

Q & A for New Banking Services Law – Public Chapter 277

1. Am I correct to assume that a formal bid is not required? **Formal bids are not required.**
2. We frequently send a spreadsheet to all local banks asking them for their interest rate and fees. We just emailed it. Is this informal process within the scope of this new law? **A standard form or spreadsheet that is periodically sent to banks to gather information (interest rates, fees, services (e.g.; safe deposit box, cashier checks, wire transfers), collateralization, etc.) is appropriate.**
3. What was decided on when a city must comply? Must they seek proposals now, by July 1, 2019, July 1, 2023, etc.? **The law takes effect July 1. Therefore, I would interpret the statute to require municipalities to reevaluate their banking services at least once every 4 years beginning on that date.**
4. If a city has a current contract with a bank and that contract expires in June 2021, will the city be required to seek new proposals and adhere to the evaluation criteria set out in PC277 on July 1, 2019 or can the city wait until the current contract expires in 2021 and then seek proposals in the manner set out in PC277? **If a municipality currently has a contract in place for banking services, they would not be required to reevaluate until their contract expires...However, caution should be noted that all municipalities should be prepared to reevaluate soon after July 1 and not cite the existence of long-term or perpetually renewable contracts as an excuse for non-compliance.** Here is a link to the PC.
<https://publications.tnsosfiles.com/acts/111/pub/pc0277.pdf>
5. If there is only one bank in town can it be considered a sole source provider? **To meet the requirement of the statute municipalities must obtain cost information from more than one source. Once information is gathered the municipality must evaluate the proposals to determine which bank is the best choice for their city. If the local bank is the best choice after evaluating all bank information, then the process and reasoning for choosing the local bank should be documented to support the city's decision and provide documentation for audit purposes.**
6. Is a written contract required? **Yes, the statute specifically states that the governing body (or other contracting authority) must adopt a contract by resolution.**

On another note, the provision for collateralization remains the same. That is, if the bank is in the State Collateral Pool, deposits are automatically deemed to be sufficiently collateralized when accurately classified as "Public" funds and reported as such to the state collateral pool. But if the bank is not in the Pool, the city will have to use the pledged security protocol and require the bank comply with the state law. It requires third party safekeeping of pledged securities with a value of 105% of the funds exceeding the FDIC limit.

**Summary provided by Jim Arnette, Director
Comptroller of the Treasury
Division of Local Government Audit**

"As for the new banking services legislation, the periodic evaluation of banking services has been a requirement in counties since 2008...The legislation was not about getting the best interest rate, but simply codifying a process that hopefully all cities already perform...It's a best practice...It's about transparency...It's about accountability...All good reasons to periodically evaluate your banking services..."

"Municipalities are not required to change banks as long as they can document that they have gone through an evaluation process...A change should only be made when the combination of interest rates, fees, and services is advantageous to the city..."