



Jana R. Vawter

Bill Analysis
Legislative Service Commission

H.B. 473
123rd General Assembly
(As Introduced)

Reps. Myers, Schuler, Allen, Jolivette, Hartnett, Clancy, Olman, Metzger, Distel

BILL SUMMARY

- Modifies collateral pledging requirements for public funds of political subdivisions or counties, including pledging requirements relating to the pooling of securities.
- Modifies investments eligible to be the subject of repurchase agreements invested in by political subdivisions and counties and appears to eliminate maturity requirements applicable to these agreements.
- Authorizes political subdivisions to retain the services of an investment advisor meeting certain requirements.
- Modifies when a county's board of county commissioners must meet to designate public depositories for certain public funds.
- Modifies the authority relating to presentment and payment of warrants by county treasurers.

CONTENT AND OPERATION

Public deposit collateral requirements

(secs. 135.18, 135.181, and 135.37)

Current law

Currently, prior to making a deposit of public funds in a public depository and as an alternative to pledging eligible securities as collateral, the Treasurer of State, treasurer or governing board of a political subdivision, or a county treasurer may require the public depository to deposit surety company bonds with that treasurer or board. These bonds must represent, when executed, any amount of

public funds to be deposited with that depository that are not insured by the Federal Deposit Insurance Corporation (FDIC) or another agency or instrumentality of the federal government.

Eligible *single* securities that may be pledged as collateral generally include (1) United States (U.S.) obligations, (2) bonds, notes, debentures, letters of credit, or other obligations or securities issued by U.S. government agencies or instrumentalities or the Export-Import Bank of Washington, (3) bonds and other obligations of Ohio, (4) bonds and other obligations of counties, townships, school districts, or other taxing subdivisions of Ohio meeting certain requirements, (5) bonds of other states meeting certain requirements, and (6) no-load money market mutual funds of U.S. government-related obligations or repurchase agreements secured by these obligations.

In lieu of these pledging requirements, existing law permits a *pool* of specified securities to be pledged for repayment of public fund amounts that exceed FDIC or other insurance amounts. If a *pool* of securities are pledged, the total amount pledged must equal 110% of the amount of public funds to be secured by the pool of securities, including amounts that are FDIC or otherwise insured. Relatedly, a public depository is authorized to substitute, exchange, or release eligible pooled securities if, as a result, the total value of the pooled, pledged securities is not less than 110% of the value of the public funds deposited with that public depository, including FDIC or other insurance amounts.

Eligible securities to be pooled generally are similar to eligible *single* securities that may be pledged. One exception is that current law also specifies that the amount pledged when pooling securities must be valued at face value or an amount based on face value. Another exception is that current pledging authority for pooling securities also includes (1) obligations of other states or specified subdivisions of other states if these obligations are secured by the holding in escrow of U.S. obligations secured by the full faith and credit of the U.S., (2) notes representing education loans insured or guaranteed by the U.S. government or a U.S. agency, department, or instrumentality, and (3) other obligations approved by the Treasurer of State at the value specified by the State Treasurer.

The bill

The bill eliminates the authority of the Treasurer of State, a treasurer or governing board of a political subdivision, or a county treasurer to *require* a public depository to deposit surety company bonds as collateral for public funds. However, the bill adds surety bonds issued by a corporate surety licensed and authorized to issue surety bonds pursuant to the Guaranty and Surety Law to the list of single securities that *may* be pledged as collateral for public deposits.

In addition, the bill eliminates the separate list of securities eligible to be pooled and pledged as collateral for public deposits of the state, a subdivision, or a county. Instead, the bill provides that the list of single securities specified in existing law as eligible for pledging, and surety bonds issued by corporate sureties eligible for pledging as authorized by the bill, also are eligible securities that may be pooled and pledged as collateral for these deposits.

Finally, the bill modifies the total value of securities that are pooled and pledged to require that the total value of the pooled securities and FDIC or other insurance equals 105% (rather than 110%) of the amount of public funds deposited with that public depository. Similarly, the bill provides that if pooled securities are substituted, exchanged, or released by a public depository, the total value of pooled, pledged securities must not be less than 105% (rather than 110%) of the amount of public funds deposited with that public depository, including FDIC or other insurance amounts.

Investment authority of subdivisions and counties

(secs. 135.14 and 135.35)

Current law

Under existing law, any investment made by a political subdivision or county treasurer must mature within five years after the date of settlement, unless the investment is matched to a specific obligation or debt of the political subdivision or county. A political subdivision or a county treasurer also may enter into written repurchase agreements with public depositories. Under these repurchase agreements, the political subdivision or a county treasurer must purchase and the public depository must agree unconditionally to repurchase (1) U.S. obligations or securities issued by the U.S. or guaranteed as to principal and interest by the U.S. government, or (2) obligations directly issued by U.S. agencies or instrumentalities. This investment authority expressly excludes authority to invest in stripped principal or interest obligations. In addition, a political subdivision or a county treasurer also may enter into "term repurchase agreements" meeting specified requirements.

The bill

The bill expands, from two to five, the types of securities that are eligible for repurchase under *repurchase agreements* invested in by political subdivisions and county treasurers. Thus, in addition to U.S. government, agency, or instrumentality issuances, the bill provides that these repurchase agreements also may be for specified U.S. government-related obligations, except letters of credit, eligible to be pledged as collateral for public deposits. In addition, the bill

apparently eliminates the requirement that investments in these agreements by political subdivisions and by county treasurers mature within five years if not matched to a specific obligation. Also, the bill eliminates references to "term repurchase agreements" and instead designates these investments as "*written* repurchase agreements."

Investment advisors for political subdivisions

(sec. 135.14(N))

A county treasurer currently is authorized to retain the services of an investment advisor meeting specified requirements to assist in investing county public funds (sec. 135.341). The bill provides the same authority to other political subdivisions.

Specifically, in making investments authorized under existing law, a treasurer or governing board of a political subdivision is authorized to retain the services of an investment advisor, provided the advisor (1) is registered with the Securities and Exchange Commission, and (2) possesses experience in public funds investment management, specifically in the area of state and local government investment portfolios. As an alternative to (1) and (2) above, the bill specifies that the advisor must be eligible to become a public depository under current law.

Designation of public depositories by a county's board of commissioners

(sec. 135.33)

Every two years, a county's board of commissioners currently must meet to designate public depositories of "active moneys" of a county for the succeeding two-year period beginning on the date the preceding period expires. In addition, at least 60 days prior to the board's meeting, the county treasurer must provide an estimate of the amount of active moneys that might be available for deposit over the succeeding two-year period. "Active moneys" are those moneys necessary to meet current demands on the county treasury (sec. 135.31).

Under the bill, a board of county commissioners must meet every *four* years to designate public depositories of a county's active moneys for the succeeding *four-year* period commencing on the date the previous designation expires. The bill also provides that, at least 60 days prior to the board's meeting, a county treasurer must provide an estimate of active moneys that might be available for deposit during the succeeding *four-year* period.

Presentment and payment of warrants by county treasurers

(secs. 321.16 and 321.17)

Under existing law, a county treasurer redeems warrants that are presented for payment from the county treasury or depository provided the warrants meet specified requirements. In addition, under current law, if a warrant is not paid because of lack of money in a particular fund, the county treasurer must indorse the warrant "Not paid for want of funds," sign the warrant, and provide the date the warrant was presented.

The bill adds that the warrant, and all information related to the presentment of the warrant, may be provided electronically to the county treasurer. The bill also modifies provisions regarding when a warrant is not paid for want of funds. Specifically, the bill eliminates requirements that a warrant be indorsed, signed, and dated by a county treasurer and instead requires that the county treasurer record the warrant as not paid for want of funds.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	10-08-99	p. 1239

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