

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

The meeting was called to order by Chairman Ruth Teichman at 9:30 A.M. on February 9, 2006 in Room 234-N of the Capitol.

All members were present except:

Senator Jim Barone - excused

Committee staff present:

Melissa Calderwood, Kansas Legislative Research Department

Terri Weber, Kansas Legislative Research Department

Ken Wilke, Office of Revisor of Statutes

Bev Beam, Committee Secretary

Conferees appearing before the committee:

Dr. John Wong, Wichita State University

Doug Wareham, KBA

Others attending:

See attached list.

The Chair called the meeting to order and welcomed all those in attendance.

The Chair opened the hearing on (**SB 264**).

Doug Wareham, Kansas Bankers' Association, introduced Dr. John Wong. Mr. Wareham said in 1995, Dr. Wong served on the Kansas Governor's Tax Equity Task Force as a consultant on the distributional impact of tax reform and the effect of taxation on economic development. Mr. Wareham said Dr. Wong is presently the principal author of the annual Governor's Economic and Demographic Report.

The Chair welcomed Dr. Wong.

Dr. Wong said the chief advantage to placing the deposits in the Kansas financial institutions is that the funds are more likely to be placed with Kansas borrowers, providing financing for investment projects or education.

Dr. Wong said the bottom line is that Kansas borrowers will add to the state's capital stock and therefore to economic activity and income. By increasing the tax base, it is possible that switching local government funds from out-of-state investments to Kansas financial institutions can result in an increase in economic activity, income and tax revenues.

The key to understanding the issue of removing public deposits from local financial institutions is not the precise value of the impact, but the significance of the loss of financial resources from the community as a whole, he said. He continued that allowing local governments to move their funds to out-of-state investments will generally result in fewer local economic development opportunities, reduced income, and lower tax revenues for local governments and the state as a whole. He said an increase in economic activity and/or tax revenues could occur despite the fact that the out-of-state investments offer a higher yield on local government funds than Kansas Deposits.

If Kansas financial institutions offer too low an interest rate on local government funds, that is, if the interest-rate differential is too large, then local governments would maximize their general fund revenues by placing funds in the out-of-state investments. He added if the interest rate differential is small, the gains from higher tax receipts would more than offset the foregone interest income and the local government's general fund revenues would be higher if they deposited their funds into Kansas financial institutions. It should be remembered that deposits into Kansas financial institutions result in an increase in the state's capital stock, translating into increased economic activity and incomes.

CONTINUATION SHEET

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on February 9, 2006 in Room 234-N of the Capitol.

It should also be kept in mind that although permitting local governments to place deposits outside of the county, but within the state, would only have a nominal effect on the state as a whole, the impact on the county itself would be much more significant. For the individual county, it is immaterial whether the funds are lost to another location in Kansas or out of state, he said. The significance of the loss of financial resources on the community would be essentially the same. The impact of the loss in rural areas would be magnified by the fact that it would be much more difficult for borrowers in these areas to secure alternative resources, especially for agricultural and small business purposes, because of the lack of interest or expertise of lenders outside of the local market.

Dr. Wong said he does not purport to recommend appropriate policies for the Kansas Bankers' Association nor the Community Bankers' Association of Kansas. The purpose of the report, he said, is to provide background, data, and analysis that may provide a basis for discussion in the development of policies for the state as a whole. (Attachment 1)

The Chair brought (**SB 264**) before the committee. She said there was a group who worked during the summer on a compromise. The Chair said it was her intention to gut (**SB 264**) and put in the language that has been agreed to by banks and municipalities. She called on Doug Wareham, Kansas Bankers Association, to testify on the proposed language to put into (**SB 264**).

Doug Wareham said bankers realize this is an issue that has been around for a long time and we pledged at the end of last year's session when (**SB 264**) was sitting in this committee that we would try to identify a solution to address the concerns of the Association of Counties, League of Municipalities and other lobbyists who represent local governments. I am happy to report to you that we believe we have accomplished that task. We did have a meeting, a stakeholders' forum is what we called it, with everyone we could identify from the local government lobby and those of us on the financial institutions side, so we do appreciate the fact that there are other factors in play, including service, competition, and population demographics. After that stakeholders forum, our state affairs committee developed a compromise proposal that was subsequently unanimously approved by our Board of Directors and our governing board. The new language we are proposing as an alternative to (**SB 264**) would allow out of state financial institutions to bid on local funds wherever they have a branch location in the taxing district that has the funds to bid. It was not easy to change a position we have had for 60 years, but we understand that times do change and there are different needs for urban or rural areas of our state, Mr. Wareham said.

The Chair asked for comments from Judy Moler, KAC. She said she just wanted to thank the Bankers' Association for their work in bringing us together last summer and for the results of that work.

Don Mohler said we also would like to thank KBA for the work they have done. The League supports the proposed new version of (**SB 264**) and will be testifying in support of it at the appropriate time.

Jim Edwards, School Board Association. We have reviewed it and appreciate KBA's work on (**SB 264**).

The Chair asked Ken Wilke for an overview of amended (**SB 264**)

Mr. Wilke pointed out to the Committee and those in attendance the changes made to (**SB 264**). (Attachment 2)

Senator Brownlee moved to make this a substitute bill. Senator Barnett seconded the motion. Motion passed.

The Chair said the hearing was closed on (**SB 264**).

The Chair announced the F I & I Committee would meet again on Monday, February 13.

The meeting adjourned at 10:30 a.m.