

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 72 - HB 204

March 26, 2019

**SUMMARY OF ORIGINAL BILL:** Requires certain municipalities to contract with banks offering the highest interest rate on daily balances for the placement of municipal funds. Authorizes certain municipalities to consider factors other than highest interest rate when contracting with a bank. Requires municipalities to evaluate such bank contracts at least every four years.

FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – A precise impact to local government revenue and expenditures cannot reasonably be determined due to multiple unknown variables; however, any increase in local expenditures is considered mandatory.\*

**SUMMARY OF AMENDMENTS (005770, 006616):** Amendment 005770 deletes and rewrites all language after the enacting clause such that the substantive changes (1) would authorize municipalities to consider which bank makes the best proposal to become the depository of municipal funds; (2) would authorize all municipalities to consider factors other than highest interest rate when contracting with a bank; and (3) would authorize municipalities to reevaluate the contracts entered into at least once every four years.

Amendment 006616 deletes and replaces language in the bill as amended by Amendment 005770 to require municipal funds to be deposited into any bank instead of a financial institution.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

**Other Fiscal Impact – A precise impact to local government revenue cannot reasonably be determined due to multiple unknown factors.**

Assumptions for the bill as amended:

- Under current law, Tenn. Code Ann. § 6-4-402, § 6-22-120, § 6-35-313, and § 6-56-110, such municipalities are authorized to place municipal funds with any financial

institution, as long as the institution meets certain requirements for securing the funds with collateral.

- Under the proposed legislation, municipalities are required to consider certain criteria when selecting a bank, but may also consider other factors such as service charges, the safety and liquidity of municipal funds, and any other relevant factors. All banks would still be required to meet current collateral standards.
- To the extent a municipality contracts with a bank which offers a higher interest rate and assesses similar service charges and penalties as the current financial institution utilized by the municipality, there will be a recurring increase in municipal revenue associated with interest gained on the daily balance; however a precise increase in municipal revenue cannot reasonably be determined due to multiple unknown factors.
- Due to multiple unknown factors a precise impact to local government revenues cannot reasonably be determined.

### **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

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