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S.F. No. 1426 – Types of collateral the Executive Council may approve to secure state deposits

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Under current law, when state funds held by a bank, trust company, or credit union exceed the amount insured by applicable deposit insurance coverage, the bank, trust company, or credit union must provide the state with a corporate security bond or provide collateral security that is approved by the Executive Council. Statute lists the types of collateral that can be accepted.

SF 4179 [Collateral; section 9.031, subd. 3] changes the types of assets that the Executive Council may approve as collateral for the state’s deposits. Removes two descriptions of allowed collateral and replaces these with the following types:

- (1) United States government treasury bills, treasury notes, and treasury bonds;
- (2) issues of the United States government agencies;
- (3) general obligation securities of states or local governments, other than Minnesota, with taxing powers and having a bond rating of “A” or better, or revenue obligation securities of a state or local government with taxing powers having a rating of “AA” or better;
- (4) irrevocable standby letters of credit issued by Federal Home Loan Banks to the state accompanied by evidence that the bank’s public debt is rated “AA” or better by Moody’s Investment Service or Standard & Poor’s Corporation; and
- (5) time deposits that are fully insured by a federal agency.

Allows collateral to be placed in safekeeping in a restricted account at a Federal Reserve bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the institution furnishing the collateral. The location must be approved by the commissioner of management and budget. This new option for storing collateral is in addition to the currently allowed option to deposit the collateral with the commissioner of management and budget.