SENATE BILL REPORT
ESHB 1669

As of March 20, 2009

Title: An act relating to the deposit of public funds.

Brief Description: Addressing the deposit of public funds.

Sponsors: House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Hunt, Hasegawa, Appleton, Miloscia, Warnick, Kirby, Williams and Ormsby).

Brief History: Passed House: 3/09/09, 58-39.
Committee Activity: Financial Institutions, Housing & Insurance: 3/24/09.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Staff: Diane Smith (786-7410)

Background: Public funds may only be deposited in banks and thrift institutions that have been designated as public depositaries by the Public Deposit Protection Commission (Commission). The Commission was established in 1969 and is comprised of the Governor, the Lieutenant Governor, and the State Treasurer. The State Treasurer chairs the Commission and provides administrative support. The Commission is responsible for protecting all public funds deposited in public depositaries. "Public funds" are those monies belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees, and includes monies held in trust.

A "public depositary" is defined as a financial institution that does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has been approved by the Commission to hold public deposits, and which has segregated for the benefit of the Commission eligible collateral having a value of not less than its maximum liability. Credit unions may not be approved as public depositaries.

To be approved as a public depositary, a bank or thrift must meet minimum requirements of the Commission and must pledge securities as collateral to protect public funds on deposit in all public depositaries (not just for that particular institution). If deposit insurance and collateral pledged by a failed institution are insufficient to reimburse all public depositors, the other public depositaries are each assessed a proportionate share of the shortfall.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The State Treasurer may contract with financial institutions for the provision of custody services for negotiable instruments owned by local governments or institutions of higher education. Credit unions are not allowed to provide custody services under these contracts.

Summary of Bill: Credit unions may be approved as public depositaries. A financial institution is authorized to serve as a public depositary regardless of any exemptions from state taxes. The State Treasurer may contract with credit unions for the provision of custody services.

Credit unions approved as public depositaries must at all times pledge and segregate eligible securities in an amount equal to 100 percent of all public funds on deposit in the public depositary. The "maximum liability" in reference to a credit union public depositary means a sum equal to 100 percent of all collateral posted to secure the public deposits.

Credit union public depositaries may not accept public funds in excess of their insured amount.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2010.