HOUSE BILL REPORT
HB 1445

As Reported by House Committee On:
Financial Institutions & Insurance

Title: An act relating to the time certificate of deposit investment program.

Brief Description: Managing short-term treasury surplus funds.

Sponsors: Representatives Kessler, Lambert, Ogden, Edmonds, Kagi, Dickerson, Jackley, Fromhold, Keiser, Veloria, Miloscia, Cody and McDermott; by request of State Treasurer.

Brief History:
Committee Activity:
Financial Institutions & Insurance: 2/7/01, 2/27/01 [DPS].

Brief Summary of Substitute Bill

- Loans made under the Linked Deposit Program must be directed to a socially and economically disadvantaged business enterprise.–
- The Linked Deposit Program will sunset as of June 30, 2004.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Benson, Republican Co-Chair; Hatfield, Democratic Co-Chair; Bush, Republican Vice Chair; McIntire, Democratic Vice Chair; Barlean, Cairnes, DeBolt, Keiser, Miloscia, Roach, Santos and Simpson.

Staff: Thamas Osborn (786-7129).

Background:

One of the duties of the State Treasurer (treasurer) is to oversee the management of short term treasury surplus funds in order to ensure a maximum return while they are on deposit in public depositories. The framework for the management of such funds is determined by statute, but the treasurer has considerable discretionary authority, including rule-making authority, with respect to the promulgation and implementation of the necessary procedures. The goal of the procedures is to minimize non-interest earning demand deposits and provide fair compensation to financial institutions for services rendered to the state through the investment of state funds in time deposits.

The treasurer regularly has surplus funds available. The treasurer limits the amount of funds that must be kept in demand deposits to the amount necessary for current operating expenses and to efficiently manage the treasury. Surplus funds not in demand deposits generally are held in certificates of deposit.

The Linked Deposit Program was established in 1993 by the Legislature using surplus funds not required to be in demand deposits. Under that program, the treasurer deposits surplus state funds in public depositories as a certificate of deposit on the condition that the public depositary make qualifying loans under the program. Qualifying loans– are loans that are made to minority or women's business enterprises that are defined as small businesses, for a period not to exceed 10 years, and at an interest rate that is at least two percentage points below the market rate that normally would be charged for a loan of that type. Points or origination fees are limited to 1 percent of the loan principal. In turn, the bank or other public depositary pays an interest rate on the certificate of deposit equal to 2 percent below the market rate for such certificates.

The treasurer may currently use up to $50 million per year of surplus funds for deposit in the Linked Deposit Program.

The statutes authorizing the creation of the Link Deposit Program are subject to repeal as of June 30, 2001, pursuant to sunset provisions enacted in 1993.

Summary of Substitute Bill:

The current sunset provisions pertaining to the Linked Deposit Program are repealed.

The sunset date for the Linked Deposit Program is extended to from June 30, 2001 to June 30, 2004.

Loans made under the Linked Deposit Program are to be made to a "socially and economically disadvantaged business enterprise.– Language requiring that such loans be made to a "minority or women's business enterprise" is stricken.

Substitute Bill Compared to Original Bill:

The original bill increased the funds that can be deposited in the Linked Deposit Program from $50 million to $75 million. The substitute bill keeps the funding limit at the $50 million level.

The original bill did not make new sunset provisions. The substitute bill creates a new sunset date of June 30, 2004.

The substitute bill requires that loans made under the program must be directed to a "socially and economically disadvantaged business enterprise,– rather than a "minority or women's business enterprise.– The original bill did not address this issue.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: (Original bill) It is necessary to increase the funding level to $75 million in order to enable the current growth pattern to continue for another five to seven years. This is a low cost public investment that yields large social benefits. Over 246 businesses have taken advantage of the program. The intent is to promote economic development in areas that are disadvantaged. Recipients of loans generally have decent credit, but do not qualify for the prime interest rate. The program allows recipients to obtain loans at 2 percent less than the going interest rate. The program generates successful businesses, which, in turn, create long term customers for financial services. Overall, the program has worked very well for seven years.

Testimony Against: None

Testified: (In support) Representative Kessler, prime sponsor; Mike Murphy, State Treasurer; Denny Eliason, Washington Banker's Association; and Scott Gaspard, Washington Financial League.