

HOUSE BILL REPORT

SB 5106

As Reported by House Committee On:
Consumer Protection & Business

Title: An act relating to municipal access to local financial services.

Brief Description: Concerning municipal access to local financial services.

Sponsors: Senators Lias, Rivers and Wilson, C..

Brief History:

Committee Activity:

Consumer Protection & Business: 3/11/21, 3/15/21 [DP].

Brief Summary of Bill

- Repeals the limitation that a credit union may only accept deposits greater than the maximum insured amount from a public funds depositor that either is a county with a population of 300,000 persons or less or is a public funds depositor located within a county with a population of 300,000 persons or less.

HOUSE COMMITTEE ON CONSUMER PROTECTION & BUSINESS

Majority Report: Do pass. Signed by 4 members: Representatives Kirby, Chair; Walen, Vice Chair; Ryu and Santos.

Minority Report: Do not pass. Signed by 3 members: Representatives Vick, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Corry.

Staff: John Burzynski (786-7133).

Background:

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

The deposit and investment of public funds is governed by chapter 39.58 RCW. "Public funds" means moneys under the control of a treasurer, the State Treasurer, or custodian belonging to or held for the benefit of the state or any of its political subdivisions, public corporations, municipal corporations, agencies, courts, boards, commissions, or committees, including moneys held as trustee, agent, or bailee belonging to or held for the benefit of the state or any of its political subdivisions, public corporations, municipal corporations, agencies, courts, boards, commissions, or committees.

Subject to limited exceptions, public funds may only be deposited in a financial institution that has been designated as a public depository by the Washington Public Deposit Protection Commission (Commission). The Commission may, in relevant part: (1) establish requirements for initial and continued qualification of financial institutions as public depositories on the basis of a depository's financial condition, including its capitalization, collateral, liquidity, and net worth; (2) require a public depository furnish information on its financial condition, public deposits, and net worth; (3) take action for the protection, collection, compromise, or settlement of any claim arising in case of loss; and (4) make and enforce sanctions against a public depository for noncompliance.

Public depositories must meet the minimum requirements established by the Commission, complete a depository pledge agreement with the Commission and a trustee, and maintain eligible collateral having a value at least equal to its maximum liability.

The Washington laws governing public deposits were previously amended to include federal or state-chartered credit unions within the definition of financial institutions, making them eligible for designation as public depositories. The Commission has designated multiple credit unions as public depositories.

Washington law restricts credit unions from accepting certain public deposits. Credit unions may only accept deposits greater than the maximum insured amount from a public funds depositor that either: (1) is a county with a population of 300,000 persons or less; or (2) is a public funds depositor located within a county with a population of 300,000 persons or less.

Summary of Bill:

The bill repeals RCW 39.58.240, removing its limitation that a credit union may only accept deposits greater than the maximum insured amount from a public funds depositor that either: (1) is a county with a population of 300,000 persons or less; or (2) is a public funds depositor located within a county with a population of 300,000 persons or less.

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) Current law allows credit unions to accept public fund deposits, except from the state's most populous counties. Local governments should be able to make use of all available options in deciding where to place public funds. All counties should be able to partner with credit unions. There have not been any problems with allowing public fund deposits in credit unions in smaller counties.

Credit unions want to accept public fund deposits and reinvest them in their local communities. Credit unions lend money to individuals, families, businesses, and public entities. Current law limits credit unions from accepting public funds deposits from some entities that would prefer to deposit their money with a local credit union.

Credit unions can save local districts and taxpayers money; provide good returns, services, and accessibility; and will be good stewards of public funds. More competition between financial institutions for public fund deposits will benefit taxpayers. The law should advantage the taxpayer and afford the opportunity to invest locally.

After the 2020 census is completed, Thurston and Kitsap counties will likely have populations in excess of 300,000, subjecting them to the current statutory limit. Each county subject to this restriction has rural areas lacking banking institutions.

This policy will not lead to a credit union takeover. Commercial banks will always hold the overwhelming majority of public deposits. The collateralization requirements are a natural limiting factor. Permitting public fund deposits with credit unions is a common practice in 34 other states.

(Opposed) The restriction on allowing credit unions to accept public fund deposits was previously lifted for lower population counties to address the problem of rural entities lacking options for investing public funds.

Credit unions do not pay state business and occupation tax, while banks do. Every dollar that leaves banks for credit unions reduces tax revenue. The largest financial institution in Washington is a credit union paying no business and occupation tax. Opponents of this bill oppose unequal tax treatment. Community banks are being harmed by tax competition from credit unions and are pulling back from more communities in response. If banks and credit unions played by the same rules, we would see different results.

Financial institutions that serve as public depositaries have a combination of privileges and

responsibilities, including the responsibility to jointly insure all other public depositaries. Current law keeps credit unions out of this joint risk pool. Removing restrictions on credit unions will increase risk for all public depositaries.

Persons Testifying: (In support) Senator Lias, prime sponsor; Jeff Gadman, Thurston County and Washington State Association of County Treasurers; Lars Gilberts, University District Development Association; Joe Adamack, Northwest Credit Union Association; Brian Sullivan, Snohomish County; Meredith Green, Kitsap County; Lynn Ciani, Numerica Credit Union; and Traci McGlathery, Spokane Teachers Credit Union.

(Opposed) Trent House, Washington Bankers Association; and Brad Tower, Community Bankers of Washington.

Persons Signed In To Testify But Not Testifying: None.