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March 28, 2024

The Honorable Adam Smith, Chairperson
House Committee on Taxation
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2840 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2840 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. HB 2840 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 bank and limited by the prospectuses of owning securities listed in KSA 9-1402(c). 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 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.

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 such 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 federal deposit insurance agency. The bill also includes technical changes to existing statutes.

| Estimated State Fiscal Effect | | | |
|---|---|---|---|
| | FY 2024 | FY 2025 | FY 2026 |
| Expenditures | | | |
| State General Fund | -- | $124,600 | $120,000 |
| Fee Fund(s) | -- | -- | -- |
| Federal Fund | -- | -- | -- |
| Total Expenditures | -- | $124,600 | $120,000 |
| Revenues | | | |
| State General Fund | -- | -- | -- |
| Fee Fund(s) | -- | -- | -- |
| Federal Fund | -- | -- | -- |
| Total Revenues | -- | -- | -- |
| FTE Positions | -- | 1.00 | 1.00 |

The State Treasurer indicates it would require 1.00 Program Director FTE position at a total cost of $124,600 in FY 2025 and $120,000 in FY 2026 from the State General Fund, which would provide salaries and wages and other one-time operating costs. The position would be responsible for designating a qualified entity to serve as administrator of the public moneys pooled method, monitoring financial institutions for defaults, and accounting for deposits and secured amounts following a default and other administrative work.

The Office of the State Bank Commissioner indicates there are many options for state banks to pledge securities for state and local government funds that exceed FDIC insurance coverage. Only one option, pledging revenue bonds requires a $200 application fee, which is deposited into the Bank Commissioner Fee Fund. The Office has only received one such application in the last three years. If there were a reduction in revenue bond applications, the reduction in fee revenues would be negligible. The agency is allowed to increase bank assessments if the Office decides it is necessary to cancel out any loss in fee revenues because of a reduction in revenue bond applications.

In addition, HB 2840 would not have a fiscal effect on the Department of Credit Unions because credit unions are not authorized to accept public funds. Any fiscal effect associated with HB 2840 is not reflected in *The FY 2025 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate HB 2840 could have a fiscal effect. However, the Association and the League are unable to estimate the fiscal effect on the counties and cities.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: John Hedges, Office of the State Treasurer
Barbara Albright, Office of the State Bank Commissioner
Julie Murray, Department of Credit Unions
Jay Hall, Kansas Association of Counties
Wendi Stark, League of Kansas Municipalities
Bobbi Mariani, Insurance Department