

CHAPTER 85

DEPOSIT OF PUBLIC FUNDS. INTEREST

H. F. 506

AN ACT to amend section seventy-four hundred twenty-d six (7420-d6), code, 1931, as amended, relating to public deposits.

WHEREAS, many of our public bodies in many of the counties do not have ample depository facilities for their funds it being estimated that such a condition prevails with seriousness in approximately one half of the counties and to a certain degree in nearly all counties, because banks as below explained cannot today afford to pay as high a rate of interest on public funds that they could in normal earning times; and

WHEREAS, the public fund law strictly requires that public funds must be deposited and that the rate of interest payable by depositories cannot be less than 2% per annum on 90% of the collected daily balances payable each month; and

WHEREAS, it is believed as forcibly brought out by prevailing conditions that some central authority such as the treasurer of state with the approval of the executive council ought to have discretionary authority to adjust the rate above a certain minimum interest rate so that all public bodies may be able to find sufficient acceptable depositories for their public funds as the public fund law requires, and

WHEREAS, hundreds of banking institutions in existence today cannot afford during these present economic times when good bank loans were never so few and bank earnings consequently were never so scarce to accept all of the public funds now offered to them and pay interest upon them at the end of each month at the statutory required rate of 2% per annum.

WHEREAS, innumerable banks today are serving as depositories for their local public bodies and handling public funds at a loss for the reason that they cannot loan out public funds as they could in normal earning years and break even with the combined cost of overhead expense and the payment of 2% interest that the present law requires them to pay if they accept public funds, and

WHEREAS, night burglary and daylight holdup insurance rates represent an important item of overhead expense for such portion of public funds that are kept under insurance, the daylight holdup insurance rate alone for cash and securities kept on hand by a bank being \$20.00 per thousand dollars per year or 2%, and

WHEREAS, Iowa banks cannot any longer deposit public funds with their city correspondents and earn 1% or 2% interest thereon as they formerly could, the federal "Banking Act of 1933" now prohibiting any bank a member of the federal reserve system or the federal deposit insurance corporation from paying interest on funds deposited with said bank by any other bank, and

WHEREAS, while Iowa banking institutions are willing to extend adequate depository facilities to all public bodies they do feel that there is a very definite limit to the amount of loss in handling public funds which they can absorb and beyond that they cannot prudently go, because bank supervising departments particularly federal bank supervising departments will not permit them to continue to absorb known avoidable losses to the detriment of other depositors, and

WHEREAS, it is believed that the following bill will solve the present dilemma in which public bodies throughout the state now find themselves in obtaining adequate acceptable depository facilities for their public funds and will enable a central authority such as the treasurer of state, with the approval of the executive council, all upon behalf of the state, interested in the depository problems of all public bodies as well as directly interested in the financial welfare of the state sinking fund, to adjust the rate of interest payable upon public funds, but not below the minimum fixed in the following bill, consistent with the prevailing economic conditions, and

WHEREAS, it is believed that the aggregate amount of interest for the state sinking fund will immediately materially increase rather than be diminished if the following bill is enacted because it will permit more public funds to find interest paying depositories even though the rate of interest may be slightly lower than the present statutory rate, and

WHEREAS, it is the intent of the following bill to authorize the central rate making authority suggested therein to prescribe a slightly lower minimum interest rate whenever conditions like those now prevailing make it seem advisable to so do, yet it at the same time will insure that the higher interest rate now payable will again be payable in the future to the state sinking fund when public funds like other funds may again be employed by the depositories handling them, therefore,

Be It Enacted by the General Assembly of the State of Iowa:

1 SECTION 1. Section seventy-four hundred twenty-d six (7420-d6)
 2 of the code, 1931, as amended, be and the same is hereby amended by
 3 striking all of said section after the word "deposited" in line 8 thereof
 4 and inserting in lieu thereof the following:
 5 "for the months of April and October, provided further that in
 6 order that public bodies throughout the state may be able at all times
 7 to obtain sufficient acceptable depositories the treasurer of state with
 8 the approval of the executive council may from time to time adjust the
 9 rate of interest that shall be payable by all depositories on public funds
 10 in their hands but in no event shall such rate of interest be adjusted
 11 below one (1) per cent per annum on ninety (90) per cent of the
 12 collected daily balances payable as hereinbefore required. Hence-
 13 forth public deposits shall be deposited with reasonable promptness
 14 and shall be evidenced by pass book entry by the depository legally
 15 designated as depository for such funds. Provided, however, that
 16 the rate of interest set by the treasurer of state shall apply to all
 17 public deposits of the state of Iowa."

1 SEC. 2. This act being deemed of immediate importance shall be in
 2 full force and effect from and after its publication in the Fort Dodge
 3 Messenger, a newspaper published at Fort Dodge, Iowa, and the Gowrie
 4 News, a newspaper published at Gowrie, Iowa.

House File 506. Approved May 3, 1935.

I hereby certify that the foregoing act was published in the Fort Dodge Messenger, May 7, 1935, and the Gowrie News, May 9, 1935.

MRS. ALEX MILLER, *Secretary of State.*