

Department of Legislative Services  
 Maryland General Assembly  
 2007 Session

FISCAL AND POLICY NOTE

House Bill 897  
 Appropriations

(Delegate Elmore, *et al.*)

Financial Institutions - Designation as a State Lender

This bill authorizes a financial institution, within one year of losing its status as an approved financial institution, to request the Treasurer to designate it as a depository for State money or enter into an agreement with it for banking services (reinstatement of approved status). On July 1 of each year, the Treasurer must issue a request for proposal (RFP) in response to all requests made for reinstatement of approved status. A financial institution that has made a request for reinstatement of approved status has to receive a copy of the RFP for completion. A financial institution that has not made a reinstatement request may receive and complete the RFP if it contacts the Treasurer prior to July 1 and requests a copy of the RFP.

The bill takes effect July 1, 2007.

Fiscal Summary

**State Effect:** General fund expenditures could increase by approximately \$44,400 in FY 2008 to process additional procurements under the bill. Future years reflect annualization and inflation. Revenues would not be affected.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	44,400	54,500	57,500	60,600	63,900
Net Effect	(\$44,400)	(\$54,500)	(\$57,500)	(\$60,600)	(\$63,900)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** Potential minimal.

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## Analysis

**Current Law:** Subject to limitations in State procurement laws, the Treasurer may designate any financial institution as a depository for State money. For foreign banks, the Treasurer may only deposit the amount appropriated for conducting State activities outside the United States. State money on deposit must be secured by deposit insurance or collateral. The Governor must approve the designation of a depository institution. The Treasurer may make an agreement with a bank or trust company as to compensation for a banking service that may allow charges for the service or, instead of charges, allow the bank or trust company to earn compensation for its services under specified circumstances.

The Treasurer must give 15% of the weight of the decision to designate a depository for State money or to make an agreement for a banking service to the following considerations:

- whether the financial institution received a rating of “needs improvement” or “substantial noncompliance” in its most recent examination under the federal Community Reinvestment Act (CRA);
- Maryland-specific information in the CRA report if the institution operates outside the State;
- whether during the previous five years a court has found in a final adjudication that the institution has violated an antidiscrimination statute or regulation; and
- whether the institution has demonstrated that during the previous five years it has participated in specified activities with small and minority-owned businesses.

**Background:** In practice, when the Treasurer selects a financial institution to be a State depository or provide other State services, the Treasurer issues an RFP for a particular service or services based on the State’s current and future needs. An eligible institution must meet specified legal and regulatory requirements (*e.g.*, contract affidavits and minority business enterprise requirements). The RFP details the list of service requirements, including the disclosure of the institution’s customer service structure. The contract lasts three fiscal years and may be extended for two additional two-year renewal options, to be entered into at the Treasurer’s discretion.

An evaluation panel of 8 to 12 members is selected to review proposals. These members include representatives of the Treasurer’s Office, the Comptroller’s Office, and several user agencies. Proposals are evaluated based upon a rating matrix developed from

service requirements. Points are awarded, depending on the institution's ability to meet the specified requirements. Pricing (cost to the State from using a particular institution) is a significant factor in this process.

**State Expenditures:** The Treasurer currently handles procurements for depositaries, banking services, and excess insurance. The bill increases the frequency with which the Treasurer must handle procurements for depositaries and banking services. General fund expenditures could increase by an estimated \$44,377 in fiscal 2008, which accounts for a 90-day start-up delay. This estimate reflects the cost of one assistant procurement officer to process additional procurements under the bill. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	1
Salary and Fringe Benefits	\$39,629
Other Operating Expenses	<u>4,748</u>
<b>Total FY 2008 State Expenditures</b>	<b>\$44,377</b>

Future year expenditures reflect • a full salary with 4.5% annual increases and 3% employee turnover; and • 1% annual increases in ongoing operating expenses.

The bill is not expected to materially affect the cost of depositary or banking services.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland State Treasurer's Office; Department of Labor, Licensing, and Regulation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 18, 2007  
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