

State and local government deposits in the district

Laws and deposit allocation

Individuals and business firms in the United States have a significant amount of latitude in selecting financial institutions that will meet their needs for depository services. The choice may be made from any of the more than 14,000 commercial banks located in the 50 states, although in practice, most small account owners limit themselves to locally available alternatives. In addition, depository services are provided by approximately 5,000 savings and loan associations, more than 475 mutual savings banks, and more than 22,000 credit unions. While certain economic factors—such as transactions cost and travel time needed to conduct business—and non-economic considerations—such as convenience of location—tend to influence the private sector's selection of alternative financial institutions, there are few legal barriers that have a direct impact upon the depository selection process. The one important legal barrier that limits the choice is that nonbank financial institutions are prohibited in most states from offering demand deposit services.

On the other hand, state and local governments, in selecting institutions that will meet their needs for depository services, are subject to specific statutory and constitutional restrictions tending to limit their alternatives, usually as to type and location of institution. As such, laws that influence the allocation of public funds between and among various banks and other types of financial institutions have a definite impact upon the structure of banking. This article examines the legal framework influencing the allocation of state and local deposits and analyzes the impact of these laws upon the banking structure of the five Seventh District states—Illinois, Indiana, Iowa, Michigan, and Wisconsin.

State and local deposit importance

In both absolute and relative terms deposits of state and local governments are becoming increasingly important items on the balance sheets of the nation's commercial banks.

In a 1961 study the Advisory Commission on Intergovernmental Relations noted that as of June 1959, "Of the approximately \$14.2 billion on deposit by state and local governments \$3.7 billion was on time deposit and \$10.4 billion on demand deposit."¹ By June 30, 1975 total deposits of state and local governments in commercial banks had grown to approximately \$67.0 billion, of which \$48.5 billion was in the form of time deposits and \$18.5 billion was in the form of demand deposits.² The data reveal that during the past 16 years (June 1959-June 1975) total state and local deposits held by commercial banks have grown at a compounded annual rate of approximately 10.2 percent, while individual, partnership, and corporate (IPC) deposits (i.e., private sector deposits) grew at only a 7 percent compounded annual rate. Of equal significance is the reversal of the composition of those deposits. Whereas in 1959 demand deposits constituted the major portion of total state and local deposits (approximately 73.3 percent), as of June 30, 1975 time deposits accounted for the major portion of total state and local deposits (approximately 72.4 percent). During the 16-year period state and local government demand deposits have

¹*Investment of Idle Cash Balances by State and Local Governments*, Advisory Commission on Intergovernmental Relations, Washington, D.C., January 1961, p. 14.

²*Assets and Liabilities: Commercial and Mutual Savings Banks*, FDIC, December 1975.

grown at a compounded annual rate of only approximately 3.6 percent, whereas, time deposits of state and local governments over the same period have grown at a compounded annual rate of approximately 17.5 percent, a 13-fold increase.

Figure 1 illustrates the growth and changing composition of state and local deposits over the 16-year period 1959-75. The change from demand to time deposits reflects the growing concern on the part of state and local governments to invest their idle cash balances so as to maximize earnings on public funds, a concern heightened by the increase in average interest rate levels over this period.

Further insight into the growing importance of state and local government deposits is revealed in the analysis of the overall composition of commercial bank deposits. In June 1959 state and local government deposits accounted for 6.8 percent of total deposits in insured commercial banks. By June 1975 state and local deposits constituted 8.8 percent of total deposits in all commercial banks.

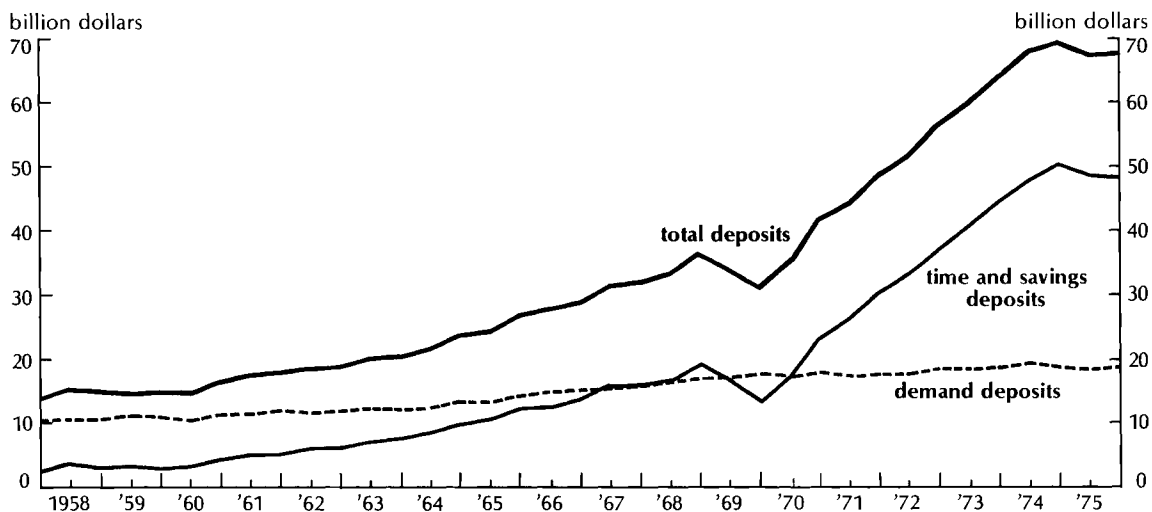
Except for "small banks" (deposits less than \$1 million) state and local deposits have become an increasingly important source of funds for banks of all sizes. As shown in Table

1, state and local deposits as of June 1959 amounted to over 11 percent of the total deposits in "small banks" but accounted for only 4 percent of total deposits held in the nation's largest banks, i.e., those with deposits of \$1 billion or more. Since 1959 state and local deposits have become less important deposit sources at "small banks" and increasingly important sources of deposits for "large banks." In 1959 only one bank group (those with less than \$1 million in deposits) had state and local deposits that constituted 10 percent or more of their total deposits. In 1975 two groups of banks held state and local deposits that represented about 10 percent of their total deposits, and in one group state and local deposits accounted for over 11 percent of the total deposits. Thus, state and local government deposits are becoming a more significant item on the balance sheets of commercial banks.

There are 16,092 local governments in the Seventh Federal Reserve District, including county, municipal, and township governments, and school and special districts.³ This represents about 20.6 percent of all local

³Census of Governments, 1972, Bureau of the Census, U.S. Department of Commerce.

Figure 1. State and local deposits held by all commercial banks in the United States



SOURCE: Assets and Liabilities of Commercial and Mutual Savings Banks, FDIC, various years.

Table 1
Deposits of state and local governments by
commercial bank size

Deposit size of banks	June 30, 1959			June 30, 1975			Relative change 1959-1975 (6) - (3)
	(1)	(2)	(3)	(4)	(5)	(6)	
	Total deposits (millions)	Total state and local deposits (millions)	(2) ÷ (1) (percent)	Total deposits (millions)	Total state and local deposits (millions)	(5) ÷ (4) (percent)	
Less than \$1 million	997.5	117.7	11.8	86.6	6.3	7.3	- 4.5
\$1 to 10 million	33,997.3	3,312.8	9.7	31,954.5	3,199.7	10.0	+ 0.3
\$10 to 100 million	53,425.6	4,283.4	8.0	215,518.8	22,169.4	10.3	+ 2.3
\$100 to 1 billion	63,650.9	4,297.9	6.8	272,500.5	23,747.5	11.2	+ 4.4
\$1 billion or more	54,634.3	2,142.2	3.9	297,624.8	17,771.1	6.0	+ 2.1
TOTAL	\$206,705.7	\$14,154.1	6.8	\$757,718.2	\$66,894.1	8.8	+ 2.0

Note: Data for 1959 is for insured banks, whereas data for 1975 is for all banks. Numbers may not add due to rounding.

SOURCE: FDIC, *Annual Report*, December 31, 1959 and FDIC, *Assets and Liabilities of Commercial and Mutual Savings Banks*, June 30, 1975.

governments in the United States. Illinois, with 6,385, leads the Seventh District and the nation in the number of local governments. Indiana, Michigan, Wisconsin, and Iowa have, respectively, 2,792, 2,649, 2,448, and 1,818 local governments. As of June 30, 1975 state and local deposits held by all insured commercial banks within the Seventh District states aggregated approximately \$12 billion. As such, state and local deposits represent approximately 9.3 percent (see Table 2) of all deposits held by insured commercial banks within these states, slightly above the national average of 8.8 percent.

Of the \$12 billion of state and local deposits held by commercial banks in the five states, 74.3 percent was held in time accounts and 25.7 percent was held in demand accounts. Relative to the nation as a whole, these figures indicate that, in the aggregate, state and local governments in the district states tend to hold a slightly larger proportion of their total deposits in the form of time or savings accounts (the national average is 72.4 percent). Table 2 further reveals a con-

siderable degree of variance in the importance of state and local deposits as a source of funds to commercial banks in the five states. For example, state and local deposits constitute only about 6.7 percent of total deposits held by insured commercial banks in Iowa but 13.4 percent of total bank deposits held by Indiana commercial banks. Also, Indiana, relative to the four other states, holds the lowest percentage of state and local deposits in the form of time and savings deposits (60.3 percent). State and local governments in Michigan, on the other hand, maintain about 79.4 percent of their total deposits in time and savings accounts.

Major concerns

Governmental bodies, just like businesses and private individuals, are faced with the problems of investing their idle funds. For state and local governments "idle funds" are created by the lack of synchronization between the receipt of revenues and the outflow of cash expenditures. Since state and

Table 2
Deposit composition of insured district banks
as of June 30, 1975

	<u>Illinois</u>	<u>Indiana</u>	<u>Iowa</u>	<u>Michigan</u>	<u>Wisconsin</u>	<u>Total</u>
	(billion dollars)					
Total demand deposits	20,218	5,924	3,794	9,113	4,592	43,641
Total time deposits	37,502	10,972	7,129	19,905	9,834	85,342
Total deposits	57,720	16,896	10,923	29,018	14,426	128,983
Demand deposits of state and local governments	1,022	895	241	546	264	3,068
Time deposits of state and local governments	3,555	1,361	494	2,491	992	8,893
Total state and local deposits	4,577	2,256	735	3,137	1,256	11,961
State and local deposits as a percent of total deposits	7.93	13.35	6.73	10.81	8.71	9.27

local government revenues are not received in sufficient amounts on the day they are required to meet an expenditure, funds must be accumulated prior to actual expenditure or the governmental unit must be able to borrow needed funds. Most state and local governments have little if any excess idle cash at the start of their fiscal years. However, idle cash may begin to accumulate later as revenues begin to exceed expenses. At this point the governmental body must decide how to invest these funds. Traditionally, public finance doctrine has specified that consideration be given to four factors: legality, safety, liquidity, and yield.⁴ Some governments have added a fifth factor to this list: the promotion of particular social goals.

• **Legality.** State constitutions and statutes frequently specify the types of institutions and financial instruments in which public funds may, or may not, be employed. For ex-

ample, the Michigan Constitution precludes savings and loan associations from acting as depositories for state funds. Thus, public officers must be aware of the legal limitations involved when they invest public funds.

• **Safety.** Speculation with public funds is prohibited by law, and state statutes frequently specify that only the safest and most secure types of investments be permitted. For example, the Indiana courts have noted that a public depository law was adopted primarily for the security and protection of public funds against the "devious methods and rascality of dishonest public officials."

• **Liquidity.** Money must be available when needed. If public funds are invested in long-term obligations, which are not readily marketable and which fluctuate greatly in value, a public body faced with a decline in revenue may be forced to borrow funds at an unfavorable rate.

• **Yield.** After complying with legal requirements, providing for safety and ensuring liquidity, investments that will produce a maximum yield may be considered. Obvious-

⁴See for example: *Investment of Idle Funds by Local Governments: A Primer*, John A. Jones and S. Kenneth Howard. Municipal Finance Officers Association, Chicago, Illinois, 1973.

ly, after complying with the first three constraints, the scope of investment options available with regard to type of financial institution and type of financial instrument is somewhat limited. For small governmental bodies with small amounts of funds to invest, the alternatives frequently narrow down to time deposits at commercial banks and short-term U.S. Treasury obligations.

• **Social goals.** Certain state and local governments may and do invest their funds in order to achieve or promote certain social goals. For example, some governments may desire (or be required by law) to invest and deposit idle funds only with banks located in-state, in-county, or in-city with the intention of fostering local development and economic growth. The rationale is that state and local government funds will be used by local banks to promote local investment, which will generate more local income and employment and thus tax revenues. Whether this developmental objective will be achieved depends on the use banks make of these funds (i.e., whether or not they are locally invested) and the size of the income multiplier associated with locally used funds.

Table 3
Deposits held by the five largest commercial banks in each district state as of June 30, 1975

Rank of bank in state	Bank's IPC deposits		Bank's state and local deposits	
	(billion dollars)	(percent) ¹	(million dollars)	(percent) ²
<u>Illinois</u>				
1	7.984	16.3	395	8.6
2	6.616	13.5	529	11.6
3	2.016	4.1	118	2.6
4	1.591	3.3	153	3.3
5	.906	1.9	20	0.4
<u>Indiana</u>				
1	1.017	7.3	163	7.2
2	.956	6.8	174	7.7
3	.508	3.6	107	4.7
4	.324	2.3	39	1.7
5	.270	1.9	62	2.8
<u>Iowa</u>				
1	.283	2.9	37	5.0
2	.204	2.1	19	2.6
3	.152	1.6	88	1.1
4	.136	1.4	22	3.0
5	.131	1.4	20	2.7
<u>Michigan</u>				
1	3.781	15.6	437	13.9
2	2.259	9.3	114	3.6
3	2.090	8.6	145	4.6
4	1.014	4.2	236	7.5
5	.687	2.8	106	3.4
<u>Wisconsin</u>				
1	1.108	8.8	195	15.5
2	.421	3.3	91	7.2
3	.251	2.0	41	3.3
4	.179	1.4	21	1.7
5	.165	1.3	97	7.7

¹Bank's IPC deposits relative to total commercial bank IPC deposits in the state.

²Bank's state and local deposits relative to state and local deposits held by all commercial banks in the state.

Primary factor influencing allocation

Every state and local government has differing investment objectives; some are faced with staffing restrictions and others have

Illinois depository laws

Chapter 130 of the Illinois Statutes sets forth the major legal parameters for the deposit of state monies. The law requires that at least once a year the state treasurer notify "regularly established" national and state-chartered banks doing business in Illinois concerning sealed bids for the deposit of public monies in his custody. As worded, the law excludes all but commercial banks located in Illinois from holding state monies. Two classes of depositories—time and demand—are required. Securities at least equal in market value to funds deposited must be pledged by banks holding state funds. However, no such securities are required for funds insured by the Federal Deposit Insurance Corporation.

The law requires that at all times at least 20 banks be approved depositories for time deposits. Only the state's two largest commercial banks, out of the 1,187 in the state, hold demand deposits, which are compensating balances for clearing checks and other necessary services. There is no legal restriction on the total dollar amounts of Illinois state funds that can be placed in any one financial depository. However, no bank can hold state funds until it certifies that it does not engage in discriminatory lending practices and pledges within the limits of its legal restrictions and prudent financial practices, to make loans available on low- and moderate-income residential property.

The state treasurer's investment program currently employs three different means by which state funds are allocated among commercial banks.

Under the first program, the Basic Deposit Program, time deposits are awarded for one-year periods to any Illinois bank, except for major Chicago banks (the five largest banks in the state), that applies and meets certain criteria. Factors considered include the amount of loans outstanding, the rate bid, and the size of the bank. The second and third investment programs employ the "linked-deposit" concept. Under these programs time deposits are allocated among bidding banks on the condition that specific lending functions are being or will be performed by each bank.

The second program—the Specific Opportunity

Program—allocates time deposits to those banks willing to participate in the financing of one or more projects. For example, in the past, time deposits have been allocated to banks that have granted loans for pollution abatement projects or to rural banks to encourage them to make agricultural loans.

The third program—the Community Service Program—utilizes the "linked-deposit" concept to allocate state deposits on the basis of the bank's past history of involvement in making community service oriented loans. Under this program funds are allocated annually for a one-year period, and banks must bid at or above a predetermined minimum rate set by the state. Banks bidding above the minimum rate receive larger deposits. In addition, the banks must report their outstanding loans in 13 categories. Among these categories are bank purchases of local tax anticipation warrants, student loans, agricultural loans, Small Business Administration loans, construction financing for public housing projects, and pollution abatement loans.

For Illinois counties the county boards, when requested by the county treasurer, are required to designate one or more banks or other depositories in which county funds may be deposited. The law does not require that institutions selected as depositories bid for county funds. However, the law does stipulate that county funds deposited in any one bank "shall not exceed 75 percent of the capital stock and surplus of such banks." The county treasurer may require that securities equal in market value to the amount of the funds deposited be pledged by the depository.

Illinois law states that a municipal treasurer may deposit public funds in places designated by local ordinance and that the corporate authorities shall designate a bank or banks to act as public depositories. Like county deposits, municipal funds, except for deposits of the city of Chicago, cannot be deposited in a designated bank in excess of 75 percent of the bank's capital stock and surplus. Illinois law places neither geographic restrictions on the location of banks nor does it require the establishment of a bidding system for municipal funds.

differing management philosophies, all of which have an impact upon the allocation of state and local deposits. However, state and local laws comprise the primary factor that influences the allocation of state and local deposits. In every state a body of laws has evolved that determines the types, location,

and size of institutions as well as types of instruments in which public funds may be invested. For the most part these laws emphasize safety. Public officials charged with handling public funds determine the specific allocation based upon the legal guidelines, of which their power, however, is

Indiana depository law

Section 5, Article 12 of the Indiana Statutes contains the major provisions of the state's public depository law. The Indiana Department of the Treasury is required to publish, 20 days before its biennial meeting, a notice inviting proposals from banks and trust companies for the deposit of state funds. Institutions desiring to act as state depositories must be located within the state. There is no bidding system per se for state funds in Indiana. Any bank "suitably located with reference to the convenience of the officers and state institutions using them" and agreeing in its proposal to provide the necessary security is designated as a depository for state funds. Although the law is somewhat vague with respect to the allocation of state funds among the designated depositories, the treasurer maintains balances in each depository, as nearly as practicable, in proportion to the total resources that each depository bears to the total resources of all designated depositories. The state may deposit idle funds in certificates of deposit in any national, state, or mutual savings bank with its principle place of business in the state. With certain exceptions, the treasurer cannot deposit funds in certificates of deposit in any one bank in an amount aggregating more than 50 percent of the combined capital, surplus, and undivided profits of the institution. As of June 1975 the state had time deposits in 396 of the state's 406 commercial banks and three of the four mutual savings banks. Between January and June 1975 the state of Indiana maintained demand deposits in 16 of the state's commercial banks.

The Indiana Depositories Act does not require the designated depositories to pledge assets as

collateral for state and local funds held on deposit because the state has an established public depositories insurance fund. Under this system the board of depositories—consisting of the governor, treasurer, auditor, chairman of the commission for financial institutions, and chief examiner of the state board of accounts—is charged with establishing an assessment rate and base for the insurance fund. The assessment base is determined monthly and is defined as the sum of all the minimum balances of public funds on deposit in each and all accounts during the month. Every depository of public funds is required to pay the assessment rate established by the board of depositories. The rate may not exceed 2 percent per annum and the maximum reserve for losses may not exceed 10 percent of the average monthly deposits of public funds on deposit in depositories during any one month.

The requirements for the designation and allocation of funds of Indiana counties, cities, townships, etc., largely parallel the requirements for the state, with a few exceptions. First, the designation of depositories and the allocation of public funds for these entities is in the hands of specific boards of finance. Second, the law tends to limit the geographic scope with respect to the selection of depositories by the local governments. Specifically, the various boards of finance are required by law to select depositories willing to accept public funds located within their respective counties, cities, towns, or townships. As in the case of the state, the law calls for the proportional allocation of public funds among the designated depositories.

a residual. For example, if the law specifies that public funds may be deposited only in commercial banks within the state, then public officials may select one or a number of banks to hold the deposits, based upon safety, liquidity, and yield. Assuming that all available choices offered equal safety and liquidity, the bank paying the highest yield would be chosen as the depository. Clearly, the more specific the legal guidelines, the smaller will be the residual prerogatives and discretion allowed public officials.

The laws that influence the allocation of public funds vary greatly from state to state

and within the states.⁵ (See Boxes for more detail.) Illinois, for example, is the only Seventh District state that employs a true bidding system by which to allocate state funds. Indiana, on the other hand, does not use a bidding system to allocate state funds; rather, the law calls for the proportional allocation of state funds among those banks which apply to be public depositories. In Michigan the Con-

⁵For a discussion of cash balance management in other states see: *State Cash Balance Management Policy*, Merlin M. Hackbart and R. S. Johnson. The Council of State Governments, Lexington, Kentucky, November 1975.

Iowa depository laws

Chapter 453 of the Iowa Statutes sets forth the major provisions concerning the deposit of the state's public funds. In Iowa there is no bidding system per se that determines the allocation of state funds. In general, all deposits made by the treasurer of state, who may nominate banks to act as depositories, must be in banks in Iowa. For both the state and its political subdivisions, funds not needed for current operating expenses may be invested in U.S. Government or agency guaranteed obligations, or time or savings deposits in approved commercial banks and insured savings and loan associations. When state funds are deposited, they must be at the rate established on a monthly basis by a committee composed of the state's superintendent of banking, commissioner of insurance, and treasurer of state. The law does not explicitly limit the amount of state funds that may be placed in any one depository nor is there any requirement for public depositories to pledge assets against

public deposits. Iowa, like Indiana, has an established state sinking fund to insure against the loss of public deposits in the event of a bank failure. As of June 30 1975, the fund's balance was about \$203,000.

As in the case of the state, banks must be approved by the appropriate governing authority before they can act as depositories for Iowa's political subdivisions. The approving board is required to specify the name of each bank approved and the maximum amount that may be kept on deposit in each bank. County funds must be placed in banks located in their respective or adjoining counties, city funds in banks located in the city, but if no bank is in the city, then any other bank located in the state may act as a depository. The interest rate paid for deposits is determined by the public officer or body responsible for the funds and bank, however, they are cannot exceed nor may they be more than 1 percent below the rate established for state funds.

stitution limits the deposit of state funds to banks organized under state or national banking laws. Savings and loan associations may not act as depositories for state funds. And in Wisconsin an investment board is responsible for designating state public depositories and allocating state funds.⁶ Clearly, there is little uniformity in the Seventh District states relative to those laws which influence and determine the allocation of state and local deposits.

Impact on state banking structure

Legal restrictions on the investment of state and local funds have had an important impact on the banking structure in each of the five states. Table 3 shows the percentage share of total state IPC deposits and state and local deposits held by each of the district states' five largest commercial banks as of June 30, 1975. For example, the largest commercial bank in

Illinois held total IPC deposits of approximately \$8 billion, which represented 16.3 percent of the total IPC deposits held by all commercial banks in Illinois, but its \$395 million in state and local deposits represented only 8.6 percent of such deposits held by all commercial banks in Illinois. In two of the five states (Iowa and Wisconsin), the five largest commercial banks hold a significantly larger proportion of state and local deposits than they do IPC deposits. In Wisconsin, for example, the five largest commercial banks, which control approximately 16.8 percent of total IPC deposits, control 35.4 percent of total state and local deposits. Clearly, this is the result of the interaction between the law allowing for the establishment of a working bank and the Wisconsin Investment Board's selection (after bidding) of the largest commercial bank to act as the sole working bank.

In Indiana the law calling for the proportional allocation of state and county funds among designated public depositories is reflected in the relative shares of public and private deposits held by the five largest commercial banks. The largest commercial bank in Indiana holds approximately 7.3 percent of

⁶For detailed discussion of the Wisconsin investment program see: *Investing State Funds: The Wisconsin Investment Board*, Dick Howard and James Jarrett. The Council of State Governments, Lexington, Kentucky, August 1976.

Michigan depository laws

Michigan is unique, being the only state in the Seventh Federal Reserve District that has a constitutional provision concerning the deposit of public funds. Article 9 of the Michigan Constitution specifies that state funds may not be deposited in any banks other than those established under national and state banking laws. This precludes their deposit in savings and loan associations. Further, the Constitution specifies that deposits of state money cannot exceed 50 percent of the capital and surplus of the depository.

No bidding system for state funds has been established in Michigan. The law merely indicates that state depositories must pay a rate of interest which the state treasurer "shall deem best for the interest of the state." Furthermore, the state treasurer is required to obtain "good and ample security" before a bank can become a depository of state surplus funds. No collateral is required for public monies which are insured by the FDIC. Under current FDIC regulations

time and savings deposits of state and local governments, if deposited in the depositor's own state, are insured up to \$100,000. Public funds in demand accounts and in out-of-state time and savings deposits are insured only to \$40,000. The state prefers to pool its active balances in one bank, which creates certain economies (e.g., ease of record keeping, permits maximum investment of free balances, etc.).

Michigan counties are required by law to solicit sealed bids for the deposit of public funds held by the county treasurer from all banks within their jurisdiction. If no satisfactory bids are received from banks within the county, then bids may be solicited from banks outside the county but within the state. Collateral at least equal to the maximum amount deposited is required from banks holding county funds. No collateral is required for public monies that are insured by the FDIC. Each county may establish its own system of allocating public funds.

total IPC deposits and 7.2 percent of total state and local deposits. In the aggregate Indiana's five largest commercial banks hold about 22 percent of total IPC deposits and about 24 percent of total state and local government deposits, which tends to indicate that the goal of proportional allocation is being achieved.

In Illinois and Michigan the five largest banks in each state tend to hold less than a proportional amount of state and local deposits relative to their holdings of IPC deposits. In Illinois the five largest commercial banks hold approximately 39 percent of total IPC deposits in the state and approximately 26.5 percent of state and local government deposits. Two features in Illinois law tend to explain this less-than-proportional relationship between private and public deposits. First, the five largest banks are precluded from competing for state funds allocated under the Basic Deposit Program. Secondly, the "linked-deposit" allocation schemes used by the state tend to favor small- or medium-sized banks, which have or will make specific state-approved loans. The larger banks tend to be "money

center" banks which derive a significant share of their deposits and make a significant share of their loans on a national or regional basis.

With respect to Michigan, the reason for the less-than-proportional allocation between private and public funds is less clear than it is for Illinois. Part of the explanation may lie in the state's ability and preference for using commercial paper as a short-term investment vehicle relative to certificates of deposit and time accounts. The state, on average, tends to invest about 60 percent of its short-term funds in commercial paper. The requirement that counties keep their funds in county banks might further prevent the flow of public funds to the five largest banks, which are located in but two counties.

Conclusion

The laws that affect the allocation of state and local government deposits within the Seventh District tend to limit the flexibility of the state and local officials who are responsible for the management of public funds and may necessitate a trade-off between various

Wisconsin depository laws

Relative to the other Seventh District states, Wisconsin is unique in that it has a seven-member board responsible for the allocation of state funds. Known as the Investment Board, it is required to "designate public depositories for the deposit of public moneys . . . coming into the hands of the state treasurer; allocate the deposits of all public moneys coming into the hands of the state treasurer, and limit the amount of such public moneys . . . which may be deposited in any public depository so designated." Local government idle funds may also be managed by the Investment Board. Any national, state, or mutual savings bank in the state can act as a public depository. Recently, the law was amended to allow savings and loan associations to act as depositories of public funds. The Investment Board is responsible for fixing the rates of interest paid on deposits of the state treasurer. There is no statutory limit on the amount of state funds which may be deposited with any one bank. With respect to state funds the depositories selected must be located in Wisconsin.

Under Wisconsin law the Investment Board has the authority to establish "working banks" which hold state deposits ("active deposits") on which checks are drawn to conduct the daily affairs of the state. This system is similar to the active bank concept used by Illinois counties. The working bank is primarily responsible for providing the state with its necessary banking services. Although the law allows the establishment of more than one working bank,

the Investment Board concluded that the efficiencies and potential for higher earnings surrounding the use of one bank outweigh using a number of banks. The working bank is selected on the basis of bids submitted by Wisconsin banks. Due to the amount of work involved in handling the state account and the amount of deposit variability (which may vary from \$2 million to \$100 million on any given day) only a well-staffed and highly computerized bank is able to handle the account.

Chapter 34 of the Wisconsin Statutes states that public depositories are not required to give collateral for public deposits. As in the cases of Indiana and Iowa, Wisconsin has an established state deposit guarantee fund to insure public deposits, thus eliminating the requirement that banks pledge collateral for public deposits.

For the most part the requirements of designating and allocating funds of political subdivisions are the same as for the state. One difference is that the designation of public depositories is the responsibility of the governing board of each subdivision—the governing board for counties being the county board, for cities the city council, for villages the village board, and for towns the town board. As in the case of the state, no security is required for subdivision funds. No geographic restrictions are placed on public depositories for subdivision funds other than that the banks designated must be located within the state.

public goals, such as economic development and maximizing the rate of return on idle public funds.

The results of this study reveal that states which tend to stress efficiency in managing state and local funds to achieve maximum returns on invested funds (e.g., Wisconsin) may have to forego certain social goals which may be achieved by allocating idle funds, such as promoting in-state (or in-county) development and statewide bank participation in the use of public funds. If the governmental body decides to select the goal

of maximizing its return on the investment of public funds, then the costs and benefits will be easily measurable in dollar terms. However, if the selected goal involves the achievement of social goals (e.g., promoting development), then the costs and benefits may be more nebulous and harder to define given the fungible nature of money. Since money is a free-flowing object of trade which ignores political boundaries, attempts to use state and local deposits to promote social goals and objectives may be of little avail.

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