

SENATE BILL REPORT

SB 5265

As of February 5, 2015

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: Financial Institutions & Insurance: 1/29/15.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Shani Bauer (786-7468)

Background: The Public Deposit Protection Commission (Commission) is comprised of the State Treasurer, Governor, and Lieutenant Governor. The Commission administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The Commission approves which banks and thrifts can hold state and local government deposits and monitors collateral to secure uninsured public deposits when deposits exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC). The standard insurance amount through the FDIC is \$250,000 per depositor, per insured bank.

Current state law generally prohibits the deposit of public funds outside of the state. There are several exceptions to the general prohibition, including the following:

- 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 as provided in RCW 48.62.081;
- a demand deposit account maintained by a treasurer outside of Washington solely for the purpose of transmitting money for deposit in public depositories; and
- a demand deposit account maintained by a treasurer for higher education endowment funds used for specified study or research programs being performed outside Washington.

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.

An account must be authorized by the Commission or the Chair if delegated that authority by the Commission. There must be good cause for the account. The account may be limited in time, terms, and conditions as the Commission or Chair deem appropriate.

Summary of Bill: An exception is added to the list of instances when public funds may be deposited outside the state. Public funds may be deposited outside of Washington State if the following conditions are met:

- the funds are initially deposited in a public depository located in the state;
- the selected in-state depository arranges for the funds to be deposited in one or more federally insured banks or savings and loan associations;
- the full amount of the principal and any accrued interest is insured by an agency of the federal government;
- the in-state public depository will act as custodian with respect to the out-of-state deposits; and
- on the same day the funds are deposited, the in-state public depository receives deposits from customers or other financial institutions in an amount equal to or greater than the amount of funds initially deposited by the state or local government.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: In Washington we have an excellent system to allow cities and counties to use the banking system. The Commission administers that program chaired by the Treasurer's Office. The program has a three-tiered system: (1) funds are insured; (2) funds are backed by collateral; and (3) in the event of the insolvency of an institution and insufficient funds, other members of the public deposit program would each share a portion of the shortfall. Current collateral requirements prevent community banks from making loans in certain situations. There is a private program that allows banks to gather additional insured funds by utilizing out-of-state institutions. Community banks would like to use that program for municipalities. The bank would not need to use collateral and would be able to have insured funds.

Persons Testifying: PRO: Reg Truman, Promontory Interfinancial Network; Brad Tower, Community Bankers of WA.