

HOUSE BILL REPORT

SB 5265

As Reported by House Committee On: Business & Financial Services

Title: An act relating to allowing a public depository to arrange for reciprocal deposits of public funds.

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

Sponsors: Senators Benton, Mullet, Angel and Keiser.

Brief History:

Committee Activity:

Business & Financial Services: 2/24/16 [DP].

Brief Summary of Bill

- Authorizes public funds to be deposited in an out-of-state institution, subject to requirements including that the public funds are initially deposited in an in-state public depository and that the in-state public depository receive an equal or greater deposit of funds on the same day the public funds are transferred to the out-of-state institution for deposit.

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: Do pass. Signed by 11 members: Representatives Kirby, Chair; Stanford, Vice Chair; Vick, Ranking Minority Member; McCabe, Assistant Ranking Minority Member; Barkis, Blake, Dye, Hurst, Kochmar, Rye and Santos.

Staff: Peter Clodfelter (786-7127).

Background:

Public funds may be deposited only in banks that the Public Deposit Protection Commission (Commission) has approved as public depositories, and to a limited extent in approved credit unions. Established in 1969, the Commission is comprised of the Governor, the Lieutenant

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Governor, and the State Treasurer. The State Treasurer chairs the Commission and provides administrative support.

The Commission approves which banks and credit unions may hold state and local government deposits and monitors banks' collateral to secure uninsured deposits when deposits exceed the amount insured by the federal government, which is currently \$250,000 per depositor, per insured bank. Credit unions may not hold deposits of public funds in excess of the amounts insured by the federal government, which is currently \$250,000 per depositor, per insured credit union, even if secured by collateral.

Public funds may generally not be deposited in an institution outside of the state. However, there are several exemptions to that general prohibition, including:

- funds deposited pursuant to a contract with the state fiscal agent;
- funds deposited pursuant to a custodial bank contract with the state's custodial bank;
- funds deposited pursuant to a local government multistate joint self-insurance program;
- funds deposited in a demand deposit account solely for the purpose of transmitting money received to public depositories in the state for deposit, subject to restrictions and only upon good cause shown; and
- funds deposited in a demand deposit account maintained for certain higher education endowment funds to be used for a specified instructional program or research project being performed outside of the state, subject to restrictions and only upon good cause shown.

Generally, a state or local government entity depositing public funds in a demand account in an out-of-state institution is limited to an aggregate amount of deposits not to exceed \$1 million; and no single government entity may hold more than \$50,000 in one demand account. However, those limitations do not apply to funds deposited in demand deposit accounts maintained for certain higher education endowment funds to be used for a specified instructional program or research project being performed outside of the state.

Summary of Bill:

A new exemption to the general prohibition on depositing public funds outside of the state is created. Public funds may be deposited in institutions located outside of the state if the following conditions are met:

- the funds are initially deposited in a public depository selected by the state or local government that is located in the state;
- the selected in-state public depository arranges for the funds to be deposited in one or more federally insured banks or savings and loan associations, including out-of-state institutions, for the account of the state or local government;
- the full amount of the principal and any accrued interest of each deposit of funds into a depository is insured by a federal government agency;
- the in-state public depository acts as a custodian for the state or local government with respect to any out-of-state deposits; and

- on the same date that the state or local government funds are deposited, the selected in-state public depository receives deposits from customers of other financial institutions, which may include out-of-state institutions, in an amount equal to or greater than the amount of the funds initially deposited by the state or local government.

The requirements that a state or local government depositing public funds in demand accounts in an out-of-state institution be limited to an aggregate amount of deposits not to exceed \$1 million and that no single government entity may hold more than \$50,000 in one demand account do not apply to the new exemption, just like those requirements do not apply to funds deposited in demand deposit accounts maintained in out-of-state institutions for certain higher education endowment funds under the existing exemption.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This would give municipalities banking with community banks in Washington access to additional banking services, which there is demand for. Currently, if a municipality banks with a community bank, the municipality may participate in a program called the Certificate of Deposit Account Registry Service (CDARS) through which the municipality may place funds in time deposit accounts that are spread out through a network of other community banks based on a system of reciprocal deposits. The effect is that a municipality may obtain additional Federal Deposit Insurance Corporation (FDIC) coverage for municipal funds deposited in a community bank beyond the amount the municipality would be able to otherwise obtain. The bill would authorize a "daily sweep" product within the system of reciprocal deposits, allowing for shorter-term reciprocal deposits. All deposits are FDIC insured. Currently, 44 states authorize this; Washington does not. This would make Washington competitive with other states. Four other states that do not currently authorize this program are poised to pass similar authorizing legislation this year. The Office of the State Treasurer is in support.

(Opposed) None.

Persons Testifying: Amber Carter, Reich & Tang; Brad Tower, Community Bankers of Washington; and Amber Lewis, Promontory Interfinancial.

Persons Signed In To Testify But Not Testifying: None.