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February 7, 2025

The Honorable Nick Hoheisel, Chairperson
House Committee on Financial Institutions and Pensions
300 SW 10th Avenue, Room 582-N
Topeka, Kansas 66612

Dear Representative Hoheisel:

SUBJECT: Fiscal Note for HB 2152 by House Committee on Financial Institutions and Pensions

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2152 is respectfully submitted to your committee.

Current law requires governmental units, which include the state, counties, municipalities, or other political subdivisions to obtain security for deposits of public moneys deposited in a bank, savings and loan association, or savings bank. On or after January 1, 2026, HB 2152 would authorize governmental units to utilize a public moneys pooled method of securities to secure the deposit of public moneys in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC). "Public moneys" include moneys coming into the custody of any municipality, public corporation, the state, or any political subdivision authorized to collect or receive the moneys. The bill would define "public money's pooled method" or "pool of securities" as shares of investment companies registered under the federal Investment Company Act of 1940 when the investment company's assets are limited to obligations that are eligible for investment by the bank, savings and loan association, or savings. As an alternative to the requirements to secure the deposit of public moneys in excess of the amount insured or guaranteed by the FDIC, a bank, savings and loan association, or savings bank designated as a public depositary could secure the deposits of one or more governmental units by depositing, pledging, or granting a security interest in a pool of securities to secure the repayment of all public moneys deposited in such bank, savings and loan association, or savings bank and not otherwise secured, if at all times the aggregate market value of such pool of securities deposited, pledged, or in which a security interest is granted is equal to at least 102.0 percent of the amount on deposit that is in excess of the amount so insured or guaranteed. Each bank, savings and loan association, or savings bank would be required to carry on such bank's or association's accounting records an accounting of the total amount of all public moneys to be secured by the pool of securities as determined at the opening of each business day and the aggregate market value of the pool of securities deposited, pledged or in which a security interest is granted to secure such public moneys.

The State Treasurer would establish procedures for using the public money's pooled method. The Treasurer would be authorized to serve as the Administrator or designate a bank, savings and loan association, savings bank, trust company, or other qualified firm, corporation, or association to serve as the Administrator of the public money's pooled method. The Administrator's fees and expenses would be paid by the bank, savings and loan association, or savings bank utilizing the public moneys pooled method. The public moneys pooled method could not be used unless the Treasurer has designated an Administrator or established a public moneys pooled method in accordance with the bill's provisions.

If the Treasurer determined a bank, savings and loan association, or savings bank has experienced a default, the Treasurer would ascertain aggregate amounts of public moneys secured and deposited in the defaulted bank, savings and loan association, or savings bank. The Treasurer would determine for each governmental unit that had deposits in the defaulted bank, savings and loan association, or savings bank the accounts and amount of federal deposit insurance or guarantee available for each account. The Treasurer would then determine for each governmental unit the amount of public moneys not insured or guaranteed by the FDIC and the amount of public moneys secured by a pool of securities pledged, deposited, or in which a security interest has been granted to secure such public moneys. After completing that determination, the Treasurer would provide each governmental unit with a statement that reports the amount of public moneys deposited by the governmental unit in the defaulting bank, savings and loan association, or savings bank, the amount of public moneys that could be insured or guaranteed by the FDIC, and amount of public moneys secured by a pool of securities or any combination. The Treasurer would repay each governmental unit for the public moneys not insured or guaranteed by the FDIC deposited in the defaulted bank, savings and loan association, or savings bank. If the amount of the proceeds held by the Treasurer after liquidation is insufficient to cover all public moneys not insured or guaranteed by the FDIC, the Treasurer would pay out amounts pro rata to each governmental unit. If a federal deposit insurance agency is appointed and acts as a liquidator or receiver of any bank, savings and loan association, or savings bank under state or federal law, the duties of the Treasurer in the event of a default could be delegated to the FDIC.

The bill also would amend the Kansas Banking Code regarding the deposit of public moneys. The bill would prohibit investment advisers that execute bids for the investment of public moneys from engaging in a principal transaction with a governmental unit directly related to such public moneys. Current law allows municipalities to invest excess funds with the Pooled Money Investment Board (PMIB) if local banks do not bid adequate rates. The bill would allow municipalities to invest those funds in interest-bearing time deposits in commercial banks at a rate agreed upon by the municipality and the eligible institution. The bill would also provide that investments of excess funds authorized in current law would only be utilized if the banks, savings and loan associations, and savings banks eligible to receive investments would not be able to make the authorized investments at an interest rate equal to or greater than the investment rate set and published by the PMIB. The bill also would add the requirement that municipal investment pool funds be accompanied with a certification to prove compliance with current law and a listing of the financial institutions from which the governmental unit requested bids in the preceding year. If an eligible financial institution has good faith reason to believe that a governmental unit has not acted in compliance with municipal investment pool fund requirements, the eligible financial institution could file a written complaint with the State Treasurer submitted in the form required by the State Treasurer.

In addition, under current law, the PMIB accepts requests from banks interested in obtaining investment accounts of state moneys. The PMIB is authorized to award the investment account to the requesting bank at the investment rate determined each business day by PMIB at an interest rate up to 2.0 percent less than the market rate. The bill would set the maximum dollar amount invested in any one bank not to exceed 2.5 percent of the bank's certificate of deposit program. The bill also includes technical changes to existing statutes.

Estimated State Fiscal Effect			
	FY 2025	FY 2026	FY 2027
Expenditures			
State General Fund	--	$250,301	$129,301
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Expenditures	--	$250,301	$129,301
Revenues			
State General Fund	--	($5,750,000)	($11,500,000)
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Revenues	--	($5,750,000)	($11,500,000)
FTE Positions	--	1.00	1.00

Under HB 2152, the State Treasurer would be the Administrator or would be authorized to designate an Administrator to manage a public moneys pooled method of securities. The expenses and fees associated with administering the public moneys pooled method would be paid by the banks, savings and loan association, or savings bank utilizing the public moneys pooled method. If the State Treasurer serves as the Administrator, the cost of administration and associated fee revenue would be included in the agency's budget. The agency would also be responsible for monitoring defaults by financial institutions and coordinating with governmental units with respect to public moneys deposited with the defaulting bank, including liquidating securities and repaying governmental units for public moneys out of the proceeds. The agency would also collect complaints from regarding noncompliance with statutory deposit requirements. The agency is unable to estimate the cost of administration and associated fee revenue. However, in the long-term, the agency states that fee revenue would offset the cost of administration.

In addition, the other duties in connection with the pool could not be delegated. The agency estimates that it would incur costs for initial development and implementation of the pool as well as ongoing costs to oversee any designated Administrator, provide information to pool participants, governmental units, PMIB and the public in connection with the pool. If an Administrator is designated there would be costs associated with contracting with the designee which would be incurred for initial implementation and periodically thereafter, depending on the term of the applicable contracts. As a result of investigating similar programs in other states, the agency estimates it would require at least 1.00 position at a cost of $129,301 for FY 2026 and $129,301 in FY 2027 from the State General Fund, which would provide for salary and wages and other operating costs. The position would be dedicated to the other duties explained above. The agency also would require $121,000 in FY 2026 from the State General Fund for initial consulting and other costs associated with initial implementation and contracting with a designated Administrator. The agency indicates other agency staff incur additional workload associated with initial pool implementation and initial and ongoing contracts with and oversight of any designated Administrator. The agency anticipates it would use existing resources for the additional workload.

The PMIB indicates HB 2152 would decrease State General Fund revenues by $5,750,000 in FY 2026 and by $11.5 million in FY 2027. The Board indicates the bill affects two of its programs, the Municipal Investment Pool (MIP) and the Bank CDs. The bill would decrease revenues in the MIP assuming that the lower statutory rate would allow banks to more successfully win bids on municipal deposits. As of December 31, 2024, the MIP had a balance of $1.0 billion. The Board assumes a 25.0 percent decrease in the MIP balance or $250.0 million. Currently, the MIP rate paid to municipalities is 0.5 percent lower than the statutory rate and 1.5 percent lower for overnight balances. The statutory rate roughly approximates the yield that the Board could earn if municipal deposits were invested in the portfolio. Therefore, any reduction in the MIP balances would reduce fee revenues for the Board and the State General Fund. Any fees collected by the Board that exceed its expenditures is transferred to the State General Fund monthly. The Board earns 1.0 percent on the deposits. This would result in a loss of $1,250,000 in FY 2026 ($250.0 million x 1.0 percent x six months) and loss of $2.5 million in FY 2027 ($250.0 million x 1.0 percent x 12 months) in State General Fund revenues from the MIP program.

The bill would also reduce the rate offered on Bank CDs which will reduce State General Fund revenues. Currently, the rate paid on Bank CDs is a market rate based on allowable investments for the Board. The bill would allow a reduction of this rate up to 2.0 percent below the current rate. The Board assumes the lower rate offered would increase the demand for Bank CDs which will result in more of the Board's assets being invested at rates that are lower than what could otherwise be invested in the market. In its analysis, the Board also assumes it would achieve an average of 10.0 percent of its portfolio in Bank CDs. A constant portfolio balance of $9.0 billion is assumed resulting in a Bank CD balance of $900.0 million. ($9.0 billion x 10.0 percent). The bill would allow the Board a spread at up to 2.0 percent. The Board assumes 1.0 percent in its analysis. It is estimated the bill would reduce State General Fund revenues by $4.5 million in FY 2026 ($900.0 million x 1.0 percent x six months) and by $9.0 million in FY 2027 ($900.0 million x 1.0 percent x 12 months). This analysis only details the impact to the PMIB and does not consider any potential benefits that may be realized from money deposited in local banks.

The Office of the State Bank Commissioner indicates the bill would not have a fiscal effect on the agency's operations. Any fiscal effect associated with HB 2152 is not reflected in *The FY 2026 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate under HB 2152, local governments could receive lower rates on deposit funds which would reduce their revenues. However, the Association and the League are unable to estimate the fiscal effect.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: John Hedges, Office of the State Treasurer
Joel Oliver, Pooled Money Investment Board
Jesse Becker, Office of the State Bank Commissioner
Jay Hall, Kansas Association of Counties
Wendi Stark, League of Kansas Municipalities