



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

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Receipt and Investment of Funds

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](http://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Receipt and Investment of Funds

Reference Number: MTAS-616

Receipt of Municipal Funds

Municipalities are authorized to accept checks, money orders, credit cards, and debit cards for taxes, licenses, fines, fees, and other money collected by the municipality. T.C.A. § 9-1-108(a) and (c)(1). If payment is made by check and it is returned for any reason, the municipality may impose a penalty of \$20 or 1 percent of the amount of the check over \$2,000. T.C.A. § 9-1-109. If payment is made by a credit card or debit card, the municipality may collect a processing fee in an amount equal to the amount paid to the third party that processes the payment. This fee shall not exceed 5 percent of the amount of the payment. If payment is made by a credit card that is not honored by the credit card company, the municipality may collect a service charge equal to that charged for a check that is returned for insufficient funds. This charge shall not apply if an electronic device is used to conduct the credit card transaction and the card and cardholder are present when the municipal officer conducting the transaction learns that the credit card will not be honored. The municipal officer collecting funds through payment by a credit card or debit card shall state on any notice to the person owing the tax, fine, fee, etc., either the percentage of the processing fee or the actual fee imposed for the use of a credit card or debit card. T.C.A. § 9-1-108(c)(2)-(6).

Investment (Deposit) of Municipal Funds

Funds temporarily not needed may be invested in a wide range of securities, including:

- U.S. Treasury bills and notes;
- Non-convertible securities of federal government-sponsored enterprises chartered by the U.S. Congress, such as the Federal National Mortgage Association;
- Secured certificates of deposit at state and federal chartered banks and savings and loan associations;
- Repurchase agreements of federal agency securities under procedures established by the state funding board if approved by the office of the comptroller;
- Top-rated state and local government general obligation bonds—investment of proceeds of notes and bonds (T.C.A. § 6-56-106);
- TVA obligations (T.C.A. § 35-3-119);
- Public housing authority obligations (T.C.A. § 35-3-115);
- Industrial building bonds (T.C.A. § 7-55-114);
- Industrial development corporation bonds (T.C.A. § 7-53-309); and
- Water treatment authorities (T.C.A. § 68-221-611(h)).

Most investments are limited to a maximum of four-year maturities unless approved by the office of the comptroller T.C.A. § 6-56-106(b).

Investments in non-convertible debt securities of federal issuers, repurchase agreements, and prime bankers' acceptances and commercial paper must be authorized by ordinance. The governing body also must adopt a written investment policy to govern these investments. The policy must be at least as strict as that of the state funding board. T.C.A. § 6-56-106(a)(7)(C).

Municipalities also may invest in cash management accounts to preserve FDIC protection. T.C.A. § 9-1-118.

Investment Pool

An investment pool, administered by the state treasurer, is available for investing a local government's idle public funds. Local funds are consolidated with state funds, but accurate and detailed accounting records are maintained for each local government. The cost of the service is deducted from that government's prorata earnings. All funds transfers and filings must be done electronically. T.C.A. §§ 6-56-106 and 9-4-701–706.

Collateral

All cities may invest or deposit funds in state or federal savings and loan associations, providing certain

collateral requirements are met for investments exceeding the \$250,000 insured by federal bank insurance programs (FDIC). T.C.A. § 9-1-107. Funds in banks also must be collateralized (T.C.A. § 6-56-106), and the collateral must have a market value equal to 105 percent of the government funds it secures. T.C.A. § 9-4-105.

Collateral Pool

The Collateral Pool for Public Deposits Act of 1990 creates a system whereby any bank or savings institution designated as a qualified public depository guarantees public depositors against loss caused by the default or insolvency of other qualified banks or public depositories in the same pool. The act created the collateral pool board, which is responsible for administering the system. T.C.A. §§ 9-4-501, *et seq.*

DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.

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