

SENATE BILL REPORT

SB 6375

As of January 26, 2018

Title: An act relating to developing a publicly owned depository business plan.

Brief Description: Developing a publicly owned depository business plan.

Sponsors: Senators Hasegawa, Kuderer, Chase, Wellman, Saldaña, Palumbo, Ranker, Rolfes, Conway, Keiser and Hunt.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/16/18, 1/25/18 [DP-WM, DNP].
Ways & Means: 1/31/18.

Brief Summary of Bill

- Directs the Department of Commerce (Commerce) to contract with an entity with expertise in public finance and banking to develop a business plan to establish a publically owned depository.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Mullet, Chair; Hasegawa, Vice Chair; Baumgartner, Hobbs and Kuderer.

Minority Report: Do not pass.

Signed by Senators Angel, Ranking Member; Fortunato.

Staff: Jeff Olsen (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Julie Murray (786-7711)

Background: The State Treasurer (Treasurer) manages the state's funds and certain local government funds, including investment of the state's operating cash in short-term, interest bearing accounts. The Treasurer's purpose in investing the funds is to generate returns while

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preserving the state's ability to access the funds. The Treasurer is also the Chair of the Public Deposit Protection Commission, which is responsible for protecting public deposits in banks and thrift institutions.

Banks and credit unions must have either a state or federal charter to operate in Washington. The Department of Financial Institutions (DFI) is responsible for monitoring and regulating state-chartered financial institutions. The federal Office of the Comptroller of the Currency or the Office of Thrift Supervision regulates federally-chartered banks and the National Credit Union Administration regulates federally chartered credit unions.

There are general constitutional prohibitions on lending of the state's credit and the gifting of public funds. Court decisions interpreting these provisions have established several criteria to determine whether state actions are a prohibited lending of credit or gift of public funds.

The Infrastructure and Public Depository Task Force (Task Force) was created in the 2017-19 Omnibus Appropriations Act to examine the scope of financial needs for local governments for constructing public infrastructure and the feasibility of creating a publicly-owned depository. The Task Force identified short term steps for improving local infrastructure financing and long term steps for establishing a public depository institution for infrastructure funding. The report identified several issues that needed further analysis if the Legislature wants to develop a publically owned depository including developing a business plan, legal issues, capitalization, governance, and the level of interest from local governments.

Summary of Bill: Commerce must work with DFI, the Office of Financial Management, the Treasurer, the attorney general, and other appropriate agencies to contract with an entity with expertise in public finance and banking to develop a governance structure and a business plan to establish a publicly owned depository. The business plan must include a start-up business plan for the public bank that includes plans and timelines for new functions and functions transitioning to the bank that were previously performed by another entity. The business plan must also identify sources of capitalization and recommended cash flows. The business plan should consider different scale options for the financial assets of the public bank including an option for financial deposits up to \$500 million over the first five years of operation.

The business plan must also address:

- legal, constitutional, and regulatory issues;
- how to obtain a federal master account and join the federal reserve;
- information technology security;
- opportunities for collaborating with other financial institutions;
- impacts on the state's debt limit;
- recommendations for managing political influence on the public bank;
- impacts on the budget and existing state agencies including the Treasurer; and
- other items necessary to establish a state bank, state cooperative bank, or a state bank modeled after the Federal Home Loan Bank.

The Department must provide a final report to the Legislature by December 1, 2018.

Appropriation: None.

Fiscal Note: Requested on January 13, 2018.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony (Financial Institutions & Insurance): PRO: During the fall of 2017 a task force looked at creating a state bank and there were some concerns raised that were not yet answered. A state bank can do a better job managing public money and provide infrastructure for the people of Washington. This bill does not create a bank, but responds to concerns identified by the task force to develop a business plan. Washington has a significant amount of debt, and needs to look at economic needs. This bill is the next step forward and it will be up to a future legislature to decide.

CON: Bankers spent a significant amount of time reviewing the concept of creating a state bank, and a majority of the task force recommended not to pursue that option. Some proponents of developing a public bank had a lack of understanding of banking. The task force raised lots of questions about creating a state bank. If paid consultants are asked to develop a plan, there may be a bias to develop the plan and not address the issues. The financial industry is complex and it will be difficult to develop a business plan without answering other policy questions.

Persons Testifying (Financial Institutions & Insurance): PRO: Senator Kuderer

CON: Brad Tower, Community Bankers of Washington; Glen Simecek, Washington Bankers Association; Trent House, Washington Bankers Association.

Persons Signed In To Testify But Not Testifying (Financial Institutions & Insurance):
No one.