

SENATE BILL REPORT

2SHB 1445

As Reported By Senate Committee On:
Labor, Commerce & Financial Institutions, March 29, 2001
Ways & Means, April 2, 2001

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

Brief Description: Retaining the linked deposit program.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Kessler (co-prime sponsor), Lambert (co-prime sponsor), Ogden, Edmonds, Kagi, Dickerson, Jackley, Fromhold, Keiser, Voloria, Miloscia, Cody and McDermott; by request of State Treasurer).

Brief History:

Committee Activity: Labor, Commerce & Financial Institutions: 3/27/01, 3/29/01 [DP, DNP].

Ways & Means: 4/2/01 [DP, DNP].

SENATE COMMITTEE ON LABOR, COMMERCE & FINANCIAL INSTITUTIONS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Gardner, Vice Chair; Franklin, Patterson, Rasmussen, Regala and Winsley.

Minority Report: Do not pass.

Signed by Senators Hochstatter and Honeyford.

Staff: Dave Cheal (786-7576)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Brown, Chair; Constantine, Vice Chair; Fraser, Kline, Kohl-Welles, Rasmussen, Regala, B. Sheldon, Snyder, Spanel, Thibaudeau and Winsley.

Minority Report: Do not pass.

Signed by Senators Fairley, Vice Chair; Honeyford and Zarelli.

Staff: Erin Hannan (786-7708)

Background: One of the duties of the State 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 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 depository 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 depository 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 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 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.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This program is a bargain in terms of jobs and other economic development benefits for the small state investment. Literally hundreds of small, fledgling businesses have benefitted from or owe their life to the reduced interest loans they have obtained. It even benefits the lenders who develop a customer relationship with borrowers under this program that continues after the loan under this program is repaid. The program has a broad geographic distribution in the state.

Testimony Against: None.

Testified: Representative Kessler, co-prime sponsor; Representative Lambert, co-prime sponsor; Mike Murphy, State Treasurer (pro); Denny Eliason, WA Bankers Assn. (pro); Ron Newbry, Washington Economic Development Assn. (pro).