

# HOUSE RESEARCH

## Bill Summary

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### Overview

Under current law, a governmental entity must designate a financial institution to be the depository of its public funds. It must also require security for public funds deposited that are in excess of the amount insured by federal deposit insurance.

This bill clarifies *when* the amount of public funds on deposit is determined so that if the amount exceeds what federal deposit insurance will cover, the minimum amount of security or collateral is available. Under current law, it is either not stated when the amount on deposit is determined or it is at the end of the "business" day, without saying whether it is the governmental entity's business day or the financial institution's business day. This bill provides that it is determined at the close of the banking day and ties the definition of "banking day" to the definition in the Federal Reserve's regulations.

The depository law applies to a "government entity," which means a county, city, town, school district, hospital district, public authority, public corporation, public commission, special district, any other political subdivision, except an entity whose investment authority is specified under chapter 11A or 356A. For the purposes of sections 118A.02 and 118A.03 only, the term includes an American Indian tribal government entity located within a federally recognized American Indian reservation.

"Financial institution" means a savings association, commercial bank, trust company, credit union, or industrial loan and thrift company.

## Section

"Public funds" means all general, special, permanent, trust, and other funds, regardless of source or purpose, held or administered by a government entity, unless otherwise restricted.

## Section

- 1** **Banking day.** Defines "banking day" by reference to the Federal Reserve Board regulation definition, which provides: "Banking day means that part of any business day on which an office of a bank is open to the public for carrying on substantially all of its banking functions." Incorporates the cutoff hour in section 336.4-108, which provides:

"(a) For the purpose of allowing time to process items, prove balances, and make the necessary entries on its books to determine its position for the day, a bank may fix an afternoon hour of 2:00 p.m. or later as a cutoff hour for the handling of money and items and the making of entries on its books.

(b) An item or deposit of money received on any day after a cutoff hour so fixed or after the close of the banking day may be treated as being received at the opening of the next banking day."
- 2** **For deposits beyond insurance.** Clarifies *when* it is determined that there are funds in excess of federal deposit insurance coverage on deposit by specifying it is at the close of the financial institution's banking day.
- 3** **Amount.** Provides that the collateral required is calculated at the close of the financial institution's banking day, not the business day.
- 4** **Effective date.** Effective retroactively to the beginning of the governmental entity's 2003 fiscal year.