

SESSION OF 2009

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2185

As Amended by Senate Committee of the Whole

Brief*

HB 2185, as amended, would amend laws governing the reciprocal deposits of invested local and state funds. Specifically, the bill would amend a provision in the banking code governing the deposit of public moneys, a provision in the law governing the idle investments of counties, cities, school districts, and other entities specified, and a law governing the deposit of state moneys by the director of investments (the Pooled Money Investment Board) to provide that public moneys or funds deposited through a selected bank, savings and loan association or savings bank which participates in a reciprocal deposit program would not be treated as securities and would not need to be secured. Such participating bank would receive reciprocal deposits from other participating institutions located in the U.S. in an amount equal to the amount of funds deposited by the municipal corporation or quasi-municipal corporation and the total cumulative amount of each deposit could not exceed the maximum deposit insurance amount for one depositor at one financial institution, as determined by the FDIC (Federal Deposit Insurance Corporation).

The law governing the deposit of public moneys at the investment rate (established in KSA 12-1675a) or a rate exceeding the investment rate would be amended by the bill to specify that, if no local financial institution qualifies for deposit for the local unit (unable to make a deposit at a rate equal to or greater than the investment rate), the unit may select one or more eligible banks, savings and loan associations, and savings banks which have offices in all or a part of the investing unit's county (or counties) which will make the deposit at or

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

greater than the investment rate. Under current law, the investing governmental unit must select one or more of the eligible institutions in its representative county or counties.

Additionally, the reciprocal deposits, the bill provides, are not to be treated as securities and would not need to be secured as provided in this act or any other act, except when the deposits are secured as provided in KSA 75-4218, when they are held by a designated financial institution prior to placement with reciprocal institutions or upon maturity.

Background

The bill was introduced by the House Committee on Financial Institutions at the request of the Kansas Bankers Association whose representative indicated that the bill would codify two Attorney General's opinions regarding the utilization of Reciprocal Deposit Programs for local and state public fund deposits in Kansas. The representative further noted that use of the CDARS reciprocal program has increased dramatically in recent months largely because of the loss of excess deposit insurance as a viable option for banks seeking to insure and protect private and public depositors with deposit amounts that exceed the \$250,000 FDIC insurance limit. Additional proponents of the bill at the time of the Committee hearing included the State Treasurer, the Bank Commissioner, the Promontory Interfinancial Network, the Heartland Community Bankers Association, and the Johnson County Treasurer. The Director of Investments for the PMIB offered neutral testimony on the bill. There were no opponents at the time of the Committee hearing.

The representative of the Promontory Interfinancial Network provided an overview of the CDARS program (Certificate of Deposit Account Registry Service), a deposit placement service, which allows, according to the representative, participating financial institutions to offer a competitive rate to the Public Unit Depositor regardless of what other banks are paying within the network.

The House Committee on Financial Institutions recommended amendments to the bill to clarify the securitization of the state deposits and to authorize the PMIB to establish procedures in its Investment Policy which will govern the administration of reciprocal deposit programs. The balloon amendment was requested by the Kansas Bankers Association and addresses concerns specific to the original bill that were stated by the State Treasurer, the Director of Investments and the Johnson County Treasurer.

The Senate Committee of the Whole amended a provision governing the deposits of local governmental units and the established investment rate (subsection (g) of KSA 12-1675a).

The fiscal note prepared by the Division of the Budget on the original version of the bill states that the Pooled Money Investment Board (PMIB) estimates that passage of the bill would require increased staff time to develop new documents and operating procedures; however, any costs could be handled within existing resources. The Board indicates that as of January 31, 2009, the agency has \$183,515,000 invested in certificates of deposits with Kansas banks. According to the Office of the State Bank Commissioner, enactment of the bill would have no fiscal effect on the agency.