

# HOUSE BILL REPORT

## HB 3174

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### As Reported by House Committee On: Ways & Means

**Title:** An act relating to management of funds and accounts by the state treasurer.

**Brief Description:** Addressing the management of funds and accounts by the state treasurer.

**Sponsors:** Representatives Linville, Alexander and Sullivan; by request of State Treasurer.

#### **Brief History:**

##### **Committee Activity:**

Ways & Means: 2/6/10, 2/8/10 [DP].

#### **Brief Summary of Bill**

- Authorizes the Office of the State Treasurer (OST) to enter agreements with agencies for investment by OST of moneys not otherwise required to be deposited with the OST, and permits OST to negotiate cost allocation rates for these deposits.
- Permits comingling of moneys in the treasury and custodial accounts for cash management and cash balance purposes.
- Directs the OST to report on obsolete accounts and agencies' local accounts.

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### HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass. Signed by 17 members: Representatives Linville, Chair; Ericks, Vice Chair; Sullivan, Vice Chair; Cody, Conway, Darneille, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Pettigrew, Priest, Schmick and Seaquist.

**Minority Report:** Do not pass. Signed by 4 members: Representatives Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Chandler.

**Staff:** Kristen Fraser (786-7148) and Dave Johnson (786-7154).

#### **Background:**

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*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.*

The Office of the State Treasurer (OST) is responsible for managing the cash flow of state accounts and for short-term investment of the state's operating cash.

There are two types of accounts managed by the OST: treasury accounts and custodial accounts. This distinction arises from the constitutional requirement for an appropriation in law before moneys in the treasury may be expended. The Legislature may exclude some public accounts from this appropriation requirement by designating those accounts as "in the custody of" the State Treasurer (Treasurer). Moneys in these custodial accounts, also referred to as non-appropriated accounts, typically do not require an appropriation before they may be expended. Instead, the Legislature in statute designates an appropriate agency official who may authorize expenditure from a custodial account. Custodial accounts are located within the Treasurer's Trust Fund and may be managed and invested in the same manner as moneys in the treasury, but there is no express statutory authorization for comingling of treasury and custodial accounts for cash management purposes.

There are 536 accounts in the treasury and 273 custodial accounts. In addition to treasury accounts and custodial accounts, agencies may also maintain accounts at private financial institutions. These are known as "local" accounts. Agencies may establish new local accounts only when authorized to do so by the Office of Financial Management for grounds of economy and efficiency that could not be achieved by placing the moneys in the state treasury.

The OST manages and invests moneys in both treasury accounts and custodial accounts. Authorized forms of investment for treasury and custodial accounts are specified in statute. (Some state accounts, including the state pension funds, industrial insurance funds, and the Budget Stabilization Account, are invested by the State Investment Board.)

Earnings of treasury accounts are credited to the Treasury Income Account, and earnings of custodial accounts are credited to the Investment Income Account. Specified treasury and custodial accounts receive all or a portion of their net investment earnings; otherwise, these earnings are credited to the State General Fund. The OST's management costs are recovered through allocations to the State Treasurer's Service Account. These allocations are deducted before earnings are distributed to the respective accounts, and the OST must establish a uniform rate for allocating these costs.

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### **Summary of Bill:**

If an agency has independent authority over moneys that are not required to be held in the treasury or the Treasurer's Trust Fund, the agency may reach an agreement with the OST to deposit these moneys in the treasury or Treasurer's Trust Fund and receive a proportionate share of earnings. In such cases, the agency and the OST may negotiate a different cost allocation rate for the Treasurer's Service Account, although this rate may not be less than the OST's actual costs.

For cash management and cash balance purposes, moneys in the Treasurer's Trust Fund may be comingled with moneys in the treasury.

The OST must provide a biennial report on treasury or custodial accounts that the Treasurer believes to be obsolete. This report must describe the criteria used to determine whether the accounts were deemed obsolete.

Before June 1, 2010, the Office of Financial Management (OFM) must provide the Treasurer with a list of accounts held locally by any agency. Before October 31, 2010, the OST, working with the OFM, must review locally held accounts, other than those held by institutions of higher education, and determine whether it would be financially advantageous to the state to instead hold these accounts in the treasury or in the custody of the Treasurer. The Treasurer is encouraged to propose executive request legislation to effect these changes.

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**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 bill is one way to help us better manage our cash. This will help smooth out the cash flow experience that we have, as a state, over any fiscal or calendar year. This is about managing cash within a fiscal year, not about how you would budget across a fiscal year or biennium. The credit agencies would see this change as a positive thing rather than see it as a cause of concern. The Treasurer's trust funds tend to be less cyclical over the course of a month or a year than do funds in the Treasury. The goal is to bring the best financial result for the state and for the funds and accounts.

(Opposed) None.

**Persons Testifying:** Wolfgang Opitz, Office of the State Treasurer.

**Persons Signed In To Testify But Not Testifying:** None.