

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6548

BILL NUMBER: SB 205

NOTE PREPARED: Apr 8, 2011

BILL AMENDED: Apr 4, 2011

SUBJECT: Capital Ratio Requirement for Public Depositories.

FIRST AUTHOR: Sen. Paul

FIRST SPONSOR: Rep. Saunders

BILL STATUS: As Passed House

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill provides that in order to serve as a depository of public funds, a financial institution does not have to maintain a capital ratio in excess of the minimum required by the institution's governmental supervisory body if the institution has fully collateralized the institution's public funds on deposit by pledging and delivering acceptable collateral to the Board for Depositories.

The bill provides that a service charge to be paid by a political subdivision to a public depository in which the political subdivision's funds are deposited may be paid from interest earned on the funds in the political subdivision's account with the public depository. It also provides that a service charge to be paid by a political subdivision to a public depository for the depository's management of an investment cash management system for the political subdivision may be paid from interest earned on the funds in the political subdivision's account with the public depository that manages the system.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues: *Capital Ratio Requirement:* The bill could potentially increase the number of financial institutions eligible to hold public deposits of the state over the number eligible under current statute without additional risk as the deposits would have to be fully collateralized.

Current statute provides that a financial institution may not hold public deposits if the institution:

(1) fails to maintain a capital ratio (the ratio of capital to assets) in excess of the minimum required by the

governmental supervisory body of the institution (i.e. the Federal Reserve or the FDIC); or
(2) issues a credit card as a card issuer and it is not in substantial compliance with the federal Credit Card Accountability Responsibility and Disclosure Act of 2009.

The bill provides an exception to (1) so that an institution not maintaining the minimum capital ratio could hold public deposits provided the institution fully collateralizes the public deposits with the Board for Depositories or the Board's agent under the statutory requirements and rules of the Board relating to collateralization of public deposits. The rules for collateralization of public deposits recently issued by the Board provide for collateralization levels up to 100% of a financial institution's public deposits depending upon the financial condition rating of the institution.

(Revised) Payment of Certain Service Charges: The bill provides that in lieu of a political subdivision paying a direct charge to a public depository for deposits made by the political subdivision or for managing the political subdivision's investment cash management system, the political subdivision may have the service charge subtracted from interest earned on the funds it has deposited with the public depository. Current statute provides that the alternative to a direct charge may be any other manner that is agreed to by the political subdivision and the public depository. This would not have a fiscal impact on political subdivisions but would narrow the alternative ways that a political subdivision could pay such a service charge.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Treasurer; Board for Depositories.

Local Agencies Affected: Local units.

Information Sources: Indiana Board for Depositories, Rules for Collateralization and Collateralization Matrix, <http://www.in.gov/tos/deposit/2552.htm>.

Fiscal Analyst: Jim Landers, 317-232-9869.