HB 1319

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 1319 (Delegate Conway)
Appropriations Budget and Taxation

Local Governments - Deposits of Unexpended or Surplus Money

This bill authorizes a local government to deposit public funds in any federal insured bank or savings and loan in excess of the $100,000 Federal Deposit Insurance Corporation (FDIC) insurance limit without the financial institution pledging collateral to secure the deposits as long as: (1) the financial institution arranges for the amount over the insurance limit to be further deposited into one or more certificates of deposit (CD) in other federally insured financial institutions; (2) each CD cannot exceed $100,000; (3) the CDs must be issued for the benefit of the local government; (4) the local government's financial institution must receive deposits from customers of the other financial institutions equal to the amount of money invested in the CDs; and (5) the local government's financial institution acts as custodian for the local government with respect to the CDs.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: None.

Local Effect: Potential minimal increase in local government investment income. Local government expenditures would not be affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Local government deposits with financial institutions in excess of the $100,000 FDIC limit are required to be collateralized by the financial institution.

Background: The bill authorizes local governments to participate in a relatively new bank service called the Certificate of Deposit Account Registry Service (CDARS). This service, in essence, breaks up a customer's large deposit balances into smaller amounts of less than $100,000 and places those deposits at other banks within its network. The network can insure up to $10 million of a single customer's deposit. Advantages for a customer include maintaining one banking relationship, getting one interest rate at CD level which can be higher than other collateral alternatives, and receiving one consolidated bank statement. Banks pay a fee to participate in the network, but there is no fee to the customer.

Almost all states have laws requiring public deposits in excess of the $100,000 FDIC to be secured by collateral. However, many states have recently enacted legislation to allow participation in CDARS. Five states enacted legislation in 2004: Illinois, Missouri, Colorado, Nebraska, and South Dakota. Through legal interpretation, Kansas, New Hampshire, and Hawaii enabled its governments to use CDARS. At least 12 states have been able to use CDARS for investment of public funds under existing laws. Based on recent statistics, 25% of CDARS' use is for public funds.

Local Revenues: This bill could increase the investment income of local governments as a result of maintaining a relationship with one financial institution instead of several institutions. Presumably, a local government would be able to negotiate a better rate with one financial institution. It is assumed that any increase in investment income would be minimal. The City of Salisbury estimates that its interest income could increase by $40,000 annually which is based on a 0.25% increase in interest.

Small Business Effect: To the extent that this bill allows small banks without the means to collateralize a local government's deposits to retain or attract a local government as a customer, small banks will be positively impacted.

Additional Information

Prior Introductions: None.

Cross File: SB 774 (Senator Lawlah) – Budget and Taxation.

Information Source(s): Town of Bel Air, City of Salisbury, Cecil County, Harford County, Montgomery County, State Treasurer's Office, Department of Legislative Services

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Analysis by: Karen S. Benton

Direct Inquiries to:
(410) 946-5510
(301) 970-5510