

SUBJECT: State depository banks and investment of state funds

COMMITTEE: Financial Institutions — committee substitute recommended

VOTE: 8 ayes — Averitt, Solomons, Denny, Elkins, Grusendorf, Marchant, Pitts, Juan Solis

0 nays

1 absent — Ehrhardt

WITNESSES: For — None

Against — None

On — Mike Doyle, Comptroller of Public Accounts

BACKGROUND: About 500 financial institutions in Texas are state depository banks in which the comptroller is authorized to deposit state funds. A bank, savings and loan institution, or credit union must meet certain financial standards to be approved as a state depository bank and must be rated favorably under the federal Community Reinvestment Act. These institutions must reapply and pay a \$25 application fee every two years. Current law lists ways that the comptroller may invest state funds not deposited in these banks, and this list does not include stocks and other equity investments.

The Legislature opted out of interstate branch banking last session. Since then, a court decision has cleared the way for Texas institutions to engage in interstate branch banking.

DIGEST: CSHB 1810 would amend the Government Code to clarify that the comptroller could hire outside investment managers to invest state funds using the “prudent person” standard if another state law required the funds to be invested in that manner. The bill would authorize the comptroller to waive the \$25 application fee for an institution to become a state depository bank. It also would make several technical amendments related to the application process and to enable state law to conform to interstate branch banking.

The bill would take effect September 1, 1999.

**SUPPORTERS
SAY:**

CSHB 1810 is a technical cleanup bill that would allow the comptroller to invest certain funds for a longer period and for a higher yield than achieved by most state funds. It also would make the process for becoming a state depository bank easier and would conform the state's deposit practices with interstate branch banking.

The bill would authorize the comptroller to use the "prudent person" standard to invest certain special trust funds in stocks and other equity investments, in addition to the list of permissible investments under Government Code, sec. 404.024. The "prudent person" standard applies only to special funds created by the Legislature that are authorized specifically by law to be invested through use of that standard. Since the Comptroller's Office has no historical experience with equity investments, the bill would allow the comptroller to contract with private professional money managers to ensure that the investments were prudent.

Making the \$25 application fee permissive would allow the comptroller to waive the fee for small banks in rural areas in which the state has only concentration accounts, not time deposits. State agency field offices use concentration accounts to deposit checks or cash, such as entry fees to a state park. These accounts are swept electronically into the Treasury the next day. Some rural financial institutions have complained that they make very little money off these accounts. Allowing the comptroller to waive this fee would provide incentives for small banks conveniently located near field offices to remain state depositories.

**OPPONENTS
SAY:**

No apparent opposition.

NOTES:

The companion bill, SB 719 by Lindsay, was reported favorably, with amendments, by the Senate Finance Committee on March 25 and was recommended for the Local and Uncontested Calendar. The committee substitute made several nonsubstantive, conforming changes to the original bill.