
Business & Financial Services Committee

HB 1304

Brief Description: Allowing a public depository to arrange for reciprocal deposits of public funds.

Sponsors: Representatives Kirby and Vick.

Brief Summary of Bill

- Creates an exemption to the prohibition against the deposit of public funds in out-of-state institutions, if certain requirements are met.

Hearing Date: 1/20/15

Staff: Linda Merelle (786-7092).

Background:

The Public Deposit Protection Commission (Commission) ensures that public funds deposited in financial institutions are protected. The Commission is made up of the State Treasurer, Lieutenant Governor, and the Governor, and it is administered through the State Treasurer's office. It determines which institutions may hold state and local government deposits and monitors collateral pledged to secure uninsured deposits.

The Commission has the authority to: enforce regulations; require any public depository to furnish information regarding the status of public deposits; take necessary actions regarding the protection, collection, compromise or settlement of claims arising from loss; set the requirements for initial and continued qualification of financial institutions as public depositories; make and enforce rules regarding the standards governing matters within its power; require additional or different types and amounts of collateral or to restrict a public depository's right to receive or hold public deposits if financial standards are not met; and make and enforce sanctions against a public depository for noncompliance with statute or rules or policies of the Commission.

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.

Generally, the deposit of public funds in a public depository outside of the state is prohibited, but there are several statutory exceptions. These include:

- funds deposited under a fiscal agency contract with the state fiscal agent;
- funds deposited under a custodial bank contract with the state's custodial bank;
- funds deposited under a local government multi-state joint self-insurance program; and
- funds in a demand deposit account maintained by a treasurer outside Washington solely for the purpose of transmitting money for deposit in public depositories in Washington. Funds in a demand deposit account may be withdrawn at any time without advance notice to the depository institution. The account must be authorized by the Commission or the Commission Chair, if delegated that authority by the Commission. There must be good cause for the account, and the account may be limited in time, terms, and conditions as the Commission or the Chair deem appropriate.

In 2005, an additional exemption for out-of-state deposits was allowed. A demand deposit account may be maintained by a treasurer for the deposit of higher education endowment grants for specified study or research programs being performed outside Washington. The use of such out-of-state accounts must be authorized by the Commission or the Chair, if delegated that authority by the Commission. There must be good cause for the account, and the account may be limited in time, terms, and conditions as the Commission or the Chair deems appropriate.

Demand Accounts in Out-of-State Banks.

The Commission, or the Chair upon delegation by the Commission, may authorize state and local governmental entities to establish demand accounts in out-of-state and alien banks in an aggregate amount up to \$1 million. No single governmental entity is authorized to hold more than \$50,000 in one demand account. The governmental entities establishing such accounts are solely responsible for their proper management and must bear total responsibility for any losses incurred by those accounts. As part of the exemption allowed for higher education endowment grants in 2005, this limitation does not apply to endowment grants for specified study or research programs being performed outside Washington.

Summary of Bill:

An additional exception to the prohibition of depositing public funds in out-of-state institutions is permitted. Public funds may be deposited in out-of-state institutions if the following conditions are met:

- The funds are initially deposited in a Washington public depository selected by the state or local government.
- The selected state public depository has arranged for the funds to be deposited in one or more federally insured institutions for the account of the state or local government where the full amount of the principal and any accrued interest of each deposit is insured by an agency of the federal government.
- The selected depository acts as a custodian for funds deposited by the state or local government.
- On the same date that the state or local government funds are deposited, the selected public depository receives deposits from customers of other financial institutions in an

amount equal to or greater than the amount of funds initially deposited by the state or local government.

Public funds deposited pursuant to the exemption created in this act are not subject to the limitations regarding deposits in demand accounts in out-of-state institutions.

Appropriation: None.

Fiscal Note: Requested on 1/16/15.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.