

REVENUE: No revenue impact

FISCAL: Fiscal statement issued

Action:	Do Pass as Amended and Be Printed Engrossed and Rescind the Subsequent Referral to the Committee on Ways and Means
Vote:	4 - 0 - 3
Yeas:	Edwards C., Rosenbaum, Smith P., Schaufler
Nays:	0
Exc.:	Berger, Esquivel, Holvey
Prepared By:	Theresa Van Winkle, Administrator
Meeting Dates:	3/28, 4/6

WHAT THE MEASURE DOES: Changes the collateralization procedures and requirements for deposits of public funds. Continuously appropriates certain moneys to State Treasurer for purposes of carrying out regulatory functions.

ISSUES DISCUSSED:

- Efforts behind developing the measure
- Collateralization process
- Liability for public officials and entities if estimates are miscalculated

EFFECT OF COMMITTEE AMENDMENT: Clarifies the intent of the measure.

BACKGROUND: Current law requires banks that accept public funds to provide protection of the funds through pledges of securities, called collateralization agreements, with the State Treasurer and a custodian bank. Public fund deposit accounts of up to \$100,000 may be held at any financial institution, as they are covered by federal insurance, but deposit accounts over \$100,000 may only be maintained at select financial institutions. A bank that takes public fund deposits must put up collateral for the excess amount of each deposit; the bank's collateral is usually equal to 25% of the total of public fund deposits that the bank has on deposit at any one time. Typically, there are fluctuations in a government entity's public fund deposit account due to normal activities such as depositing tax revenues and payroll expenses. Banks have to adjust their collateral levels on a regular basis in order to remain in compliance with the rule of maintaining 25% in deposits. If a bank fails to provide enough collateral for full payment of the deposits, the responsible local government official deposits may be held personally responsible for any shortfall.

HB 2901 A changes the collateralization system by establishing a virtual collateral pool amongst participating banks. If one bank in the collateral pool gets into any difficulty, its pledged collateral is used to satisfy the claims of public funds depositors; if additional collateral is needed, the balance of the claims is paid out of the remaining participating banks' pledged collateral on a pro-rata basis. Each participating bank is required to pledge collateral equal to a bank's maximum liability, which is a percentage of total average public funds held by the bank during the reporting cycle. The percentage depends on how well capitalized the bank is; percentages range from 10% for a "well capitalized" bank, 25% for an "adequately capitalized" bank, and 110% for an "undercapitalized" bank. An undercapitalized bank must also report its total of deposited public funds on a weekly basis.

The measure establishes that the total of deposited public funds from any one governmental entity cannot exceed the bank's net worth, and the total of deposits from all governmental entities cannot exceed 100% , 150%, or 200% of a bank's net worth, depending on whether they are undercapitalized, adequately capitalized, or well capitalized. All participating banks are required to file periodic reports with the State Treasurer, as well as any reductions of net worth of more than 10% or a capitalization rating change, or if a bank fails to pledge adequate collateral. Public officials are required to withdraw uninsured funds within 20 days after they receive notice from the Treasurer that their bank has failed to pledge adequate collateral. The State Treasurer can charge bank depositories for the reasonable expenses of managing the collateral pool program.

4/20/2007 10:15:00 AM

This summary has not been adopted or officially endorsed by action of the committee.