



April 29, 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 2281 by House Committee on Financial Institutions and Pensions

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2281 is respectfully submitted to your committee.

HB 2281 would establish the Kanbucks Program which would provide an incentive for banks, credit unions, and farm credit institutions to make loans to eligible borrowers. The State Treasurer would direct the Pooled Money Investment Board (PMIB) to deposit up to 5.0 percent of the Pooled Money Investment Portfolio to invest in linked deposits with eligible financial institutions, which then provide loans to qualified borrowers at an interest rate that is 2.0 percent below the market rate with a minimum interest rate of 0.25 percent. No single linked deposit loan to an eligible borrower for agricultural production or business purposes would exceed \$2.5 million. The interest rate on the deposit would be recalculated on the first business day of January and July of each year. Housing loans are required to be amortized for a period within 15 years. The linked deposit loans would be used to support agricultural production, housing and adult care home construction or development, business purposes, and the extraordinary natural gas costs incurred during the extreme winter weather event of February 2021. Eligible borrowers include farmers, housing developers, developers of not-for-profit adult care homes, commercial or agricultural businesses with not more than 200 full-time employees maintaining offices or operating facilities, and certain wholesale natural gas customers.

Eligible lenders would then make linked deposit loans with an interest rate that cannot be greater than 3.0 percent above the interest rate earned on the state's deposit of funds. The interest rate on the loan would also be recalculated on the first business day of January of each year and the term of the loan could not exceed ten years. The eligible lender would be required to apply all

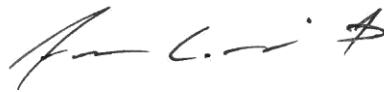
usual lending standards to determine the creditworthiness of eligible borrowers. Eligible borrowers would be required to certify on the loan application that the reduced rate loan would be used for an eligible purpose. Prior to completing the loan request, the State Treasurer would evaluate each loan to determine if it qualifies for this program. If sufficient funds are not available for this program, then the applications would be considered in the order received when funds are once again available. The State of Kansas and the State Treasurer would not be liable to any eligible lending institution in any manner for payment of the principal or interest on any loan. The State Treasurer would have the authority to adopt rules and regulations to implement this program. The State Treasurer would be required to submit an annual report to the Governor and the Legislature identifying the status of the Kanbucks Program. The bill would repeal previous linked deposit programs and eliminate statutory references to these programs. Any outstanding linked deposit loans in existence on July 1, 2025, would be continued under the original terms of that linked deposit loan program.

The PMIB indicates that HB 2281 has the potential to decrease revenues earned in the Pooled Money Investment Portfolio by \$5.4 million in FY 2026 and by \$8.1 million in FY 2027. This would reduce the interest earned from state funds that are allowed to retain interest, including the State General Fund, State Highway Fund, Budget Stabilization Fund, etc. The bill would reduce the rate earned on investments which would reduce the state's earning potential. Currently, the rate earned on investments is a market rate based on allowable investments for the PMIB. The bill would allow a reduction of this rate to be 2.0 percent below the current rate on an annual basis. The PMIB assumes the lower rate offered would increase the demand for linked loans which would result in more of the PMIB's assets being invested at rates that are lower than what could otherwise be invested in the market. In its analysis, the PMIB assumes it would achieve an average of 3.0 percent of its portfolio invested in linked loans in FY 2026 and 4.5 percent in FY 2027. A constant portfolio balance of \$9.0 billion is estimated to result in an increase linked loan balance of \$270.0 million in FY 2026 (\$9.0 billion x 3.0 percent) and \$405.0 million in FY 2027 (\$9.0 billion x 4.5 percent). It is estimated the bill would reduce revenues by \$5.4 million in FY 2026 (\$270.0 million x 2.0 percent) and by \$8.1 million in FY 2027 (\$405.0 million x 2.0 percent). This analysis only details the impact on the PMIB and does not consider any potential benefits that may be realized from money deposited in local financial institutions.

The bill would require the State Treasurer to review and approve loan deposit applications from financial institutions and to coordinate with the PMIB to place approved linked deposits. Similar linked loan deposit programs exist under current law; however, with the incentive that state's investment would earn 2.0 percent below the market rate, and the removal of some existing eligibility qualifications applicable to current loan deposit programs, it is estimated that additional financial institutions would participate in these retooled programs. The State Treasurer indicates that, in general, the same processes and procedures that are currently in place for the existing link deposit programs would be used to administer these retooled programs. The security of idle fund balances deposited at eligible financial institutions would be maintained by requiring that the lending institution underwrite these loans. In addition, the State of Kansas and the State Treasurer would not be liable if any borrower defaults on a loan. Implementing the bill would require resolution of a number of technical issues and required clarifications, which would impose an initial administrative and rule-making burden; however, the State Treasurer anticipates that the

initial implementation work would be accommodated using existing resources. On an ongoing basis, the bill would require the State Treasurer to hire 1.00 new FTE position to coordinate with an increased number of potential and actual financial institution participants, and to assist with the administration of the new Kanbucks program. The State Treasurer estimates that ongoing expenses for salaries and wages for the 1.00 FTE position and overhead expenses would total \$114,200 from the State Treasurer Operating Fund in FY 2026. Any fiscal effect associated with HB 2281 is not reflected in *The FY 2026 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt", followed by a stylized flourish or symbol.

Adam C. Proffitt
Director of the Budget

cc: John Hedges, Office of the State Treasurer
Joel Oliver, Pooled Money Investment Board