

Senate Public and Municipal Affairs Committee

Kelly Flathers 271-3091

SB 72, including certificates of deposit in the public deposit investment pool.

Hearing Date: January 25, 2017

Time Opened: 9:00 a.m.

Time Closed: 9:45 a.m.

Members of the Committee Present: Senators Gray, Ward and Kahn

Members of the Committee Absent : Senators Birdsell and McGilvray

Bill Analysis: This bill allows town treasurers to deposit money into certificates of deposit offered through the public deposit investment pool.

Sponsors:

Sen. D'Allesandro

Sen. Hennessey

Who supports the bill: Michael Jache - City of Concord; Barbara Reid - NH Municipal Association; Kevin Smith - Town of Londonderry

Who opposes the bill: Tom Fahey - NH Bankers Association; Kevin Miller - Profile Bank

Who is neutral on the bill: Emelia Galdieri - NH Banking Department; Ingrid White - NH Banking Department

Summary of testimony presented in support:

Sen. Lou D'Allesandro (Prime) – District 20: There are two letters of support before you, one from the city of Franklin and one from the city of Manchester. The purpose of the bill is to allow participants in the NHPDIP to purchase FDIC insured CD's directly from their existing NHPDIP account. Both principal and accrued interest would be protected under FDIC insurance. This allows communities to invest and get the best rate of return. If this bill were to pass, there are certain changes that must be made in statute that are impacted by this change. I'll make those available to the committee once I can get them drafted. The NHPDIP participants interested in investing funds from their accounts from their NHPDIP accounts to FDIC insured CD's would contact the NHPDIP, receive quotes outlining specific terms. The participant retains full discretion on whether or not they proceed with the investment. All terms and fees are provided to them. On a daily or weekly basis, these banks participating in the pool group would make one phone call to the NHPDIP and

provide the terms of their CD offerings. Banks can refrain when they do not want new deposits and they do not pay any fees to participate. There are benefits to investors and benefits to banks. For investors, it's an opportunity for enhanced returns compared to an overnight liquid investment. The principal and accrued interest are FDIC insured. It's simple and convenient. All transactions settle against their NHPDIP account and all fees are transparent and fully disclosed. For NH banks, it broadens opportunities to offer CD's and to continue to work with depositors. One daily or weekly phone call sets rates and terms by the bank only when they are seeking additional deposits. There are no fees for the banks. The NHPDIP coordinates paperwork and the flow of funds. It was brought to my attention that this is an opportunity for communities to get a better return on the cash that they maintain.

Sen. Ward: How liquid is this investment? Are you committed to a particular time or can you be flexible and take out fund when necessary?

Sen. D'Allesandro: I would think that you have to buy a CD for a period of time. Someone from the NHPDIP can address that.

Sen. Kahn: Is it your intent to put this bill on pause before the committee acts on this bill?

Sen. D'Allesandro: If the committee chooses to go forward with this bill, I will bring forward amendments either to the committee or to the floor.

Sen. Gray: I would prefer to bring an amendment through the committee.

Michael Jache – City of Concord: I am the speaking in support of this bill. I am the Treasurer for the City of Concord and I sit on the advisory board for the NHPDIP. This bill will give communities another option to invest in CD's. A lot of communities use the pool now, including the City of Concord.

Sen. Gray: What is different between what cities can do today and this bill?

Michael Jache: This would take some of the liquid money we have in the pool and move it into a CD for however long we decide. Rather than going to a bank and wiring in money for a CD, the city could do it directly through the pool. Investment income for the city of Concord is one of the largest sources of income for the city.

Sen. Kahn: What is the difference in rates between current overnight rates and rates you could obtain through this?

Michael Jache: I'm not sure what they will offer, but I hope it would be substantial. Recently interest rates have been low, but they're going up. I'm hoping the banks will be competitive with their rates and the cities can make more money. Until this program is in place and banks start to bid, it's hard to say what potential earnings will be.

Barbara Reid – NH Municipal Association: I am speaking in support of this bill. We support local options, which this bill provides. The PDIP was put in place in the early 90's because there were a lot of banks closing that had public money. It is operated under the NH Banking Commission and has an advisory committee made up of bankers and municipal officials. It offered a safe and secure place to put public money during this transition. There was a lot of concern at that time that it would drain the banks, so there were limitations for the first 5 years on how much money could go into the pool. This has been in place for over 25 years and it has stabilized. There is always competition between the banks and the PDIP is another option for local officials.

In 1939, municipalities on the border could use out-of-state banks with permission from the Commissioner. Other municipalities were required to use solvent NH banks. That changed in 1959 to say that any municipality can deposit money in out-of-state banks if that money is collateralized. In 2008 there was a rewrite of the statutes to modernize the wording and make it more consistent. This is a narrow bill changing what PDIP can offer. I don't think it should be expanded to out-of-state banks.

Kevin Smith – Town of Londonderry: I am speaking in support of this bill. The town has had a long-standing relationship with the PDIP for their liquidity options. If they're not put on a level playing field in terms of offering CD options, we may have to consider removing money from the pool at some point. Barbara summed it up well- it's local and gives us more options as a community.

Sen. Gray: We heard testimony that this could have consequences in other areas, like payroll. What is your response?

Kevin Smith: It's not a concern for us; we have investments in multiple institutions right now. It provides us with another investment option for our town.

Summary of testimony presented in opposition:

Tom Fahey – VP of Government Relations, NH Bankers Association: I am speaking in opposition to this bill. There are many areas of the law that this language touches upon, but now I understand that there would be a move to amend it. We understand the idea behind the bill; local treasurers would like to earn more money on their deposits to help taxpayers. However, it plays out against a convoluted landscape that now bars some banks in NH participating in this market. Banks on the MA, ME, and VT border cannot take these deposits. It's an item of friction within the association. We've lost 7 NH banks in the past 5 years. There's more competition from out-of-state banks, but they can't participate fully in the finances of the communities. These laws were last touched in 2008, but things have changed since then. I've provided you with highlighted copies of existing law. Under Roman II, deposits can be made in federally insured banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank collateral

security for such deposits. Under Roman IV, that language is not in there and it leaves out out-of-state banks. This bill won't change any of that. If we're going to level the playing field, it should be completely level. Under this bill out-of-state banks can participate, but have to pay a fee to an outside agency. Others are able to access those deposits for free. Roman V in these statutes says that if a town wants to make a deposit over the FDIC limit, they can break it up to make sure every dollar is insured. If some of those banks are out of state, there has to be a simultaneous transfer of these dollars to the bank so that the dollars on deposit remain the same. The difference between that program and what PDIP would be operating is that those dollars are still able to work within NH. In June of 2016, \$5,000,000 was on deposit in NH banks. If that starts bleeding out, there's a lot of money going out-of-state. Kevin Miller from Profile Bank is here today and can explain the consequences for municipalities. We think that if we're going to open up the state's public funds to out-of-state entities, we should open it up for all of them.

Sen. Kahn: Is the PDIP based and operated in NH?

Tom Fahey: It was created during the bank failures of the early 90's to alert local governments that if they had funds in certain banks, they should keep an eye on those funds. It operates under the Banking Commissioner. The funds are not FDIC insured. The PDIP balance was shrinking and the former management firm found that it was no longer economical to provide that service, so the state did an RFP and PFM was selected. It's a public fund that is privately owned.

Kevin Miller – CFO, Profile Bank: I am speaking in opposition to this bill. The relationship banks have with municipal accounts is important; there's a lot of expense in servicing municipal accounts. If the investable funds were to go out of state, the cost to the bank would increase and the cost to the towns for other accounts would have to increase. It's good to have competition but it needs to be fair. If they're going to go after just long-term investable funds, it leaves the servicing banks within the state with less desirable, higher cost transaction accounts. Smaller communities are well served by the local banks. The return on investment at a municipal bank would not be much different through a program such as this. It's a competitive market in this interest rate environment. It's not going to be a tremendous increase for the towns.

Sen. Kahn: Profile Bank is a NH bank, correct? What is it in your business that takes you out of the PDIP offering?

Kevin Smith: Yes. In our case, we collateralize the funds internally through the Federal Home Loan bank in Boston. We offer our towns the best returns we can under the relationship, including the transaction accounts.

Neutral Information Presented:

Joann Klatskin – Program Representative NH PDIP, PFM Asset

Management: I want to make a clarification. The participant in the pool, if they choose to do a CD, pays the 15 basis points. There is no fee for the participating bank. Sen. Kahn: When you go to the market for a fixed period investment, you offer that to NH banks?

Joann Klatskin: Yes. If the program is established, we would seek bids from NH banks. If they need funds and want to participate in the CD program, they would call our headquarters in PA for the terms and rate. When have a NH participant in the pool calls in, we can give them a list of the banks that are doing CD's that week. It would be up to the participant whether or not they want to move forward with the investment.

Sen. Kahn: NH banks would be competing with banks nationwide, correct?

Joann Klatskin: Yes.

Sen. Kahn: Is each bank's dollar amount independent bid upon? Are all deposits insured?

Joann Klatskin: Yes and yes. PFM calculates what the interest income will be to ensure that the accrued interest and the principal are still under the FDIC limit.

Sen. Kahn: Could a municipality purchase an investment policy that designates that they will select the best rates among NH banks?

Joann Klatskin: Yes, the participant can say they only want to hear bids from NH banks.

Future Action: Pending

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