Ohio Legislative Service Commission

Bill Analysis

Justin Matta

H.B. 209

129th General Assembly
(As Reported by H. Financial Institutions, Housing, and Urban Development)

Reps. R. Adams, Coley, Blessing, Stebelton, Grossman, Bubp, Combs, Hottinger, Rosenberger, Murray, Pillich, Hackett, Kozlowski, Boose, Thompson, McKenney, Hall, Carey, Huffman, Wachtmann, Brenner, Derickson, Phillips, Stinziano, McGregor, J. Adams, Sears, Slesnick

BILL SUMMARY

- Expands political subdivision investment authority by permitting subdivisions to authorize a public depository, upon the deposit of public money with the depository, to arrange for the redeposit of the money with other federally insured financial institutions.
- Subjects public money to the pledging requirements under current law governing public deposits, but only if the amount deposited exceeds the amount insured by the Federal Deposit Insurance Corporation (FDIC).
- Requires the full amount of public money redeposited (plus any accrued interest) to be insured by the FDIC.

CONTENT AND OPERATION

Investment authority of political subdivisions

Expanded authority

The bill expands the investment authority that political subdivisions may exercise regarding public money. The bill allows them to authorize a public depository, on or after receiving a deposit of public money, as custodian of the money, to redeposit it into deposit accounts in one or more federally insured banks or savings and loan associations located in the United States.[1]

[1] R.C. 135.145(A)(1) and 135.354(A)(1).

Qualifying deposits

The bill extends this authority regarding (1) the deposit of interim money and the active and inactive deposits of a political subdivision (other than a county) and (2) the deposit of active and inactive money of a county.[2]

Deposit insurance

The bill requires, with regard to redeposited public money, that the full amount, plus any accrued interest, must be insured by the Federal Deposit Insurance Corporation (FDIC).[3]

Swapping

The bill requires that on the same date the public money is redeposited by the public depository, the depository receive an amount of deposits from customers of other financial institutions that is equal to the amount of money redeposited.[4]

Pledging

If the amount of public money deposited with and held at the close of business by the public depository exceeds the amount insured by the FDIC, the excess amount is subject to the pledging requirements of current law governing public deposits (see discussion below). But note the bill provides that except for pledging regarding amounts exceeding FDIC insurance, the pledging requirements are inapplicable to deposits of public money for purposes of redeposit as permitted by the bill.[5]

Current law – background

Active, inactive, and interim deposits

Under current law, political subdivisions are permitted to deposit their active, inactive, and interim money, as applicable, into certain financial institutions designated as public depositories. Current law also provides requirements and limitations regarding qualification, application, and designation of these depositories.[6] Under current law, "active deposit" means public money necessary to meet current demands of the treasury that must be placed (1) in a commercial account, permitting withdrawal on

---

[2] R.C. 135.145(A) and 135.354(A).

[3] R.C. 135.145(A)(3) and 135.354(A)(3).

[4] R.C. 135.145(A)(4) and 135.354(A)(4).

[5] R.C. 135.145(A)(2) and (B); R.C. 135.354(A)(2) and (B); R.C. 135.18; R.C. 135.181 (not in the bill) and R.C. 135.37.

[6] R.C. Chapter 135. (only portions in the bill).

demand, (2) a negotiable order of withdrawal account, or (3) a money market deposit account. "Interim deposit" means public money of a political subdivision, other than a county, that will not be needed for immediate use, but will be needed before the end of the period of designation of the institution as a public depository. "Inactive deposit" is a public deposit of a political subdivision, other than a county, that is not active or interim. Under current law, counties do not have interim deposits. Inactive money, with regard to counties, is all public money in public depositories in excess of the amount determined to be needed as active money.[7]

Investment authority

Under current law, political subdivisions, other than counties, may invest only interim money in certain obligations specified in law. Those obligations include, for example, United States Treasury bills, notes, bonds, or other obligations and bonds and other obligations of the state. Counties have similar authority with respect to inactive money.[8]

Pledging

Current law requires that public depositories that receive public money must pledge and deposit with the political subdivision eligible securities meeting certain aggregate market value requirements to serve as security for the repayment of the deposited money. The law also permits, as an alternate pledging mechanism, the pledging of a single pool of securities with a total market value that is at least equal to 105% of the total amount of public deposits. Examples of securities that may be pledged include bonds, notes, or other obligations of the United States and bonds and other obligations of the state. The pledging and pooling requirements include provisions for the safekeeping, substitution, and exchange of securities and their liquidation in the event of failure to pay over deposited public money.[9]

HISTORY

ACTION	DATE
Introduced	04-26-11
Reported, H. Financial Institutions, Housing & Urban Development	05-24-11

h0209-rh-129.docx/ks

[7] R.C. 135.01 and 135.31 (not in the bill).

[8] R.C. 135.14 and 135.35 (not in the bill).

[9] R.C. 135.18, 135.181 (not in the bill), and 135.37.