SENATE BILL REPORT
SB 5106

As Passed Senate, February 16, 2021

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

Brief Description: Concerning municipal access to local financial services.

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

Brief History:

Committee Activity: Business, Financial Services & Trade: 1/21/21, 1/28/21 [DP, w/oRec].

Floor Activity: Passed Senate: 2/16/21, 40-7.

Brief Summary of Bill

- Removes the requirement that limits credit unions from accepting public deposits greater than the maximum insured amount from a county with a population greater than 300,000, or from public funds depositors located in a county with a population greater than 300,000 persons.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Majority Report: Do pass.
Signed by Senators Mullet, Chair; Hasegawa, Vice Chair; Dozier, Ranking Member; Brown, Frockt and Wilson, L.

Minority Report: That it be referred without recommendation.
Signed by Senator Hobbs.

Staff: Clinton McCarthy (786-7319)

Background: Public funds may be deposited in a bank or trust company, savings bank, savings association, or a credit union under certain circumstances, that has been designated

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as a public depositary by the Washington Public Deposit Protection Commission (commission). "Public funds" means money, including money held in trust, belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees.

To be approved as a public depositary, a bank, credit union, or thrift must meet minimum requirements of the commission and must pledge securities as collateral to protect public funds on deposit above the amounts insured under the Federal Deposit Insurance Corporation. If the deposit insurance and the collateral pledged by a failed institution are insufficient to reimburse, all public depositors, the other public depositaries, as part of the public depositary pool, are each assessed a proportionate share of the shortfall.

The commission may request a public depositary to furnish information on its financial condition, public deposits, and on the exact status of its net worth. The commission may take any action deemed advisable for the protection of public funds and to establish procedures for collection or settlement of claims arising from the failure of a public depositary.

In 2018, statute was amended to include credit unions in the definition of public depositories. Credit unions are allowed to accept public deposits greater than the maximum insured amount from a county with a population of 300,000 persons or less, or from public funds depositors located in a county with a population of 300,000 persons or less. Credit unions that receive public deposits must meet all of the minimum requirements of the commission, must pledge securities as collateral to protect public funds on deposit, and must participate in the public depository pool. The Department of Financial Institutions is permitted to rely on information from the National Credit Union Association regarding credit unions when investigating or examining public depositories.

Summary of Bill: The condition that limits credit unions from accepting public deposits greater than the maximum insured amount from a county with a population greater than 300,000, or from public funds depositors located in a county with a population greater than 300,000 persons is eliminated.

Appropriation: None.

Fiscal Note: Available.

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: PRO: This is follow-on legislation to a bill that the Legislature passed in 2018. This bill provides local governments with one more option for where they can spread their public deposits to. Credit unions would be allowed to partner with the five largest counties in the state. This is not an uncommon practice in our country—two-thirds ofstates in the country can already do this. The current policy is based on a century old framework that is dated because it was developed prior to the rise of credit unions. Banks and credit unions have seen significant increases in public deposits over the past few years. In 2018, 34 of the 39 counties were able to access credit unions. The next census is likely to have Thurston and Kitsap Counties exceed the population threshold of 300,000. This bill provides for more competition, which means this is better for local governments. This is not a “shall” bill, it is a “may” bill—it permits all counties to consider using credit unions. Credit unions have not disadvantaged banks over the past three years. Public deposits are being taken out of state and being loaned out as corporate debt.

CON: Prior to 2010, credit unions were not allowed to accept public depositories, but only to the $250,000 FDIC insured amount. Only a select few credit unions are participating in the program. The experience does not match the talking points on this bill. Total equity in credit unions in 2009 has increased 102 percent. This bill could have the impact of diverting tax funds away from the state. In 2018, banks were paying $400 million in B&O taxes and credit unions were paying $0.

Persons Testifying: PRO: Senator Marko Liias, Prime Sponsor; Lars Gilberts, University District CEO; Joe Adamack, Northwest Credit Union Association; Jeff Gadman, Thurston County Treasurer; Arthur Whitten, Treasurer of Spokane County; Ezra Eckhardt, Spokane Teachers Credit Union; Barney Herrera, Seattle Credit Union; Lynn Ciani, Numerica Credit Union; Brian Sullivan, Snohomish County Treasurer.

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

Persons Signed In To Testify But Not Testifying: No one.