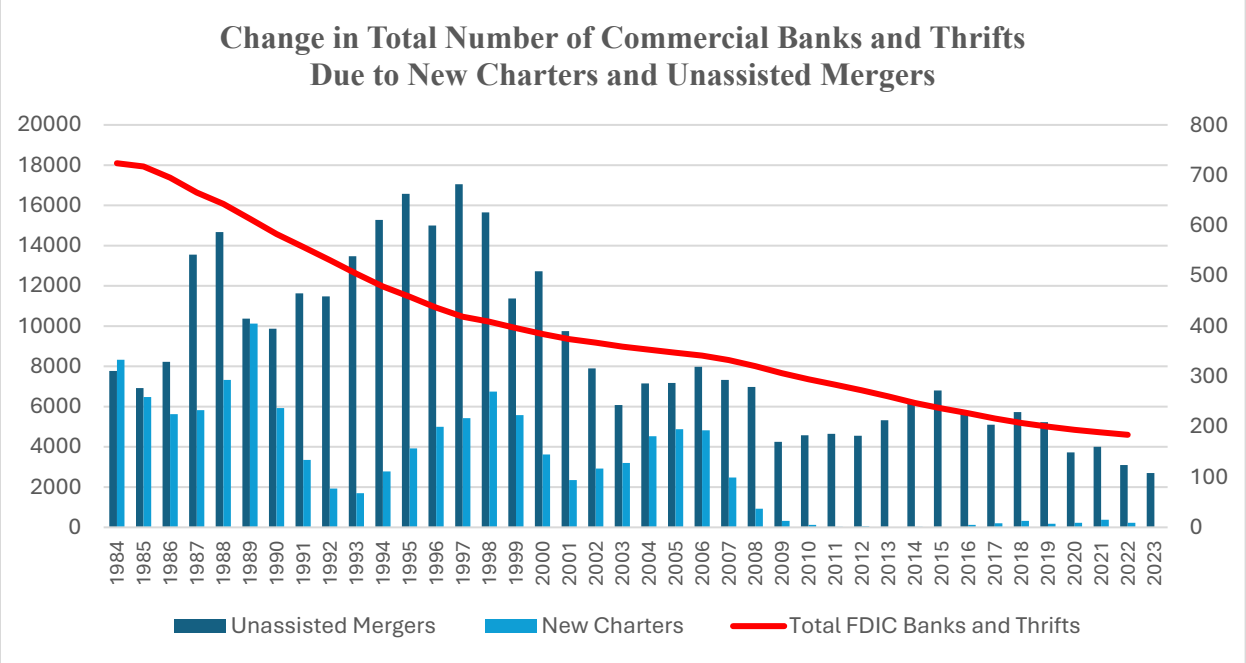
Community banks account for approximately 40% of all bank branches, 14% of bank deposits, 18% of bank loans, and just over 13% of bank assets (Federal Reserve, 2021). The entry of new banks into the industry has slowed remarkable, de novo banks were 394 in 1984 but slowed to only 9 in 2023. A primary reason for the decrease in new banks is the increased regulations during this time.

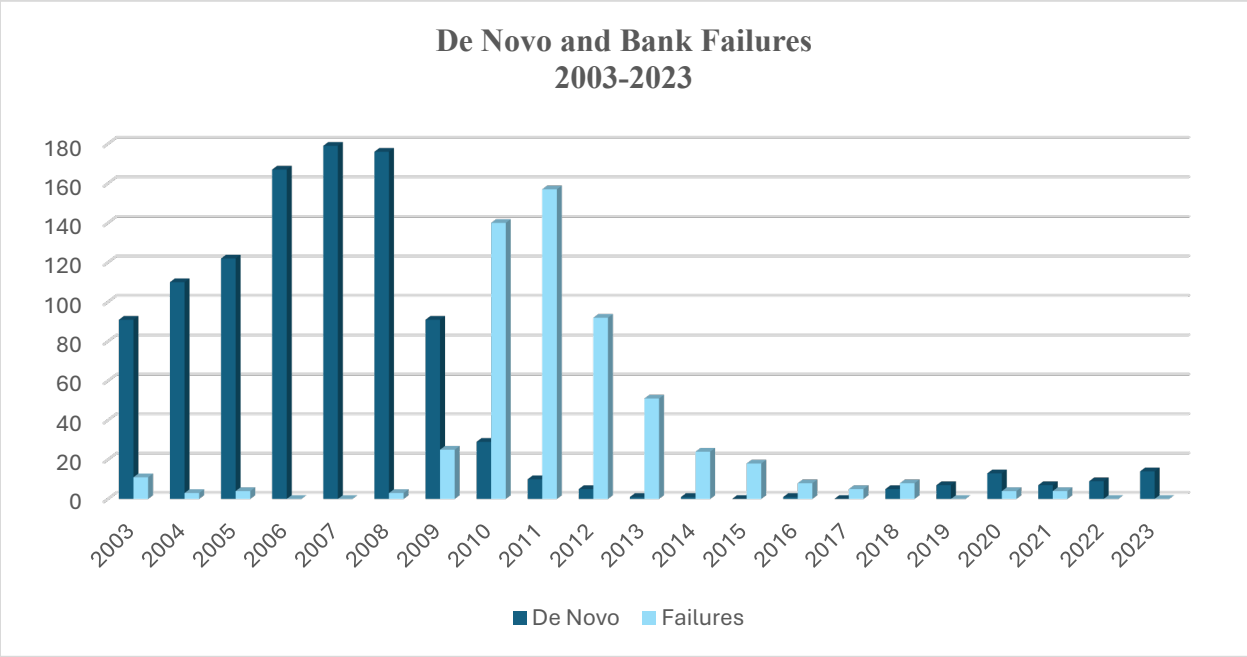
Banks in Kansas

The trend in the number of banks in Kansas reflects the national pattern. In 1984, there were 690 FDIC-insured banks and thrifts in the state, but by the end of 2023, this number had dropped to 204, marking a 70% decline. During this period, 69 new bank charters were issued, with only seven of those occurring between 2004 and 2023. The declining number of banks during this period was offset by the increase in branch activity. In 1984, Kansas had 216 branch locations. This number peaked at 1,159 in 2011 before stabilizing and slightly decreasing due to the shift towards online banking. Currently, Kansas has just over 1,100 branches, which is more than a 400% increase in branches over a forty-year period.

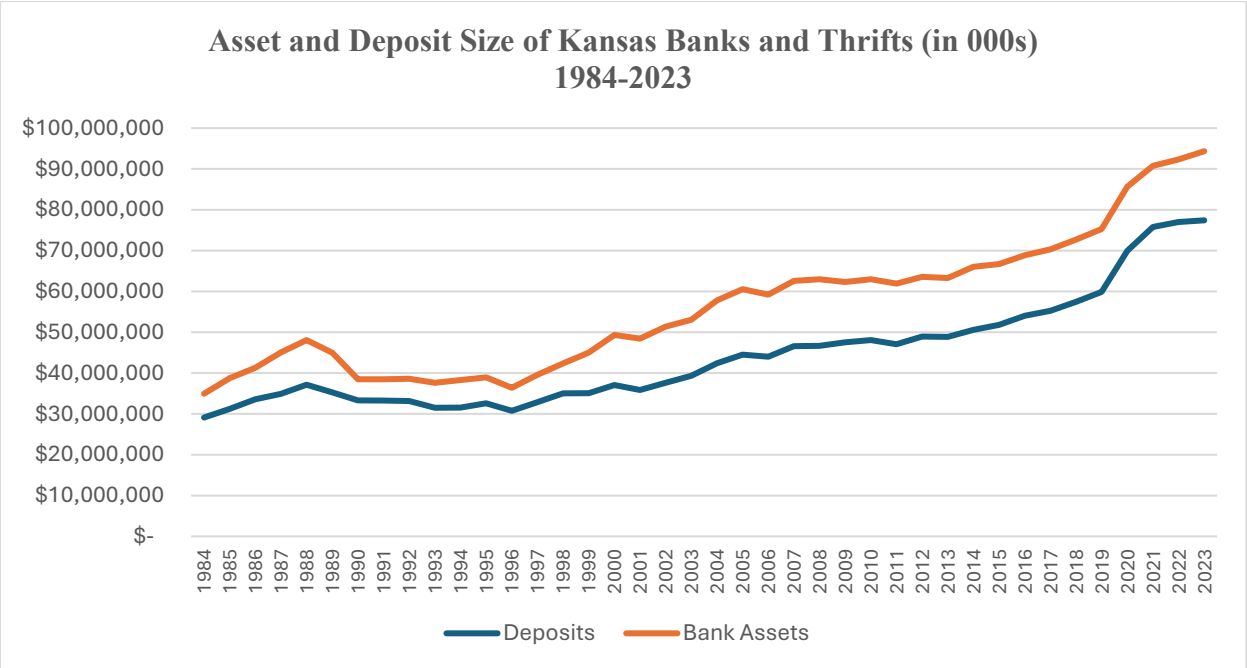


Nationally, between 2004 and 2023 there were 548 bank failures, with 440 of these occurring in the four years following the financial crisis (2009-2012). This contrasts sharply with the 76 failures over the 11-year period from 2013 to 2023. From 2004 to 2023, 846 new banks were created, with 45 established between 2009 and 2012, and 66 new startups from 2013 to 2023. Additionally, the number of thrifts decreased from 1,411 to 563, with a reduction of 217 thrifts during 2009-2012. This indicates that the significant change in the total number of banks and thrifts over the past decade was primarily due to unassisted mergers and acquisitions, rather than failures (FDIC, 2024).





The significant reduction in the number of organizations from the end of 1984 to 2003 was primarily driven by unassisted mergers and acquisitions. The failures that occurred were somewhat balanced by the establishment of 3,097 new banking organizations during the same period (Wong, 2006). However, the rate of new charters slowed considerably, with only about a third as many charters issued from 2003 to 2023. During this time, 1,038 new FDIC-insured banks and thrifts were established.



Additional Kansas banking trends located in Appendix A.

Regulations

Since the 1980s, banking regulations have undergone significant changes to tackle various economic challenges and financial crises. These regulatory adjustments have influenced both the size and number of financial institutions.

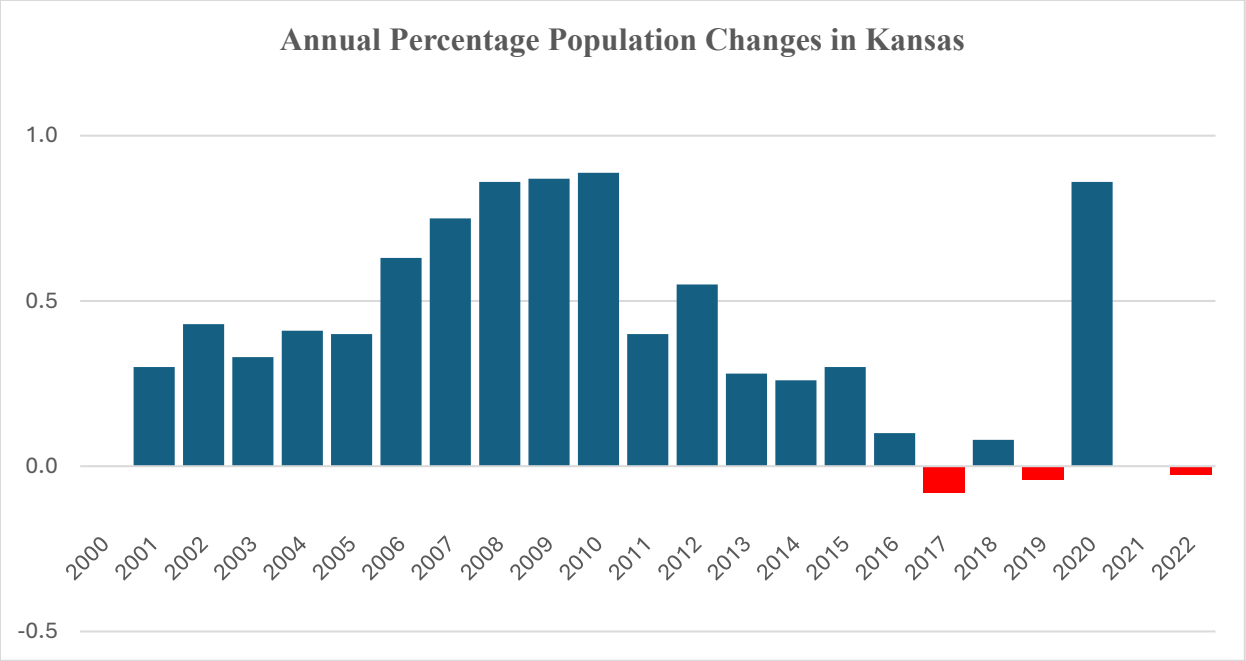
The Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980 initiated this wave by deregulating deposit rates and introducing new accounts like the MMDA and Super NOW accounts, which increased flexibility for thrifts. The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 responded to the savings and loan crisis by establishing the Resolution Trust Corporation and enhancing the FDIC's role. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991 further empowered the FDIC with prompt corrective action measures. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allowed banks to expand across state lines, fostering geographic diversification. The Gramm-Leach-Bliley Act (GLBA) of 1999 repealed parts of the Glass-Steagall Act, enabling financial institutions to offer a broader range of services.

Post-2000 witnessed additional regulations. The Sarbanes-Oxley Act (SOX) of 2002 increased transparency in financial reporting, while the Check 21 Act of 2003 expedited check processing. The Dodd-Frank Act of 2010, a response to the 2008 financial crisis, introduced comprehensive reforms and established the Consumer Financial Protection Bureau (CFPB). Basel III, with an implementation scheduled from 2010 to 2028, strengthened capital requirements and introduced new liquidity and leverage standards. The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 rolled back some Dodd-Frank provisions for smaller banks, and the Anti-Money Laundering Act of 2020 modernized the Bank Secrecy Act with new beneficial ownership requirements. These regulations collectively aimed to enhance the stability, transparency, and efficiency of the banking sector.

Proposed future regulations focus on changes in areas including capital requirements, consumer compliance, and supervision. For banks, these regulatory and supervisory changes will necessitate the development and maintenance of strong governance, risk management, and control frameworks.

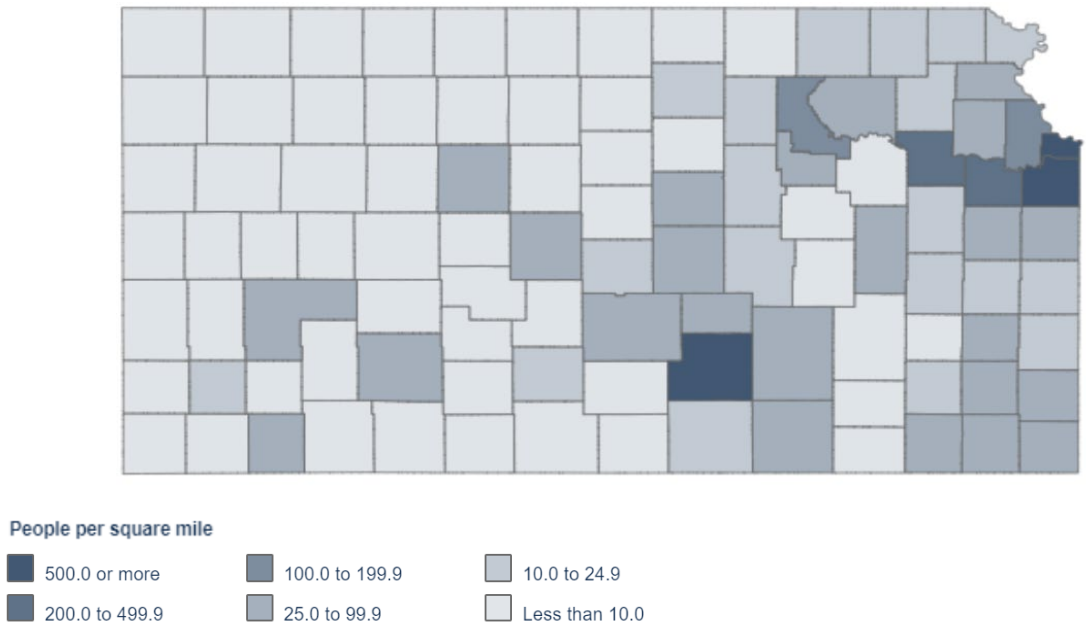
Demographic Changes

Kansas's population grew by approximately 3% from 2010 to 2020, reaching nearly 3 million. This growth rate was slower than the national average of 7.4%. Kansas experienced population growth in 19 out of the 22 years between 2000 and 2022, with the largest annual increase of 0.9% occurring between 2009 and 2010. The state's most significant decline was a 0.1% drop between 2016 and 2017. In contrast, the U.S. population increased every year during this period, with the largest annual growth of 1% between 2000 and 2001. On average, the country grew by 0.8% per year from 2000 to 2022 (U.S. Census, 2022).



Despite the population growth, Kansas is experiencing an aging demographic, with adults aged 18 and over making up 75.9% of the population. Urbanization has also been on the rise. Urban counties (those with at least 150 residents per square mile) have experienced the most significant population growth. The proportion of Kansans living in urban areas increased from 54.9% in 2010 to 57.3% in 2020, with urban counties growing by 7.5%, though still below the national metropolitan growth rate of 9%.

Population Density in Kansas Counties, 2020



The five fastest-growing counties (Johnson, Wyandotte, Leavenworth, Douglas, and Pottawatomie) averaged a 10.4% growth rate. However, 80 out of the 105 counties in Kansas experienced population declines. Semi-urban counties (40 to 149.9 residents per square mile) saw a 0.6% decrease, densely settled rural counties (20 to 39.9 residents per square mile) saw a 2.2% decrease, rural counties (6 to 19.9 residents per square mile) saw a 4.9% decrease, and frontier counties experienced the largest decline of 6.9% (U.S. Census, 2022).

Banking Changes

Community banks have encountered numerous obstacles in recent years, including shifts in the economic landscape, demographic changes, and advancements in technology. As a result of industry consolidation and market dynamics, their market share has declined (Nguyen, 2019; FDIC, 2020). Another factor contributing to declining numbers in community banks is the absence of succession plans. These banks are often owned and operated by a single individual. Many of these owners/operators lack a succession plan (Walser and Anderlik, 2004).

Despite a decline in their numbers, community banks remained the most common type of FDIC-insured institution holding over 90% of all bank charters. This percentage has been stable since 2011 and increased from 87% in 1984. Post-2011, the main factors driving consolidation in the banking sector shifted from bank failures during economic crises to voluntary mergers between unaffiliated institutions. The issuance of new bank charters also decreased, leading to fewer new banks replacing those that merged or failed. The primary contributors to charter consolidation from 2011 to 2019 were failures, voluntary mergers, and new charters (FDIC Community Bank Study, 2020).

Community banks play a crucial role in markets, often entering areas where larger banks have not maintained a presence. This trend indicates that community banks have successfully navigated the evolving market conditions, carving out niches in both rural and suburban areas. Their comparative advantage now appears to be increasingly focused on serving smaller, less densely populated markets (Critchfield, et al, 2004).

Investment Statutes on Municipal Funds

K,S,A. 12-1675 applies to county, city, township, school district, area vocational-technical school, community college, firemen's relief association, community mental health center, community facility for people with intellectual disability or any other governmental entity, unit or subdivision in the state of Kansas having authority to receive, hold and expend public moneys or funds may invest any moneys which are not immediately required for the purposes for which the moneys were collected or received, and the investment of which is not subject to or regulated by any other statute. Appendices B through H present the text of Kansas statutes governing the deposit of public moneys.

The Kansas law on municipal funds was originally designed to keep local idle funds deposited within institutions of the local government unit. The aim was to ensure that taxpayers who contributed these funds would receive at least a market yield, while also supporting the economic development of the locality (Nielsen, 1985). However, interpretations of the current law along

with the advent of the Municipal Investment Pool have contributed to these funds often leaving the counites, benefiting regions outside of the county, state, and country.

Active Funds

"Active funds" are funds which are immediately required for the purposes for which the monies were collected or received. Kansas Statutes Annotated (K.S.A.) 9-1401 allows local units of government to invest their active funds in designated banks, savings and loan associations and savings banks which have main or branch offices in the county or counties in which all or part of such municipal corporation or quasi-municipal corporation is located if the municipal or quasi-municipal corporation can obtain satisfactory security. If unable to obtain satisfactory security at a depository within the county or counties where the governing body is located, then 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 such municipal or quasi-municipal corporation is located may receive deposit.

Idle Funds

"Idle funds" are funds which are not immediately required for the purposes for which the monies were collected or received. These funds, which exceed current needs, are considered idle funds (Investment of Idle Public Funds, 1964). For example, real property tax revenues are typically collected only twice a year. K.S.A. 12-1675 allows local units of government to invest their idle funds in Kansas-chartered banks or savings and loans, or national banks or savings and loans having their main office in Kansas if they have a branch in the taxing district of the government unit investing those funds.

Such moneys shall be invested only: in temporary notes or no-fund warrants issued by such investing governmental unit; in savings deposits, demand deposits, time deposit, open accounts, certain certificates of deposit; repurchase agreements; in direct obligations or insured obligations; in the municipal investment pool fund; in the investments authorized in K.S.A. 12-1677b; in multiple municipal client investment pools; municipal bonds or other obligations.

Total Local Idle Funds

In 2021, local governments in Kansas had an estimated total of $20.61 billion in cash and security holdings. Of this amount, $18.33 billion was held outside of employee retirement funds, while $2.28 billion was in employee retirement fund holdings (Appendix I).

If Kansas local governments were able and willing to reduce their bank balances to zero at any point during the year, they could potentially invest up to $20.61 billion. This represents the total amount available for investment in securities that could be redeemed annually.

Types of Investment Authorized

Under K.S.A. 12-1675, as amended, local units of government shall first invest moneys which are not immediately required for the purposes which they were collected or received as follows: Investment should go to banks, S&L associations, or savings banks which have a main or branch office in the investing unit and offers interest rates equal to or greater than the investment rate, or at a rate agreed upon by the parties; or if there is no main or branch office of an eligible financial

institution in the investing unit, or no eligible financial institution will pay the investment rate or greater, then the investing unit may invest in banks, S&L associations, or savings banks which have a main or branch office in the county or counties in which all or part of the unit is located and which will pay the investment rate or a rate agreeable to the parties. Full details regarding the investment rules are located in Appendix B-H.

Expansion of Credit, the Multiplier

The multiplier is a concept in modern banking explaining the process of money creation. The deposit multiplier is the maximum amount of money that a bank can create for each unit of money it holds in reserves. This multiplier effect evaluates the results from the ratio of money banks hold as reserves to what they lend out. The lent money is eventually redeposited into the banking system, creating a cycle of deposits and loans that increases the overall money supply in the economy.

The deposit expansion multiplier illustrates the banking system's ability to influence the economy. A higher multiplier suggests a more active lending environment, which can stimulate economic growth. Conversely, a lower multiplier may indicate a more cautious lending approach, potentially slowing economic activity.

The deposit expansion multiplier is the ratio of the money banks can create through loans to their reserves, inversely related to the percent of reserves. For instance, with 20% reserves, the money multiplier is 5, meaning $100 in reserves could support $500 in deposits.

The multiplying effect, or money multiplier, demonstrates how an initial deposit can result in a larger overall increase in the total money supply.

Example, 20% reserves

Initial Deposit: Suppose someone deposits $1,000 in Bank A.	Bank A keeps $200 (20% of $1,000) in reserves and lends out the remaining $800.
First Loan: Bank A lends $800 to a borrower, who then spends it. The recipient of this $800 deposit it in Bank B.	Bank B keeps $160 (20% of $800) in reserves and can lend out $640.
Second Loan: Bank B lends $640 to another borrower, who spends it. The recipient deposits $640 in Bank C.	Bank C keeps $128 (20% of $640) in reserves and can lend out $512.
…	…

This process continues with each bank retaining 20% of the deposit and lending out the remainder. The total money created in the banking system is determined by the money multiplier, which is the reciprocal of the reserve ratio. In our example, the money multiplier is calculated as 1 / 0.20 = 5. The overall effect is a function of the multiplier and the initial deposit. For instance, an initial deposit of $1,000 can ultimately lead to a total increase in the money supply of ($1,000 × 5) = $5,000.

This example illustrates how a small initial deposit can significantly impact the overall money supply due to the multiplying effect. If reserves are decreased to 10%, the multiplying factor would increase to 10. As the reserve ratio decreases, the multiplier increases. If reserves were reduced to 0%, allowing banks to lend out the entire deposit, the money multiplier would theoretically become infinite, as division by zero is undefined. This implies that banks could create an unlimited amount of money from an initial deposit, leading to an infinite increase in the money supply.

However, in practice, banks need to maintain reserves to meet withdrawal demands, operational needs, and regulatory requirements. Therefore, the actual multiplier is constrained by these practical considerations. Additionally, the above example assumes all money lent stays with the state.

Limitations to Money Creation

The process of money creation is limited by factors such as the demand for loans, banks' willingness to lend, and regulatory constraints. Continuing with the above example on deposit expansion, but accounting for leakage out of the state, the following analysis is based on assumptions by Wong (2006).

If a bank maintains a 20% reserve ratio, the potential expansion of loans can be multiplied by 5. This analysis considered the entire banking system without accounting for leakages. Now, let us evaluate the money supply in a closed economy, such as the State of Kansas, focusing solely on the impact within the state and assume 50 percent of the deposited amount will be in banks outside of Kansas. In this example, Wong (2006) found the multiplier reduced from 5 to .8. with only a 10-percentage leakage out of state the ratio still declines from 5 to 3.2.

Example, 20% reserves with leakage out of the state

Initial Deposit: Suppose someone deposits $1,000 in Bank A.	Bank A keeps $200 (20% of $1,000) in reserves and lends out the remaining $800. But now assume only 50% of the loans are in Kansas. ($400)
First Loan: Bank A lends $400 to a borrower, who then spends it. The recipient of this $400 deposit it in Bank B.	Bank B keeps $80 (20% of $400) in reserves and can lend out $320 (50% in Kansas) ($160)
Second Loan: Bank B lends $160 to another borrower, who spends it. The recipient deposits $160 in Bank C.	Bank C keeps $32 (20% of $160) in reserves and can lend out $128 (50% in Kansas). ($64)
…	…

This example demonstrates the decrease in the multiplier effect when money exits the state. Instead of an expansion ratio of 5 to 1, the ratio in this scenario is approximately 0.8 to 1. This substantial difference arises from the assumption that half of the spending by borrowers from

Kansas banks occurs outside Kansas, leading to a loss of deposits. Due to this leakage, Wong (2006) estimated that a more accurate expansion multiplier would be closer to 2.

Income Multiplier

To understand the impact of deposits in Kansas banks on the Kansas economy, it is essential to discuss the concept of the income multiplier. This multiplier illustrates that income generated from a certain amount of spending is partially saved and partially re-spent.

The total contribution to income can be calculated by summing the income generated in each round of re-spending. The multiplier is the ratio of total income generated to the initial amount spent. Alternatively, the total income from the initial expenditure can be seen as the product of the income multiplier and the initial expenditure. The multiplier operates in both directions: a positive initial change in spending leads to a positive total change in income, and a negative initial change results in a negative total change. The size of the multiplier depends on the proportion of income re-spent in each round. The higher the percentage of income re-spent, the larger the multiplier.

Focusing on the Kansas economy, it is important to note that only a portion of spending by Kansas consumers and businesses generates income for other Kansans. But some spending goes towards goods and services produced outside Kansas. Therefore, only the income spent and re-spent on Kansas-produced goods and services is considered. Additional leakages which occur in successive rounds of re-spending and dilute the multiplying effect include taxes and savings.

Following the analysis provided by Wong (2006), consider an initial expenditure of $10,000 in Kansas. Reasonable assumptions suggest that in successive rounds, 50% of the income from the previous round will be spent on Kansas-produced goods and services, 20% on goods and services produced elsewhere, 10% on federal taxes, 10% on state and local taxes, and 10% saved.

Of the $10,000 generated, 50% ($5,000) will be spent on Kansas-produced goods and services, and 20% ($2,000) on goods and services produced elsewhere. The remaining 30% will be equally divided among federal taxes, state and local taxes, and savings. This process repeats with the $5,000 from the previous round, and so on. Summing the income generated in each round, including the initial expenditure, the total income for Kansans is $20,000, or twice the initial expenditure. Thus, the income multiplier in this example is 2.

This multiplier is consistent with other research, which indicates that state income multipliers typically range from 1 to a maximum of 4-5, with most falling between 1 and 2 (Crawford, 2011). This finding aligns with historical research by Bolton (1966), who used a multiplier of 2, and more recent work by Bartik (2017), which found that in most state econometric models, multipliers range from 1.5 to 3, with 2 being a plausible central value. A multiplier of 2 suggests that an increase in spending of $10,000 would boost state value added or output by $20,000.

Economic Impact

Using the multiplier of 2 from above and data from the Tax Policy Center (2023), which shows that state and local tax collections in Kansas were 10.10% of personal income, we can estimate the impact of holding public funds.

Utilizing the framework developed by Wong (2006), we analyze an increase of $10 million in public deposits held in Kansas banks. If we consider a scenario where bank balances decline due to the withdrawal of public funds, the effect on deposits, income, and tax receipts would be negative. This example can be generalized to understand the economic impact of changes in public deposits, regardless of the direction.

Assuming there is a demand for loans in Kansas that matches the ability of Kansas banks to supply loan funds, a new deposit of $10 million with reserves held back of 20% would create $8 million in available funds. With an expansion factor of 2, this would result in total deposits of $16 million and $12.8 million in loans made in Kansas. If the income multiplier is also 2, the increase in total personal income in the state would be $12.8 million. This increase is the product of the income multiplier and the amount of deposits in Kansas resulting from the original $10 million deposit. Only the portion of loans spent on Kansas-produced goods and services contributes to Kansas income, so the multiplier is applied to the Kansas deposits from the $10 million deposit. A tax rate of 10.10% would yield nearly $1.3 million in taxes. Thus, $10 million in new deposits would generate an additional $1.3 million in revenue for the state and local governments.

The estimated impact on bank balances with the inclusion of the $9.03 billion in noncommitted public funds, can replace the $10 million in the previous example. This value is derived by starting with the total value of cash and securities held by Kansas local governments and subtracting the value of committed funds, such as those for insurance trust funds, debt offsets, and bond funds (Appendix I). This could result in the current deposits of idle local funds accounting for $14.44 billion of total bank deposits in Kansas ($16.249 billion if 10%), $11.554 billion of personal income received in Kansas (14.624 if 10%), and $1.167 billion in state and local taxes in Kansas. ($1.477 billion at 10%).

	20% reserves (in 000s)	10% reserves (in 000s)
Deposits	$14,443,257.60	$ 16,248,664.80
Loans	$11,554,606.08	$ 14,623,798.32
Personal Income	$11,554,606.08	$ 14,623,798.32
Tax	$1,167,015.21	$ 1,477,003.63

At Risk" Loans Model

The following analysis is based upon Wong (2006) utilizing an adapted model developed by Nielsen (1985).

The Interstate Issue

Deposits serve as the "raw materials" enabling depository institutions to issue loans. Any decrease in deposits, whether collectively or individually, proportionately diminishes the institution's capacity to provide loans. The central concern of the interstate issue is the potential reduction in deposits at Kansas financial institutions when local funds are invested out of state.

In 2021, local governments in Kansas held an estimated $9.03 billion in noncommitted cash, total bank deposits in Kansas were estimated at $77 billion (FDIC, 2024). Currently only about $49 million of the Pooled Money Investment Portfolio Holdings are in Kansas Bank CDs. This represents only .06% of total deposits in the state. Whereas, if the full amount of Pooled Money Investment Holdings were invested in Kansas banks, we would see an increase in deposits to over $87 billion, or an increase of approximately 12%.

The percentage of deposits that this represents across the state can vary dramatically from county to county. For instance, in 2008, Wong found that the noncommitted cash could represent from 24.8% to 5% of a county's deposits. The ability to finance business, agriculture, and consumer needs could be severely affected when local idle funds leave the state. To illustrate the significance of lost local idle funds, we can measure the amount of loans which could be provided with idle funds remaining in the state. Following the methodology proposed by Wong (2006), we will classify these loans as "at risk" loans.

"At Risk" Loans

A common indicator of a financial institution's safety is the ratio of total loans to total deposits. If this ratio becomes too large, it indicates potential illiquidity and inadequate capital. Regulatory agencies monitor this ratio to ensure the safety and solvency of financial institutions.

The loan/deposit ratio is a management decision within the framework of protecting the institution's safety and liquidity and conforming to regulatory requirements. The loan/deposit ratio reflects the loan demand and deposit purchasing desires of financial institutions. If deposits change due to legislative changes, institutions might either replace lost deposits by purchasing them at higher rates or reduce their lending levels. Higher costs of funds could lead to higher borrowing rates, while reduced lending could make credit difficult to obtain for some customers.

In 2023, the loan-to-deposit ratio for all insured commercial banks and savings institutions in Kansas stood at 80%, while for those with assets under $1 billion, it was 73%. In 2022, these ratios were 76% and 69%, respectively. In 2021, the ratios were 70% for all institutions and 65% for smaller ones (see Appendix K). Wong (2006) noted that these ratios can vary significantly among individual institutions and counties.

The impact of local idle funds can dramatically impact the effect on an institutions' ability to meet credit needs. If local idle funds are not available, loans may become at risk, or the bank may have to pay even higher costs for deposits and pass this higher rate on to the consumer through higher interest rates on loans.

The Intrastate Issue

The intrastate issue concerns the potential economic impact on individual counties in Kansas due to the significance of local government idle fund balances. It is important to emphasize that competition among financial institutions for these funds is relatively unimportant.

In Kansas in 2024, the distribution of bank offices is as follows: three counties have a single office, 13 counties have two offices, 50 counties have three to five offices, 26 counties have six to ten offices, and 13 counties have more than ten offices. As a result, 89 out of the 105 counties have at least three offices that can bid on local idle funds. In 13 counties, there are two banks that can compete against each other, and in only three counties is there no competition between financial institutions (see Appendix J).

Permitting local governments to deposit funds outside their county but within the state would have a minimal effect on the state overall. However, the impact on individual counties could be much more significant. For a county, losing funds to another location within Kansas or out of state could have a similarly detrimental effect on the community. This impact would be particularly severe in rural areas, where borrowers might struggle to find alternative resources, especially for agricultural and small business purposes, due to the lack of interest or expertise from lenders outside the local market.

Sensitivity Analysis Model

Local governments in Kansas generate revenue from various sources. The direct impacts come from two factors: the interest income received on their investments and the tax base. The tax base effect arises because deposits in Kansas financial institutions can finance the acquisition of capital goods in Kansas, such as property, plant, equipment, and other assets like education and training.

The following is based upon the adaption by Wong (2006) of the Haslag (2004) model.

Let (T) denotes tax revenues, (i) the interest rate on deposits in Kansas financial institutions, (i*) the interest rate on out-of-state investments, (D) represent the quantity of local government investment funds deposited in Kansas financial institutions, and (A*) represent out-of-state investments. Therefore, Revenues (R) received by Kansas state and local governments can be expressed as:

$$R=T + iD + i^*A^*$$

Under this model (T) includes state individual income taxes, state and local retail sales taxes, and state and local personal property taxes. (R) represents the revenues from local government investments in a given fiscal year. Assuming tax receipts are fixed, local governments should invest in assets offering the highest return. If ($i^* > i$), deposits in Kansas financial institutions should be zero. Conversely, if ($i > i^*$), all deposits should be placed in Kansas financial institutions.

Several factors contribute to the rate-of-return differential between Kansas financial institutions and out-of-state investments. One factor is size. Small financial institutions may find the fixed

costs of certain investments too high to be profitable. Many Kansas financial institutions are small and cannot offer some financial instruments to local governments, leading to lower returns on time deposits compared to out-of-state investments. Location also impacts revenue for Kansas. Kansas bankers specialize in identifying high-quality local borrowers. Funds placed in out-of-state investments are less likely to return to Kansas borrowers due to the high fixed costs of assessing local borrower risk. Kansas bankers, with their local expertise, can find qualified borrowers at a lower cost than out-of-state investors. Consequently, Kansas bankers will lend more to local borrowers than out-of-state investments would. (Wong, 2006)

This expertise in identifying high-quality Kansas borrowers directly benefits the Kansas economy by increasing productive capacity and incomes. As more local government funds are deposited in Kansas financial institutions, these deposits are used to acquire new capital goods, boosting the tax base. Additional capital financed through loans identified by Kansas bankers increases income and, consequently, tax revenues for Kansas state and local governments. Ignoring this "tax channel" means missing out on potential revenues. Investment strategy should not be based solely on interest-rate differentials, as local expertise in choosing borrowers also plays a crucial role.

Consider the asset allocation for Kansas financial institutions:

$$D = L + O$$

where (L) denotes loans made to Kansas borrowers and (O) represents other assets. This equation indicates that financial institutions accept deposits and either make loans to increase Kansas's capital stock or purchase other assets. (D) represents local government funds placed in Kansas financial institutions. In broader terms, (L) refers to new loans issued to Kansas borrowers for the purpose of acquiring additional capital. This represents how a bank's balance sheet changes when there are new deposits of state funds.

Similarly, out-of-state investments could finance additional assets. When local government funds are used for out-of-state investments, they could finance new capital in Kansas or purchase other assets. The change in the balance sheet for out-of-state investments (A*) is:

$$A^* = I^* + O^*$$

Where (I*) represents the volume of new Kansas capital acquisitions funded by out-of-state investments. If the proceeds from these purchases are used to make loans, then (I*) equals the quantity of loans made to Kansas borrowers. (O*) denotes all other assets and net worth purchased with local government funds after being invested out-of-state.

Overall, the risk-assessment expertise gained by Kansas bankers means that $L > I^*$. Consequently, for a given level of deposits, Kansas bankers would make more loans to Kansas borrowers than out-of-state investments would. Therefore, the productive capacity in Kansas will increase faster when more local government investments are placed in Kansas financial institutions rather than out-of-state investments.

To quantify the revenue impact of these alternative investments, it is useful to translate the levels of new loans made to Kansas borrowers into a ratio. Thus, m=L/D, representing the quantity of new capital loans acquired by Kansas borrowers relative to the size of the local government funds injection. Similarly, let m*= I*/A*. This represents the new Kansas capital acquisitions as a fraction of the injection into out-of-state investments made by local governments. If new out-of-state investments are not used to acquire new Kansas capital, then m*= 0.

To illustrate, suppose the local government deposits $10 million into a Kansas financial institution. With this deposit, the Kansas bank holds $1 million in reserves, uses $2.5 million to buy Treasury securities, $1 million to fund loans to out-of-state borrowers, and the remaining $5.5 million to fund commercial and industrial loans to Kansas borrowers. In this case, m = 0.55 (the proportion of loans ($5.5 million) divided by deposits ($10 million)). The difference between (m) and (m*) will help determine the overall impact of the investment of local government funds.

To determine how (m) will affect state and local government revenues, assume deposits with a Kansas bank increase to (D1) from (D0). This change in deposits (ΔD) adds to the capital stock in Kansas at the rate m(ΔD). Where (K1) represents new capital stock in Kansas, and (K0) the capital stock before the deposits were placed into the Kansas bank. The change in capital stock = ΔK=(K1-K0)

$$\Delta K=m(\Delta D)$$

This equation indicates that the additional capital acquisition in Kansas depends on the new Kansas capital ratio (m) as well as the injection of new state funds into Kansas banks. Now, let's consider the impact of a change in out-of-state investments (ΔA*), yielding an increase in Kansas' capital stock represented by

$$\Delta K=m^*(\Delta A^*).$$

Since capital is a key input influencing the state's income levels, the values of (m) and (m*) will impact state and local government revenues. If the new Kansas capital ratio for Kansas financial institutions matches that of out-of-state investments (m = m*), local governments should invest where the return is highest. If (m = m*) and (i* > i), local governments should deposit funds with out-of-state depository institutions. However, if (m > m*), the effect on state and local government revenues becomes less clear and should be further analyzed.

An increase in the capital stock leads to a larger output and pushes incomes up. Since Kansas tax receipts are tied to the income generated within the state, it follows that (T) depends on where the deposits are placed. Specifically, an increase in the new Kansas capital ratio implies a larger capital stock in Kansas (K1>K0), resulting in higher incomes and, therefore, higher tax receipts.

Thus, state and local government revenues depend on tax receipts and the returns on local government investments. The key takeaway is that selecting the highest-yielding asset does not always result in the highest general fund revenues. It is important to remember that Kansas bankers specialize in assessing the risks of Kansas borrowers, making it more likely that deposits in Kansas banks will benefit the Kansas economy. More loans to Kansas borrowers mean more

capital for production, leading to increased state income and higher tax payments as state income rises.

Economic Impact

This section will use an adaption of the analysis provided in Wong, 2006.

The impact on Kansas's capital stock is represented by the change in loans made to Kansas borrowers. This gain in capital stock can be expressed with the following equation:

$$\Delta K = mD1 - m^*A^*$$

To simplify, note that total local government funds are distributed between deposits in Kansas banks and out-of-state investments, represented as ($G = D + A^*$). Therefore, the increase in Kansas's capital stock is ($m - m^*/\Delta D$), since an increase in local government funds deposited in Kansas financial institutions will offset a decrease in out-of-state investments. Essentially, $1 placed in a Kansas bank means $1 less in an out-of-state institution. Thus, the increase in loans to Kansas borrowers equals the difference between the new Kansas capital ratio (m) for Kansas banks and (m^*) for out-of-state investments. If ($m^* = 0$), the expression simplifies to ($m/\Delta D$).

The difference in state and local government revenues (MR) is the change in tax receipts plus the interest income received on local government funds deposited in Kansas financial institutions, minus the interest income foregone on out-of-state investments. This can be captured by the following equation:

$$MR = tA(m - m*)\Delta D + i\Delta D - i*\Delta D$$

Three essential factors impact state and local government revenues:

1. Growth in Income and Tax Receipts: Tax revenues increase as Kansas's production factors expand. Kansas financial institutions facilitate new capital acquisitions more swiftly than out-of-state investments.
2. Rise in Interest Income from Kansas Financial Institutions: This factor reflects the additional interest income generated by Kansas banks.
3. Decline in Interest Income from Out-of-State Investors: This factor measures the reduction in interest income when Kansas banks offer lower rates compared to out-of-state investments.

Overall, the equation (MR) demonstrates the net increase in state and local government revenues due to higher Kansas incomes, balanced against the loss of interest income when Kansas banks provide lower rates than out-of-state investments. Additionally, the local economy benefits from increased economic activity due to the presence of financial resources, extending beyond the tax advantages for state and local governments.

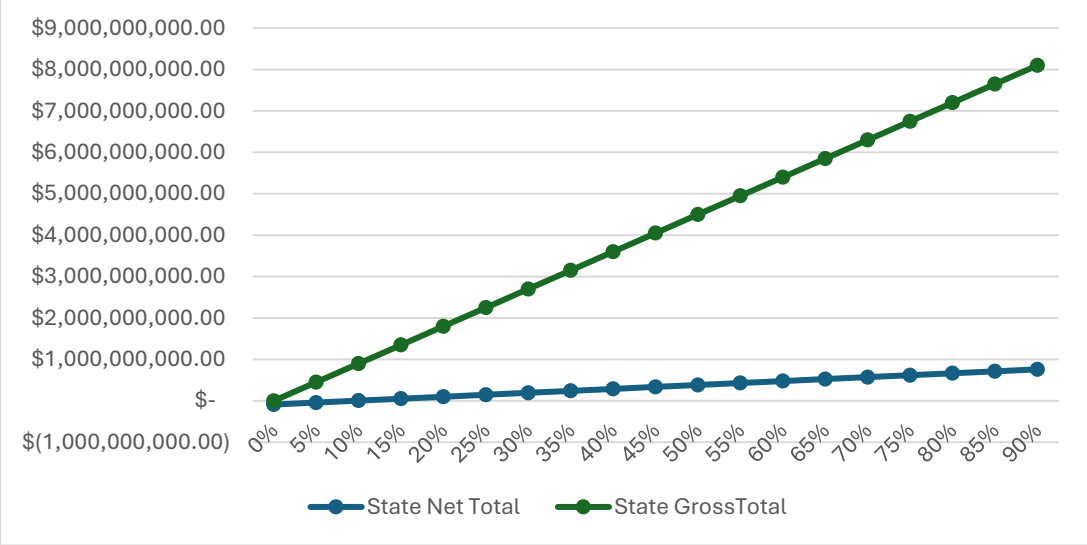
Effect of Loan/Deposit Ratio

The impact on economic activity and government revenues is determined using equation (MR). In this equation, the values for the loan to deposit ratio in banks (m) vary, while other

parameters remain constant. The overall tax rate (t) is fixed at 10.0%, assuming that 10.0% of income is paid in state and local taxes. The marginal product of capital is set at 1.05, reflecting an assumed real return to equities of approximately 5%. The new Kansas capital ratio for out-of-state investments is zero (m* = 0). The interest rate offered by Kansas financial institutions (i) is 4.0%, while the interest rate for out-of-state investments (i*) is 5.0%.

The graph illustrates the difference in overall economic impact on state government revenues under alternative values of the new Kansas capital (loan/deposit) ratio. The vertical axis captures the change in overall economic impact and the impact on government revenues, given that local governments deposit $9 billion in Kansas banks (that is, ΔD). This value reflects the potential value of noncommitted local government deposits in Kansas. Positive values indicate that the overall economic impact or impact on state government revenues will rise when the deposits are kept in Kansas financial institutions. In other words, the gain in economic activity from tax revenues would more than offset the loss of interest income to the state of Kansas. Conversely, negative values indicate that the lost interest income associated with keeping government funds in Kansas is greater than the gain in economic activity or tax revenue.

Effect of Loan/Deposit Ratio on State Economic Activity and Revenues



The slope of the line indicates that as the loan/deposit ratio (m) increases, the overall economic impact and state and local government revenues also rise. This result is intuitive: as Kansas financial institutions accept more deposits, more capital is accumulated within the state, leading to higher income and greater tax revenues. When Kansas financial institutions retain a larger portion of local government funds, the state's capital stock grows more rapidly, resulting in larger income gains and, consequently, greater increases in state and local government revenues.

Additionally, the graph reveals a breakeven value for the new Kansas capital ratio. This breakeven value is the point at which the change in overall economic impact and/or state and local government revenues is zero. In other words, local governments aiming to maximize general fund revenues would be indifferent between depositing the $9 billion in Kansas financial

institutions and investing the funds out-of-state. At this breakeven point, the gain in economic activity and/or tax revenue is exactly balanced by the loss of interest income. The break-even points are depicted where the respective graphs intersect the horizontal axis.

State Gross Total: This function illustrates the relationship between the loan/deposit ratio and the overall economic impact on the state, including gains in economic activity and income, sales, and property tax revenues. The state would experience a gain in economic activity and tax revenues from maintaining local government deposits in Kansas financial institutions, provided that at least 1.0% of these deposits are loaned out to support activities within the state.

State Net Total**:** This function illustrates the relationship between the loan/deposit ratio and its impact on state government revenues (including income, sales, and property taxes). Revenues for state and local governments should increase if at least 9.52% of local government deposits in Kansas financial institutions are loaned out to support in-state activities. This result is comparable to Wong (2006), who found a breakeven point of 10.6%.

Effect of Interest Rate Differential

This section illustrates the relationship between interest rate differentials and changes in economic activity or state and local government revenues. The following table represents the change in economic impact and government revenues (State Net Total), assuming local governments maintain $9 billion in Kansas financial institutions (ΔD). Positive values indicate that keeping deposits in Kansas financial institutions will enhance overall economic impact on government revenues, meaning the gain in economic activity or tax revenues would surpass the loss of interest income to the state. Conversely, negative values suggest that the lost interest income from keeping local government funds in Kansas outweighs the gain in economic activity or tax revenue.

A larger interest rate differential between out-of-state investments and deposits in Kansas institutions results in a decline in economic activity and state and local government revenues. When the interest rate differential is small, the change in state and local government revenues is minimal. However, as the differential widens, the change in state and local government revenues becomes negative. This indicates that when returns on out-of-state investments significantly exceed the interest rates offered by Kansas financial institutions, local governments aiming to maximize general fund revenues should consider investing more funds out of state.

The impact on economic activity and government fund revenue is calculated using equation (MR). In this equation, the interest rate differential (i-i*), which represents the difference between the rates paid by institutions in Kansas versus out-of-state, is allowed to vary, while other parameters remain fixed. The overall tax rate (t) is set at 10.0%, the marginal product of capital is 1.05, and the Kansas loan/deposit ratio (m) is conservatively set at 30.0%, in line with Wong's (2006) methodology.

The results indicate that as the interest rate differential (i-i*) increases, meaning the gap between the rates paid by Kansas institutions and out-of-state institutions widens, the overall economic

impact and government revenues decrease. This outcome is intuitive: as the interest rate differential grows, the benefits from out-of-state deposits become more substantial.

This also suggests a breakeven point for the interest rate differential. The breakeven value is the point at which the change in overall economic impact is zero. At this point, local governments aiming to maximize general fund revenues would be indifferent between depositing the $9 billion in Kansas financial institutions or investing the funds out-of-state. Thus, the increase in economic activity and/or tax revenue is exactly balanced by the loss of interest income.

State Net Total	Rate Differential (i-i*)
$ 261,000,000.00	-0.25%
$ 238,500,000.00	-0.50%
$ 216,000,000.00	-0.75%
$ 193,500,000.00	-1.00%
$ 171,000,000.00	-1.25%
$ 148,500,000.00	-1.50%
$ 126,000,000.00	-1.75%
$ 103,500,000.00	-2.00%
$ 81,000,000.00	-2.25%
$ 58,500,000.00	-2.50%
$ 36,000,000.00	-2.75%
$ 13,500,000.00	-3.00%
$ (9,000,000.00)	-3.25%

The table demonstrates the relationship between the interest rate differential and its impact on government revenues (including income, sales, and property taxes). State and local government revenues should increase by keeping local government deposits in Kansas financial institutions, provided the interest rate differential is less than 3.15 percentage points. Essentially, out-of-state investments would need to offer rates exceeding 3.15 percentage points above those of Kansas institutions for the state to be better off. This finding is consistent with Wong (2006), who noted a differential of 2.8 percentage points. Additionally, Wong observed economic benefits at the county level. In the top five counties with the highest deposit volumes, property tax revenue benefits were seen when 35.3-52.9% of public funds were loaned out for state activities. The benefits were even more pronounced in counties with lower deposit volumes, where property tax revenue benefits occurred when 27.2-56.0% of public funds were loaned out to support state activities.

These results should be viewed as long-term outcomes. There would be a transition period before the new capital, funded by local government deposits, becomes productive. Due to the time required to acquire new capital and secure new borrowers, there is a lag between when Kansas financial institutions extend loans for new Kansas capital and when the resulting income and tax revenues are realized. Wong (2006) estimates this period to be between 2 and 5 years from the time state funds are deposited.

Summary

The primary advantage of placing deposits in Kansas financial institutions is that these funds are more likely to be loaned to Kansas borrowers, supporting investment projects. This, in turn, boosts the state's capital stock, economic activity, and income. Shifting local government funds from out-of-state investments to Kansas financial institutions can enhance economic activity, income, and tax revenues. The key issue is not the exact value of the impact but the significance of the loss of financial resources from the community.

In 2021, local governments in Kansas held an estimated $9.03 billion in noncommitted cash. Currently only about $49 million of the Pooled Money Investment Portfolio Holdings are in Kansas Bank CDs. This represents only .06% of total deposits in the state. If the full amount of Pooled Money Investment Holdings were invested in Kansas banks, we could anticipate an increase in deposits to over $87 billion, or an increase of approximately 12%.

According to the deposit expansion model, if local government idle funds were added to the Kansas banking system the economic impact could be significant. The change in deposits when maintaining 20% as reserves could result in an increase of $14.44 billion of total bank deposits in Kansas, $11.55 billion of personal income, and $1.17 billion in state and local taxes.

Haslag's sensitivity analysis model indicates that state and local government economic development opportunities, income, and tax revenues would increase if funds were moved back into the state. Revenues for state and local governments should increase if at least 9.52% of local government deposits in Kansas financial institutions are loaned out to support in-state activities.

Haslag's model indicates state and local government revenues should increase by keeping local government deposits in Kansas financial institutions, provided the interest rate differential is less than 3.15 percentage points. Essentially, out-of-state investments would need to offer rates exceeding 3.15 percentage points above those of Kansas institutions for the state to be better off.

Allowing local governments to invest funds out-of-state generally leads to fewer local economic development opportunities, reduced income, and lower tax revenues for both local governments and the state. Even if out-of-state investments offer higher yields, the gains from increased economic activity and tax revenues could outweigh the loss of interest income if the interest rate differential is small (less than or equal to 3.15%). Deposits in Kansas financial institutions increase the state's capital stock, translating into higher economic activity and incomes.

This report does not recommend specific policies for the Kansas Bankers Association or the Community Bankers Association of Kansas. Instead, it provides background, data, and analysis to support policy discussions for the state.

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Appendix A: State of Kansas Banking Trends

FDIC State Profile — Kansas

First Quarter 2024

ECONOMIC INDICATORS (NOT SEASONALLY ADJUSTED, UNLESS NOTED)

Employment Growth Rates (% change from year ago, unless noted)		Q1-24	Q4-23	Q1-23	2023	2022
Total Nonfarm (share of trailing four quarter employment in parentheses)		1.1%	1.4%	2.7%	1.9%	2.6%
Manufacturing	(12%)	-0.1%	0.3%	4.5%	2.3%	5.0%
Other (non-manufacturing) Goods-Producing	(5%)	1.4%	4.1%	6.0%	4.6%	1.8%
Private Service-Providing	(65%)	1.3%	1.4%	2.4%	1.8%	3.0%
Government	(18%)	1.2%	1.6%	1.4%	1.5%	-0.3%
Unemployment Rate (% of labor force, seasonally adjusted)		2.7%	2.6%	2.8%	2.7%	2.6%

Other Indicators (% change of 4-qtr moving total, unless noted)	Q1-24	Q4-23	Q1-23	2023	2022
Single-Family Home Permits	-2.9%	-11.9%	-18.3%	-11.9%	-11.3%
Multifamily Building Permits	67.7%	13.5%	-2.7%	13.5%	27.5%
Home Price Index (change from year ago)	9.3%	7.4%	7.8%	7.2%	14.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	N/A	1.11	1.08	1.19	1.05

BANKING TRENDS

General Information	Q1-24	Q4-23	Q1-23	2023	2022
Institutions (#)	204	204	210	204	210
Total Assets (in millions)	$94,847	$94,340	$93,336	$94,340	$92,316
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions (#)	109	109	109	109	110

Asset Quality	Q1-24	Q4-23	Q1-23	2023	2022
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.71	0.56	0.63	0.56	0.60
Noncurrent Loans / Total Loans (median %)	0.18	0.16	0.18	0.16	0.16
Loan and Lease Allowance / Total Loans (median %)	1.29	1.32	1.35	1.32	1.38
Loan and Lease Allowance / Noncurrent Loans (median multiple)	3.74	4.40	4.10	4.40	4.68
Net Loan Losses / Total Loans (median %, year-to-date annualized)	0.00	0.00	0.00	0.00	0.00

Capital / Earnings (year-to-date annualized, unless noted)	Q1-24	Q4-23	Q1-23	2023	2022
Tier 1 Leverage (median %, end of period)	10.87	10.81	10.66	10.81	10.67
Return on Assets (median %)	1.06	0.96	1.07	0.96	0.95
Pretax Return on Assets (median %)	1.14	1.09	1.18	1.09	1.09
Net Interest Margin (median %)	3.41	3.39	3.39	3.39	3.25
Yield on Earning Assets (median %)	5.18	4.75	4.32	4.75	3.68
Cost of Funding Earning Assets (median %)	1.74	1.30	0.88	1.30	0.40
Provisions to Avg. Assets (median %)	0.01	0.02	0.00	0.02	0.01
Noninterest Income to Avg. Assets (median %)	0.35	0.38	0.36	0.38	0.41
Overhead to Avg. Assets (median %)	2.41	2.46	2.36	2.46	2.37

Liquidity / Sensitivity	Q1-24	Q4-23	Q1-23	2023	2022
Net Loans to Assets (median %)	59	60	55	60	54
Noncore Funding to Assets (median %)	12	14	9	14	10
Long-term Assets to Assets (median %, call filers)	32	33	35	33	37
Brokered Deposits (number of institutions)	75	65	55	65	52
Brokered Deposits to Assets (median % for those above)	5	5	5	5	6

Loan Concentrations (median % of Tier 1 Capital plus the Reserve for Loan and Lease Losses)	Q1-24	Q4-23	Q1-23	2023	2022
Commercial and Industrial	57	55	57	55	58
Commercial Real Estate	92	90	85	90	82
Construction & Development	12	13	13	13	12
Multifamily Residential Real Estate	3	3	2	3	2
Nonresidential Real Estate	55	55	59	55	61
Residential Real Estate	111	111	102	111	101
Consumer	16	16	16	16	15
Agriculture	137	139	127	139	133

BANKING PROFILE

Largest Deposit Markets (from 2023 Summary of Deposits)	Institutions in Market	
Kansas City, MO-KS	116	$87,299
Wichita, KS	46	$22,322
Topeka, KS	32	$5,948
Manhattan, KS	22	$3,990
Lawrence, KS	22	$3,448

Asset Distribution	Institutions	
< $100 million	64	(31.4%)
$100 million to $250 million	67	(32.8%)
$250 million to $1 billion	55	(27.0%)
$1 billion to $10 billion	18	(8.8%)
$10 billion	0	(0.0%)

Appendix B: Kansas Statutes Annotated 9-1401

9-1401. Designation of depositories for public funds; duty of public officers; agreements. (a) The governing body of any municipal corporation or quasi-municipal corporation shall designate by official action recorded upon the governing body's minutes the banks, savings and loan associations and savings banks which shall serve as depositories of the governing body's funds and the officer and official having the custody of such funds shall not deposit such funds other than at such designated banks, savings and loan associations and savings banks. The banks, savings and loan associations and savings banks which have main or branch offices in the county or counties in which all or part of such municipal corporation or quasi-municipal corporation is located shall be designated as such official depositories if the municipal or quasi-municipal corporation can obtain satisfactory security therefor.

(b) Every officer or person depositing public funds shall deposit all such public funds coming into the officer's or person's possession in their name and official title as such officer. If the governing body of the municipal corporation or quasi-municipal corporation fails to designate an official depository or depositories, the officer thereof having custody of the governing body's funds shall deposit such funds with one or more banks, savings and loan associations or savings banks which have main or branch offices in the county or counties in which all or part of such municipal corporation or quasi-municipal corporation is located if satisfactory security can be obtained therefor. If the officer having custody is unable to obtain satisfactory security at a depository within the county or counties where the governing body is located, then the officer may deposit funds elsewhere. If the governing body's funds are deposited elsewhere, the officer shall serve notice in writing on the governing body showing the names and locations of the banks, savings and loan associations and savings banks where the funds are deposited, and upon so doing the officer having custody of the funds shall not be liable for the loss of any portion thereof except for official misconduct or for the misappropriation of such funds by such officer.

(c) If eligible banks, savings and loan associations or savings banks under subsections* (a) or (b) cannot or will not provide an acceptable bid, which shall include services, for the depositing of public funds under this section, then 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 such municipal or quasi-municipal corporation is located may receive deposits of such municipal corporation or quasi-municipal corporation, if such banks, savings and loan associations or savings banks have been designated as official depositories under subsection (a) and the municipal corporation or quasi-municipal corporation can obtain satisfactory security therefor.

(d) The depository bank, savings and loan association or savings bank and any agent, trustee, wholly owned subsidiary or affiliate having identical ownership granting a security interest shall enter into a written agreement with the municipal corporation or quasi-municipal corporation which so designates the bank as a depository for the municipal corporation or quasi-municipal corporation's public moneys.

(1) The agreement shall secure the public moneys of the municipal corporation or quasi-municipal corporation by granting a security interest in securities held by the depository bank,

savings and loan association or savings bank and any agent, trustee, wholly owned subsidiary or affiliate having identical ownership pursuant to K.S.A. 9-1402, and amendments thereto.

(2) The depository bank, savings and loan association or savings bank and any agent, trustee, wholly owned subsidiary or affiliate having identical ownership shall perfect the security interest causing control to be given to the municipal corporation or quasi-municipal corporation in accordance with the Kansas uniform commercial code.

(3) The security agreement shall be in writing, executed by all parties thereto, maintained as part of the parties' official records, and except for the municipal corporations or quasi-municipal corporations, approved by the boards of directors or loan committees, which approvals shall be reflected in the minutes of the boards or committees.

History: L. 1947, ch. 102, § 63; L. 1957, ch. 74, § 2; L. 1967, ch. 447, § 30; L. 1972, ch. 35, § 1; L. 1982, ch. 52, § 1; L. 1983, ch. 47, § 2; L. 1986, ch. 76, § 1; L. 1989, ch. 48, § 41; L. 1997, ch. 180, § 3; L. 2006, ch. 57, § 1; L. 2015, ch. 38, § 77; L. 2016, ch. 54, § 34; July 1.

Appendix C: Kansas Statutes Annotated 9-1408

9-1408. Definitions. As used in article 14 of chapter 9 of the Kansas Statutes Annotated, and amendments thereto:

(a) "Branch" means any office within this state or another state, other than the main office, that is approved as a branch by a federal or state supervisory agency and at which deposits are received, checks paid or money lent. Branch does not include an automated teller machine, remote service unit or similar device, a loan production office or a deposit production office;

(b) "centralized securities depository" means a clearing agency registered with the securities and exchange commission which provides safekeeping and book-entry settlement services to the agency's participants;

(c) "government unit" means any state, county, municipality or other political subdivision thereof;

(d) "Kansas national bank" means a federally chartered bank which has a main office or branch located in this state;

(e) "Kansas state bank" means a Kansas state chartered bank;

(f) "main office" means the place of business specified in the articles of association, certificate of authority or similar document where the business of the institution is carried on and which is not a branch;

(g) "municipal corporation" or "quasi-municipal corporation" includes each investing governmental unit under K.S.A. 12-1675, and amendments thereto;

(h) "savings and loan association" means any savings and loan association incorporated under the laws of this state or any other state or organized under the laws of the United States and which has a main or branch office in this state;

(i) "savings bank" means any savings bank organized under the laws of the United States and which has a main or branch office in this state; and

(j) "securities," "security entitlements," "financial assets," "securities account," "security agreement," "security interest," "perfection" and "control" shall have the meanings given such terms under the Kansas uniform commercial code.

History: L. 1997, ch. 180, § 2; L. 2006, ch. 57, § 2; L. 2015, ch. 38, § 82; L. 2016, ch. 54, § 37; July 1.

Appendix D: Kansas Statutes Annotated 10-131

10-131. Investment of proceeds of bonds or temporary notes and certain funds authorized; disposition of interest received therefrom. (a) The governing body of any municipality, as defined in K.S.A. 10-101, and amendments thereto, which has issued or may issue bonds or temporary notes for any purpose, is hereby authorized and empowered to invest any portion of the proceeds of such bonds, notes or funds held pursuant to the resolution or ordinance authorizing the issuance of such bonds or notes, which is not currently needed, in: (1) Investments authorized by K.S.A. 12-1675, and amendments thereto, in the manner prescribed therein; (2) the municipal investment pool established pursuant to K.S.A. 12-1677a, and amendments thereto; (3) direct obligations of the United States government or any agency thereof; (4) the municipality's temporary notes issued pursuant to K.S.A. 10-123, and amendments thereto; (5) interest-bearing time deposits in commercial banks located in the county or counties in which the municipality is located; (6) subject to the limitations provided in subsection (b), obligations of the federal national mortgage association, federal home loan banks, the federal home loan mortgage corporation or the government national mortgage association; (7) repurchase agreements for securities described in (3) or (6); (8) investment agreements with or other obligations of a financial institution the obligations of which at the time of investment are rated in either of the three highest rating categories by Moody's investors service or Standard and Poor's corporation; (9) investments in shares or units of a money market fund or trust the portfolio of which is comprised entirely of securities described in (3) or (6); (10) receipts evidencing ownership interests in securities or portions thereof described in (3) or (6); (11) municipal bonds or other obligations issued by any municipality of the state of Kansas as defined in K.S.A. 10-1101, and amendments thereto, which are general obligations of the municipality issuing the same; or (12) bonds of any municipality of the state of Kansas as defined in K.S.A. 10-1101, and amendments thereto, which have been refunded in advance of their maturity and are fully secured as to payment of principal and interest thereon by deposit in trust, under escrow agreement with a bank, of securities described in (3) or (6). The interest received on any such investment shall upon receipt thereof be set aside and used for the purpose of paying interest on the bonds or notes issued or used for paying the cost of the project for which the bonds or notes were issued.

(b) No moneys authorized to be invested pursuant to subsection (a) shall be invested in a derivative.

For the purposes of this section, "derivative" means any investment instrument whose market price is derived from the fluctuating value of an underlying asset, index, currency, futures contract, including futures, options and collateralized mortgage obligations.

History: L. 1947, ch. 106, § 1; L. 1949, ch. 113, § 1; L. 1953, ch. 56, § 1; L. 1971, ch. 38, § 1; L. 1971, ch. 39, § 1; L. 1976, ch. 62, § 1; L. 1977, ch. 54, § 2; L. 1980, ch. 52, § 1; L. 1987, ch. 60, § 2; L. 1988, ch. 66, § 1; L. 1989, ch. 48, § 64; L. 1994, ch. 103, § 1; L. 1996, ch. 84, § 1; L. 2010, ch. 54, § 1; July 1.

Appendix E: Kansas Statutes Annotated 12-1675a

12-1675a. Definitions. As used in K.S.A. 12-1675, 12-1676, 12-1677, 12-1677a and 12-1677b, and amendments thereto:

(a) "Bank" means any bank incorporated under the laws of this state or any other state, or organized under the laws of the United States which has a main or branch office in this state;

(b) "savings and loan association" means any savings and loan association incorporated under the laws of this state or any other state, or organized under the laws of the United States and which has a main or branch office in this state;

(c) "savings bank" means any savings bank organized under the laws of the United States and which has a main or branch office in this state;

(d) "municipality" includes each investing governmental unit under K.S.A. 12-1675, and amendments thereto;

(e) "main office" means the place of business specified in the articles of association, certificate of authority or similar document, where the business of the institution is carried on and which is not a branch;

(f) "branch" means any office within this state, other than the main office, that is approved by a federal or state supervisory agency at which deposits are received, checks paid or money lent. Branch does not include an automated teller machine, remote service unit or similar device or a loan production office; and

(g) "investment rate" means a rate which is the equivalent yield for United States government securities having a maturity date as published in the Wall Street Journal, nearest the maturity date for equivalent maturities. The 0-90 day rate shall be computed on the average effective federal funds rate as published by the federal reserve system for the previous week.

History: L. 1997, ch. 180, § 13; L. 2006, ch. 57, § 4; July 1.

Attorney General's Opinions:

Bank's loss of eligibility as public depository: Upon maturity of CD's, local government must place funds in eligible public depository. 2001-35.

Specified governmental entities may invest idle funds in FDIC insured entities; conditions. 2004-09.

Appendix F: Kansas Statutes Annotated 12-1675

12-1675. Investment of public moneys by governmental subdivisions, units and entities; conditions and limitations; reciprocal deposit programs. (a) The governing body of any county, city, township, school district, area vocational-technical school, community college, firemen's relief association, community mental health center, community facility for people with intellectual disability or any other governmental entity, unit or subdivision in the state of Kansas having authority to receive, hold and expend public moneys or funds may invest any moneys which are not immediately required for the purposes for which the moneys were collected or received, and the investment of which is not subject to or regulated by any other statute.

(b) Such moneys shall be invested only:

(1) In temporary notes or no-fund warrants issued by such investing governmental unit;

(2) in savings deposits, demand deposits, time deposit, open accounts, certificates of deposit or time certificates of deposit with maturities of not more than two years: (A) In banks, savings and loan associations and savings banks, which have main or branch offices located in such investing governmental unit; or (B) if no main or branch office of a bank, savings and loan association or savings bank is located in such investing governmental unit, then in banks, savings and loan associations and savings banks, which have main or branch offices in the county or counties in which all or part of such investing governmental unit is located;

(3) in repurchase agreements with: (A) Banks, savings and loan associations and savings banks, which have main or branch offices located in such investing governmental unit, for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof; or (B) (i) if no main or branch office of a bank, savings and loan association or savings bank, is located in such investing governmental unit; or (ii) if no such bank, savings and loan association or savings bank having a main or branch office located in such investing governmental unit is willing to enter into such an agreement with the investing governmental unit at an interest rate equal to or greater than the investment rate, as defined in subsection (g) of K.S.A. 12-1675a, and amendments thereto, then such repurchase agreements may be entered into with banks, savings and loan associations or savings banks which have main or branch offices in the county or counties in which all or part of such investing governmental unit is located; or (C) if no bank, savings and loan association or savings bank, having a main or branch office in such county or counties is willing to enter into such an agreement with the investing governmental unit at an interest rate equal to or greater than the investment rate, as defined in subsection (g) of K.S.A. 12-1675a, and amendments thereto, then such repurchase agreements may be entered into with banks, savings and loan associations or savings banks located within this state;

(4) in direct obligations of or obligations that are insured as to principal and interest by the United States or any agency thereof, not including mortgage-backed securities with maturities as the governing body shall determine, but not exceeding two years. Such investment transactions shall only be conducted with banks, savings and loan associations and savings banks; the federal reserve bank of Kansas City, Missouri; or with primary government securities dealers which

report to the market report division of the federal reserve bank of New York, or any broker-dealer engaged in the business of selling government securities which is registered in compliance with the requirements of section 15 or 15C of the securities exchange act of 1934 and registered pursuant to K.S.A. 17-12a401, and amendments thereto;

(5) in the municipal investment pool fund established in K.S.A. 12-1677a, and amendments thereto;

(6) in the investments authorized and in accordance with the conditions prescribed in K.S.A. 12-1677b, and amendments thereto;

(7) in multiple municipal client investment pools managed by the trust departments of banks which have main or branch offices located in the county or counties where such investing governmental unit is located or with trust companies incorporated under the laws of this state which have contracted to provide trust services under the provisions of K.S.A. 9-2107, and amendments thereto, with banks which have main or branch offices located in the county or counties in which such investing governmental unit is located. Public moneys invested under this paragraph shall be secured in the same manner as provided for under K.S.A. 9-1402, and amendments thereto. Pooled investments of public moneys made by trust departments under this paragraph shall be subject to the same terms, conditions and limitations as are applicable to the municipal investment pool established by K.S.A. 12-1677a, and amendments thereto; or

(8) municipal bonds or other obligations issued by any municipality of the state of Kansas as defined in K.S.A. 10-1101, and amendments thereto, which are general obligations of the municipality issuing the same.

(c) The investments authorized in paragraphs (4), (5), (6), (7) or (8) of subsection (b) shall be utilized only if the banks, savings and loan associations and savings banks eligible for investments authorized in paragraph (2) of subsection (b), cannot or will not make the investments authorized in paragraph (2) of subsection (b) available to the investing governmental unit at interest rates equal to or greater than the investment rate, as defined in subsection (g) of K.S.A. 12-1675a, and amendments thereto.

(d) In selecting a depository pursuant to paragraph (2) of subsection (b), if a bank, savings and loan association or savings bank eligible for an investment deposit thereunder has an office located in the investing governmental unit and such financial institution will make such deposits available to the investing governmental unit at interest rates equal to or greater than the investment rate, as defined in subsection (g) of K.S.A. 12-1675a, and amendments thereto, and such financial institution otherwise qualifies for such deposit, the investing governmental unit shall select one or more of such eligible financial institutions for deposit of funds pursuant to this section. If no such financial institution qualifies for such deposits, the investing governmental unit may select for such deposits one or more eligible banks, savings and loan associations or savings banks which have offices in the county or counties in which all or a part of such investing governmental unit is located which will make such deposits available to the investing governmental unit at interest rates equal to or greater than the investment rate, as defined in

subsection (g) of K.S.A. 12-1675a, and amendments thereto, and which otherwise qualify for such deposits.

(e) (1) All security purchases and repurchase agreements shall occur on a delivery versus payment basis.

(2) All securities, including those acquired by repurchase agreements, shall be perfected in the name of the investing governmental unit and shall be delivered to the purchaser or a third-party custodian which may be the state treasurer.

(f) Public moneys deposited pursuant to subsection (b)(2) of K.S.A. 12-1675, and amendments thereto, by the governing body of any governmental unit listed in subsection (a) of K.S.A. 12-1675, and amendments thereto, through a selected bank, savings and loan association or savings bank which is part of a reciprocal deposit program in which the bank, savings and loan association or savings bank:

(1) Receives reciprocal deposits from other participating institutions located in the United States in an amount equal to the amount of funds deposited by the municipal corporation or quasi-municipal corporation; and

(2) for which the total cumulative amount of each deposit does not exceed the maximum deposit insurance amount for one depositor at one financial institution as determined by the federal deposit insurance corporation.

Such deposits shall not be treated as securities and need not be secured as provided in this or any other act.

History: L. 1968, ch. 217, § 1; L. 1969, ch. 80, § 1; L. 1973, ch. 63, § 6; L. 1975, ch. 68, § 1; L. 1976, ch. 79, § 2; L. 1977, ch. 55, § 1; L. 1982, ch. 52, § 6; L. 1983, ch. 47, § 7; L. 1986, ch. 76, § 7; L. 1989, ch. 48, § 66; L. 1992, ch. 146, § 3; L. 1993, ch. 207, § 2; L. 1994, ch. 104, § 2; L. 1997, ch. 180, § 14; L. 2004, ch. 154, § 53; L. 2006, ch. 57, § 3; L. 2009, ch. 49, § 2; L. 2010, ch. 54, § 3; L. 2012, ch. 91, § 2; L. 2013, ch. 11, § 1; L. 2014, ch. 110, § 1; July 1.

Appendix G: Kansas Statutes Annotated 12-677b

12-1677b. Direct investments by cities, counties and school districts, when; requirements; forfeiture of investment rights, when. (a) The governing body of any city, county or school district which has a written investment policy approved by the governing body of such city, county or school district and such written investment policy is approved by the pooled money investment board as provided in subsection (b) may invest and reinvest pursuant to the approved investment policy in the following investments, as authorized under paragraph (6) of subsection (b) of K.S.A. 12-1675, and amendments thereto:

(1) Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America or any agency thereof and obligations and securities of United States sponsored enterprises which under federal law may be accepted as security for public funds, except that such investments shall not be in mortgage-backed securities;

(2) interest-bearing time deposits in any banks, savings and loan associations and savings banks; or

(3) repurchase agreements with banks, savings and loan associations and savings banks, or with a primary government securities dealer which reports to the market reports division of the federal reserve bank of New York for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof and obligations and securities of United States government sponsored enterprises which under federal law may be accepted as security for public funds.

(b) In approving the investment policy of any city, county or school district, the pooled money investment board shall require that such policy addresses liquidity, diversification, safety of principal, yield, maturity and quality and capability of investment management staff. In addition, the policy shall provide procedures for compliance with subsection (c) of K.S.A. 12-1675, and amendments thereto, and a certification from the investment management staff that those procedures have been followed.

(c) The investment policy of any city, county or school district approved by the pooled money investment board under this section shall be reviewed and approved at least annually by such board or when such city, county or school district makes changes in such investment policy. On condition of approving the investment policy, the pooled money investment board shall review the policy to assure that it addresses liquidity, diversification, safety of principal, yield, maturity and quality and capability of investment management staff. In addition, the policy shall provide procedures for compliance with subsection (c) of K.S.A. 12-1675, and amendments thereto, a certification from the investment management staff that those procedures have been followed and a listing of the banks, savings and loan associations and savings banks from which the city, county or school district requested bids in the preceding year.

(d) (1) All security purchases shall occur on a delivery versus payment basis.

(2) All securities shall be perfected in the name of the city, county or school district and shall be delivered to the purchaser or a third party custodian which may be the state treasurer.

(3) Investment transactions shall only be conducted with banks, savings and loan associations and savings banks; or with primary government securities dealers which report to the market report division of the federal reserve bank of New York; or any broker-dealer which is registered in compliance with the requirements of section 15C of the securities exchange act of 1934 and registered pursuant to K.S.A. 17-12a401, and amendments thereto.

(4) The maximum maturity for investments under subsection (a) shall be four years.

(e) Investments in securities under paragraph (1) of subsection (a) shall be limited to securities which do not have any more interest rate risk than do direct United States government obligations of similar maturities. For purposes of this subsection, "interest rate risk" means market value changes due to changes in current interest rates.

(f) A city, county or school district which violates subsection (c) or (d) of K.S.A. 12-1675, and amendments thereto, or the rules and regulations of the pooled money investment board shall forfeit its rights under this section for a two year period and shall be reinstated only after a complete review of its investment policy as provided for in subsection (b). Such forfeiture shall be determined by the pooled money investment board after notice and opportunity to be heard in accordance with the Kansas administrative procedure act.

History: L. 1992, ch. 146, § 2; L. 1993, ch. 207, § 4; L. 1996, ch. 254, § 5; L. 1997, ch. 180, § 17; L. 2004, ch. 154, § 54; L. 2009, ch. 77, § 1; April 23.

Appendix H : Kansas Statutes Annotated 80-404

80-404. Deposit of moneys; investment of idle funds. In all townships the township treasurer shall deposit all public money coming into his or her hands in an official capacity in a bank which is a member of the federal deposit insurance corporation or a savings and loan association which is a member of the federal savings and loan insurance corporation within the county, the same to be designated by the township board. Such deposits shall be made in the name of such treasurer as such officer. Township moneys not immediately required for the purposes for which such moneys were collected or received may be invested in the manner provided by K.S.A. 12-1675.

History: L. 1911, ch. 333, § 1; R.S. 1923, 80-404; L. 1933, ch. 159, § 3; L. 1937, ch. 82, § 3; L. 1973, ch. 407, § 1; July 1.

Appendix I: U.S. Census Bureau State and Local Government Finances

State and Local Government Finance: 2021

(Dollar amounts are in (000s). Coefficients of variation (CV) are expressed as percentages. For meaning of abbreviations and symbols, see note below table)

Source: U.S. Census Bureau, 2021 Annual Surveys of State and Local Government Finances.
The 2021 local government data in this table are from a sample of local governments, and as such, are subject to sampling variability.
Additional information on sampling and nonsampling error, response rates, and definitions

Description	Kansas				
	State & local government amount[1]	State & local government CV	State government amount	Local government amount[1]	Local government CV
	1	2	3	4	5
Cash and security holdings	54,993,336	0.90	34,386,347	20,606,989	2.40
Insurance trust funds	28,154,574	0.00	25,874,726	2,279,848	0.00
Unemployment compensation	1,028,882	0.00	1,028,882	0	0.00
Employee retirement	27,119,574	0.00	24,839,726	2,279,848	0.00
Workers' compensation	6,118	0.00	6,118	0	0.00
Miscellaneous	0	0.00	0	0	0.00
Other than insurance trust funds	26,838,762	1.84	8,511,621	18,327,141	2.70
By purpose:					
Offsets to debt	10,535,307	2.38	3,133,636	7,401,671	3.38
Bond funds	1,940,565	2.25	42,130	1,898,435	2.30
Other	14,362,891	2.96	5,335,855	9,027,036	4.71

[1] Duplicative intergovernmental transactions are excluded.

Abbreviations and symbols: - zero or rounds to zero; (X) not applicable

n.e.c. = "not elsewhere classified"

For a detailed description of the specific quality issues and information about the impact on the data see:

http://www2.census.gov/govs/estimate/quality_issues_cog_finance.pdf

Creation date: June 26, 2023

Appendix J: Offices of all FDIC Insured Institutions by County in Kansas, June 30, 2024

County as of June 30, 2024	All Institutions			Commercial Banks			Savings Institutions			U.S. Branches of Foreign Banks		
	Number of			Number of			Number of			Number of		
	Institutions	Offices	Deposits	Institutions	Offices	Deposits	Institutions	Offices	Deposits	Institutions	Offices	Deposits
Allen	5	7	492	5	7	492	0	0	0	0	0	0
Anderson	5	8	269	5	8	269	0	0	0	0	0	0
Atchison	3	5	479	3	5	479	0	0	0	0	0	0
Barber	3	3	172	3	3	172	0	0	0	0	0	0
Barton	10	20	1,207	10	20	1,207	0	0	0	0	0	0
Bourbon	6	9	313	5	8	291	1	1	22	0	0	0
Brown	6	10	389	6	10	389	0	0	0	0	0	0
Butler	12	29	1,722	11	28	1,687	1	1	35	0	0	0
Chase	2	3	63	2	3	63	0	0	0	0	0	0
Chautauqua	2	3	64	2	3	64	0	0	0	0	0	0
Cherokee	7	9	364	7	9	364	0	0	0	0	0	0
Cheyenne	4	4	134	4	4	134	0	0	0	0	0	0
Clark	3	3	126	3	3	126	0	0	0	0	0	0
Clay	5	8	282	5	8	282	0	0	0	0	0	0
Cloud	7	11	331	7	11	331	0	0	0	0	0	0
Coffey	4	10	358	4	10	358	0	0	0	0	0	0
Comanche	2	3	93	2	3	93	0	0	0	0	0	0
Cowley	7	20	853	7	20	853	0	0	0	0	0	0
Crawford	11	23	1,045	11	23	1,045	0	0	0	0	0	0
Decatur	3	4	123	3	4	123	0	0	0	0	0	0
Dickinson	10	14	537	10	14	537	0	0	0	0	0	0
Doniphan	5	7	276	5	7	276	0	0	0	0	0	0
Douglas	22	45	3,427	20	40	2,820	2	5	606	0	0	0
Edwards	3	3	90	3	3	90	0	0	0	0	0	0
Elk	2	4	57	2	4	57	0	0	0	0	0	0
Ellis	10	14	1,195	9	12	1,020	1	2	175	0	0	0
Ellsworth	5	6	263	4	5	259	1	1	3	0	0	0
Finney	9	13	969	9	13	969	0	0	0	0	0	0
Ford	11	14	855	11	14	855	0	0	0	0	0	0
Franklin	10	13	606	10	13	606	0	0	0	0	0	0
Geary	7	13	681	7	13	681	0	0	0	0	0	0
Gove	3	5	149	3	5	149	0	0	0	0	0	0
Graham	3	3	139	3	3	139	0	0	0	0	0	0
Grant	3	3	312	3	3	312	0	0	0	0	0	0
Gray	3	6	252	3	6	252	0	0	0	0	0	0
Greeley	2	2	68	1	1	46	1	1	22	0	0	0
Greenwood	5	8	190	5	8	190	0	0	0	0	0	0
Hamilton	2	2	249	2	2	249	0	0	0	0	0	0
Harper	4	7	251	4	7	251	0	0	0	0	0	0
Harvey	11	19	877	11	19	877	0	0	0	0	0	0
Haskell	1	3	164	1	3	164	0	0	0	0	0	0
Hodgeman	1	2	73	1	2	73	0	0	0	0	0	0

Jackson	3	6	392	3	6	392	0	0	0	0	0	0
Jefferson	5	8	290	4	7	260	1	1	30	0	0	0
Jewell	3	5	103	3	5	103	0	0	0	0	0	0
Johnson	61	232	26,789	57	212	23,863	4	20	2,925	0	0	0
Kearny	2	2	162	2	2	162	0	0	0	0	0	0
Kingman	4	4	250	4	4	250	0	0	0	0	0	0
Kiowa	4	5	116	4	5	116	0	0	0	0	0	0
Labette	5	14	543	5	14	543	0	0	0	0	0	0
Lane	2	2	149	2	2	149	0	0	0	0	0	0
Leavenworth	10	24	1,611	8	18	1,288	2	6	322	0	0	0
Lincoln	4	4	146	4	4	146	0	0	0	0	0	0
Linn	6	8	222	6	8	222	0	0	0	0	0	0
Logan	3	4	278	3	4	278	0	0	0	0	0	0
Lyon	8	13	747	7	12	616	1	1	131	0	0	0
Marion	8	12	373	8	12	373	0	0	0	0	0	0
Marshall	8	13	670	8	13	670	0	0	0	0	0	0
Mcpherson	11	22	1,061	11	22	1,061	0	0	0	0	0	0
Meade	3	4	200	3	4	200	0	0	0	0	0	0
Miami	9	14	842	9	14	842	0	0	0	0	0	0
Mitchell	5	7	355	5	7	355	0	0	0	0	0	0
Montgomery	7	15	720	7	15	720	0	0	0	0	0	0
Morris	5	6	187	5	6	187	0	0	0	0	0	0
Morton	2	3	94	1	2	78	1	1	17	0	0	0
Nemaha	7	13	1,080	7	13	1,080	0	0	0	0	0	0
Neosho	7	14	608	6	13	527	1	1	81	0	0	0
Ness	4	5	167	4	5	167	0	0	0	0	0	0
Norton	4	5	233	4	5	233	0	0	0	0	0	0
Osage	7	11	364	7	11	364	0	0	0	0	0	0
Osborne	4	4	220	4	4	220	0	0	0	0	0	0
Ottawa	3	5	227	3	5	227	0	0	0	0	0	0
Pawnee	5	5	186	5	5	186	0	0	0	0	0	0
Phillips	3	7	258	3	7	258	0	0	0	0	0	0
Pottawatomie	9	14	857	9	14	857	0	0	0	0	0	0
Pratt	3	3	412	3	3	412	0	0	0	0	0	0
Rawlins	4	4	194	4	4	194	0	0	0	0	0	0
Reno	11	24	1,514	11	24	1,514	0	0	0	0	0	0
Republic	5	6	237	5	6	237	0	0	0	0	0	0
Rice	4	8	314	3	6	220	1	2	93	0	0	0
Riley	16	27	2,609	15	25	2,417	1	2	192	0	0	0
Rooks	5	6	246	5	6	246	0	0	0	0	0	0
Rush	5	5	202	5	5	202	0	0	0	0	0	0
Russell	6	6	297	6	6	297	0	0	0	0	0	0
Saline	12	21	1,973	11	20	1,864	1	1	108	0	0	0
Scott	3	3	525	3	3	525	0	0	0	0	0	0
Sedgwick	38	152	18,680	37	144	18,138	1	8	542	0	0	0
Seward	5	9	527	5	9	527	0	0	0	0	0	0
Shawnee	19	57	4,738	18	47	3,105	1	10	1,632	0	0	0

Sheridan	4	4	224	4	4	224	0	0	0	0	0	0
Sherman	4	4	263	4	4	263	0	0	0	0	0	0
Smith	4	5	178	4	5	178	0	0	0	0	0	0
Stafford	3	6	160	3	6	160	0	0	0	0	0	0
Stanton	2	2	108	2	2	108	0	0	0	0	0	0
Stevens	3	3	159	3	3	159	0	0	0	0	0	0
Sumner	10	15	636	10	15	636	0	0	0	0	0	0
Thomas	8	10	603	8	10	603	0	0	0	0	0	0
Trego	2	2	58	1	1	18	1	1	40	0	0	0
Wabaunsee	5	7	139	5	7	139	0	0	0	0	0	0
Wallace	1	1	68	1	1	68	0	0	0	0	0	0
Washington	6	8	278	6	8	278	0	0	0	0	0	0
Wichita	2	2	146	2	2	146	0	0	0	0	0	0
Wilson	5	6	266	5	6	266	0	0	0	0	0	0
Woodson	2	2	98	2	2	98	0	0	0	0	0	0
Wyandotte	19	41	2,810	15	35	2,684	4	6	126	0	0	0
TOTALS	**249**	**1,357**	**99,717**	**238**	**1,286**	**92,612**	**11**	**71**	**7,105**	**0**	**0**	**0**

Appendix K: FDIC State Tables: Kansas

	All Insured Institutions 31-Dec-23			All Insured Institutions 31-Dec-22			All Insured Institutions 31-Dec-21		
	All Institutions	Assets < Than $1 Billion	Assets > Than $1 Billion	All Institutions	Assets < Than $1 Billion	Assets > Than $1 Billion	All Institutions	Assets < Than $1 Billion	Assets > Than $1 Billion
Number of Institutions	204	188	16	210	194	16	214	199	15
Number of Employees	12919	6559	6360	13187	6715	6472	13157	6937	6220
SELECTED CONDITION & INCOME DATA ($ in Millions)									
Total Assets	94340	42101	52239	92316	41302	51014	90765	41710	49055
Total Loans & Leases	62329	25940	36390	58623	24533	34090	52737	22847	29890
Other Real Estate Owned	21	12	8	29	20	9	45	25	21
Total Deposits	77410	35281	42130	77005	35371	41635	75808	35166	40642
Equity Capital	8666	3998	4668	7972	3635	4337	9802	4650	5152
Net Income (year-to-date)	734	460	274	1036	452	585	1053	484	569
Net Interest Income	2716	1333	1384	2713	1276	1437	2526	1258	1267
Noninterest Income	651	231	420	687	243	443	809	273	536
Yield on Earning Assets	4.98	4.91	5.04	3.79	3.78	3.81	3.44	3.67	3.25
Cost of Funding Earning Assets	1.83	1.43	2.15	0.58	0.45	0.7	0.37	0.34	0.4
Net Interest Margin	3.15	3.48	2.89	3.21	3.33	3.11	3.07	3.33	2.85
Noninterest Income to Average Assets	0.7	0.57	0.82	0.76	0.6	0.89	0.92	0.68	1.13
Noninterest Expense to Average Assets	2.38	2.47	2.31	2.34	2.39	2.31	2.39	2.41	2.37
Return on Assets	0.8	1.13	0.53	1.15	1.11	1.18	1.2	1.21	1.2
Return on Equity	9.02	12.39	6.2	12.26	11.71	12.72	10.92	10.56	11.25
Nonperforming Assets to Total Assets	0.3	0.32	0.28	0.27	0.34	0.21	0.39	0.46	0.33
Leverage (Core Capital) Ratio	10.53	11.27	9.94	10.45	11.14	9.92	10.49	10.83	10.2

0* - Rounds to zero.

Source: Call Report and Thrift Financial Report
Prepared by the FDIC-Division of Insurance and Research