

SENATE BILL REPORT

SB 5782

As Reported By Senate Committee On:
International Trade & Economic Development, February 17, 2005
Ways & Means, March 7, 2005

Title: An act relating to the linked deposit program.

Brief Description: Modifying provisions of the linked deposit program.

Sponsors: Senators Shin, Prentice, Franklin, Kline, Berkey and Kohl-Welles; by request of Governor Gregoire.

Brief History:

Committee Activity: International Trade & Economic Development: 2/8/05, 2/17/05[DPS-WM].

Ways & Means: 3/4/05, 3/7/05 [DP2S].

SENATE COMMITTEE ON INTERNATIONAL TRADE & ECONOMIC DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 5782 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Shin, Chair; Sheldon, Vice Chair; Pflug, Ranking Minority Member; Doumit, Eide and Roach.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5782 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Zarelli, Ranking Minority Member; Brandland, Fairley, Hewitt, Kohl-Welles, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

Staff: Paula Faas (786-7449)

Background: Surplus treasury funds. 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.

Linked Deposit Program. 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. Current law

defines "qualifying loans" as those that are made to certain minority or women's business enterprises for a period not to exceed 10 years and at an interest rate that is at least 2 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.

Recipients of loans under the linked deposit program must be certified as a minority or women's business enterprise by the Office of Minority and Women's Business Enterprises (OMWBE). The Department of Community, Trade, and Economic Development is responsible for monitoring the performance of the loans.

The Treasurer may use up to \$50 million per year of surplus funds for deposit in the Linked Deposit Program. The program is scheduled to terminate in 2008.

Summary of Second Substitute Bill: The provisions for termination of the program are repealed. The definition of "qualifying loan" is amended to limit the amount of a loan to \$ 1 million or less. The preference given banks is to be lowered to ensure that the effective interest rate on a CD is not less than two percent, and banks may make an equivalent reduction in the preference given on a loan. The responsibility for monitoring the performance of the loans under the program is transferred to OMWBE.

Second Substitute Bill Compared to Substitute Bill: The provision increasing the amount the Treasurer may deposit in the Linked Deposit program from \$50 million to \$100 million per year is removed.

Substitute Bill Compared to Original Bill: The substitute provides that, rather than stopping the program when effective interest rates on CDs are less than 2 percent, the treasurer is to lower the preference given to a bank and the bank may make a corresponding reduction in the benefit given a borrower.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This program has a proven track record. The bill will greatly help minority and women owned businesses to access capital. Businesses benefitting from the Linked Deposit program add jobs to the economy. The \$1 million loan ceiling will help ensure wider availability of loans. There is an eleven month waiting list on this program. The banks have 100 percent responsibility for the loans and the state has no liability.

Testimony Against: None.

Who Testified: PRO: Ellen Abellera, Commission on Asian Pacific American Affairs; Duane Hill, Griffin, Hill & Assoc.; Lincoln Ferris, Coalition for Investing in WA Jobs; Carolyn Crowson, OMWBE, Doug Extine, Barton Potter; Office of State Treasurer; Zelma Jackson, Commission on African American Affairs; Peter Antolin, OFM.