

MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE

The meeting was called to order by Chairman Ray Cox at 3:30 P.M. on March 13, 2006 in Room 527-S of the Capitol.

All members were present except:

Bob Grant- excused

Committee staff present:

Melissa Calderwood, Kansas Legislative Research Department

Reagan Cussimano, Kansas Legislative Research Department

Bruce Kinzie, Revisor of Statutes Office

Patti Magathan, Committee Secretary

Conferees appearing before the committee:

Senator Dennis Wilson

Kent Needham - First State Bank & Trust of Tonganoxie

Dave Brownback - Citizens State Bank & Trust of Ellsworth

Doug Wareham - Kansas Bankers Association

Terry Neher - U.S. Bank of Topeka

Chuck Henry - Kansas County Treasurer's Association

Erik Sartorius - City of Overland Park

Sandy Jacquot - League of Ks. Municipalities

Tom Robbens - Johnson Co. Government

Jim Edward - Ks. Association of School Boards

Randall Allen - Ks. Association of Counties

John Fowler - First State Bank, Burlingame

Kathy Strunk - Community Banker's Association

Steve Handke - Union State Bank,

Representative Shari Webber

Matt Goddard - Heartland Banker's Association

Others attending:

See attached list.

Chairman Cox called the meeting to order and opened hearings on **SB 495-Credit union administrator; term of office.**

Melissa Calderwood, Kansas Legislative Research Department stated that this is a technical bill. She reported that the previous three administrators have left the position at varying times leaving some confusion regarding the term of office. This bill defines the term of office.

Chairman Cox asked if there were questions. There were none. He closed the hearing and asked for motions. **Representative Brunk made a motion to pass out this bill favorably with a recommendation to place it on consent calendar.** **Representative Olson** seconded the motion. Motion passed.

Chairman Cox opened the hearing for **Substitute SB264-Municipalities; deposit of public funds** and announced that testimony should be limited to four minutes and questions will be held after everyone has testified.

Proponents testifying:

Kent Needham, President First State Bank & Trust Tonganoxie stated that as a banker and as the past president of the Kansas Banker's Association (K.B.A) he supports **substitute SB 264**. The bill's impact on the banking industry and the communities they serve has been thoroughly reviewed by the KBA. They feel that the bill gives governmental entities a choice for investing idle funds while keeping the money locally invested. **(Attachment 1)**

David Brownback, President of Citizens State Bank & Trust Co., of Ellsworth, Ks. Testified that it is very important that Kansas maintain a public funds investment policy that encourages economic growth

CONTINUATION SHEET

MINUTES OF THE House Financial Institutions Committee at 3:30 P.M. on March 13, 2006 in Room 527-S of the Capitol.

while also meeting the investment and service needs of local government bodies. Mr Brownback stated that his bank loans approximately 70% of it's deposits to locals residents and businesses. Public funds allow his bank to meet the local demand of their customers. **(Attachment 2)**

Doug Wareham of the Kansas Banker's Association (K.B.A) stated that the K.B.A. believes that investing public funds back into the local community is the best policy for Kansas as a whole, while also recognizing that there are other factors effecting the investment needs of some local governments including service, competition and community demographics. Mr. Wareham provided a county map of Kansas which identifies the counties in Kansas that currently have an out-of-state bank or savings & loan within its boundary. In addition, there are two federal laws in place that require financial institutions headquartered elsewhere to maintain minimum loan-to-deposit ratios when operating branch offices in the state of Kansas. (The community Reinvestment act of 1977 and the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994) Mr. Wareham also provided each committee member with a study "How Public Funds Investment Policy Impacts the Kansas Economy" by John D. Wong, J.D., Ph.D. This study is on file with the Kansas Bankers Association. **(Attachment 3)**

Terry Neher, Senior Vice President, U.S. Bank, N.A. Topeka said that diligence and fiduciary responsibility of our municipalities to maximize the use and safety of our tax dollars is important. With passage of this legislation municipalities will have options for maximizing their investments. **(Attachment 4)**

Chuck Henry representing the Kansas County Treasurers Association and the Unified Government of Wyandotte County/Kansas City, Ks. Said that he offers strong support for **substitute Senate Bill 264**. Mr. Henry said that most counties will still only have the choice of a state chartered bank, however in a more urban location such as he represents there are many choices of non state chartered banks. These non-state chartered banks employ many people, pay property taxes, handle deposits and loans for many residents and businesses, and make considerable charitable donations to the community. **(Attachment 5)**

Erik Sartorius of the City of Overland Park said they believe this substitute legislation is a fair compromise for cities, financial institutions, and taxpayers. The global economy has greatly reduced the number of state-chartered institutions in the financial services industry. Allowing cities to work with nationally chartered financial institutions will increase competition and maximize interest earnings for the use of taxpayer dollars. **(Attachment 6)**

Sandy Jacquot, Director of Law/General Counsel of League of Kansas Municipalities testified in strong support of **Substitute SB 264**. She said that this legislation will be beneficial for both large and small cities and their taxpayers. It reintroduces competition into the state banking market and allows local units to maximize the return on the public's tax dollar without impacting the safety of the public's money. **(Attachment 7)**

Senator Dennis Wilson testified that current law limits the options of large counties since they usually only get one or two responses on bids requests. This bill protects small counties and helps large counties.

Tom Robben of Johnson County presented a paper prepared by Thomas G. Franzen Director of Financial Management with Johnson County. Mr. Robben stated that **Substitute SB 264** would be beneficial to taxpayers by stimulating competition. He explained that financial institutions compete primarily on cost and service. Without sufficient competition, cost increases could be more prevalent, while service levels could decline. **(Attachment 8)**

Jim Edward of the Kansas Association of School Boards said that they believe that school boards should have the opportunity to invest their idle funds where they can get the best interest rates while also protecting local economies. **Substitute SB 264** provides freedom to local boards, commissions and councils to invest the \$8.1 billion available for investment by local units of governments. **(Attachment 9)**

Randall Allen, Executive Director of Kansas Association of Counties said that the current law adversely affects those counties with very large fund balances in that there are fewer banks which can

CONTINUATION SHEET

MINUTES OF THE House Financial Institutions Committee at 3:30 P.M. on March 13, 2006 in Room 527-S of the Capitol.

collateralize their deposits and service their needs. He stated that they believe in many cases throughout Kansas we suspect that no significant changes will be made in where the funds are deposited. However, for purposes of granting county decision makers the right to place county funds where they will have the best return on their deposits, they think **Substitute SB 264** is good public policy. **(Attachment 10)**

Opponents Testifying:

John Fowler, President First State Bank of Burlingame said that he is keenly aware of the symbiotic relationship between small community banks and the communities they serve. He said that his primary and foremost concern in regard to the deposit of public monies is that they benefit the public that paid the taxes to create them. He cited Dr. John Wong, author of a study commissioned by the KBA and Community Banker's Association, as saying that there would be no way a public fund unit could earn sufficient additional revenue from investment outside the community or local economy to overcome the loss of the benefit of those funds staying within that local economy. **(Attachment 11)**

Kathy Patton Strunk, Governmental Relations with Community Bankers Association (C.B.A.), said that the C.B.A. supports current Public Funds Law. Kansas tax dollars generated from local jurisdictions should remain at work in their area to be reinvested through loans to local citizens. This is simply a main street Kansas issue. **(Attachment 12)**

Steve Handke, member of the Community Bankers Association of Kansas, said that he is here as a concerned Kansan to oppose a piece of legislation that would be bad public economic policy for Kansas. This issue has been divided mostly by urban vs. rural sentiments, however, sound economic principals apply equally in city or rural markets. Public fund deposits account for 10-12% of statewide deposits This is a huge amount of money that commands a considerable economic power. It is good economic policy for both cities and rural areas to use Kansas funds in Kansas by requiring a Kansas charter or home office for all public funds holders. **(Attachment 13)**

Representative Shari Webber - spoke as a colleague and stated that she is adamantly opposed to changing the way idle public funds are invested in Kansas. Keeping local funds for local development is crucial to the state's economic well-being. She cited a study done in Missouri last year that proved their out-of-state investments for the past decade resulted in less capital accumulation and a lower state Gross Domestic Product. Local entities have options today for investment direction. In addition to their local bank, they have access to the State Municipal Investment Pool (M.I.P.) **(Attachment 14)**

Neutral Testifier:

Matthew Goddard of Heartland Community Bankers Association said that Substitute **SB 264** proposes a change for a long-time position on public fund investment. He supports the bill as being a good compromise for units of government to get a greater return on their money versus the need to support Kansas-based financial institutions. Heartland Community Bankers Association remains concerned regarding some of the processes, specifically, that they are being left out of the bid process in some instances. **(Attachment 15)**

In addition, written testimony was provided by:

Joe Lang - Proponent - City of Wichita
Dennis Schwartz - Proponent - Kansas Rural Water Association
Dan Coup - Proponent - President Community Banker's Association
Chuck Rowland - Opponent - Community Banker's Association
Thad Geiger - Opponent - Community Banker's Association
Frank Suellentrop - Opponent - Legacy Bank Wichita
Brian Vaubel - Opponent - St Mary's Bank
(Attachments 16-22)

At the conclusion of testimony Chairman Cox opened the floor for questions.

CONTINUATION SHEET

MINUTES OF THE House Financial Institutions Committee at 3:30 P.M. on March 13, 2006 in Room 527-S of the Capitol.

There were many questions including some regarding percentage investment of deposits, monitoring of existing public funds, and clarification as to what a branch bank is.

Following questions **Chairman Cox** asked for discussion. There was none. He then asked for amendments. **Representative Burroughs** made a motion to pass **Substitute SB 264** favorable. Motion was seconded by **Representative George.**

Representative Vickery offered an amendment that any branch that has an entrance thru another is business is excluded. There was no second.

Original motion passed with one dissenting.

Next meeting will be March 15 to hear **HB3003** and **HB 3008** on Identity Theft.

Meeting was adjourned at 5:15.