

SUBJECT: Deposit of certain public funds with federally insured financial institutions

COMMITTEE: Financial Institutions — committee substitute recommended

VOTE: 6 ayes — Solomons, Flynn, Anchia, Anderson, McCall, Orr

0 nays

1 absent — Chavez

WITNESSES: For — Karen Neeley, City Bank; Cory T. Newsom, City Bank-Texas;
Shannon Ratliff, Reserve Management Corporation

Against — None

BACKGROUND: Government Code, ch. 2256, subch. A, outlines the requirements governmental entities — including school boards, local governments, and state agencies — must meet in order to invest public funds. An investment must be covered by some form of investment security or have Federal Deposit Insurance Corporation (FDIC) coverage for the principal and any interest earned. A financial institution can cover only up to \$100,000 of funds from any governmental entity. To meet this requirement, governmental entities must either deposit funds at multiple institutions so that the full investment receives FDIC coverage or they must invest the funds at a single depository institution that collateralizes the full amount of the investment.

The 79th Legislature, in 2005, enacted HB 256 by Hopson, which amended the Government Code to allow governmental entities to deposit public funds that exceeded FDIC coverage in a certificate of deposit (CD) with a depository institutions that had a branch office in Texas. This allows governmental entities to secure funds without having to collateralize them. The depository institution distributes the funds from the CD across a network of other institutions into other CDs that receive full FDIC coverage. The governmental entity can draw upon these funds, but only at specific times, because a CD is a timed account and penalties are incurred when transactions occur outside of the designated time periods.

Insured deposit accounts, also known as demand accounts, give depositors the ability to immediately use and withdraw the funds without a penalty.

DIGEST:

CSHB 2709 would amend Government Code, sec. 2256.010 to allow governmental entities to deposit public funds in insured deposit accounts.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2007.