

HOUSE BILL REPORT

HB 2661

As Reported By House Committee On:
Financial Institutions & Insurance

Title: An act relating to public funds.

Brief Description: Regulating public funds.

Sponsors: Representatives L. Thomas and Wolfe; by request of State Treasurer.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 1/22/96, 1/25/96 [DP].

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 15 members: Representatives L. Thomas, Chairman; Beeksma, Vice Chairman; Smith, Vice Chairman; Wolfe, Ranking Minority Member; Scheuerman, Assistant Ranking Minority Member; Benton; Campbell; Dellwo; Dyer; Grant; Huff; Keiser; Kessler; Pelesky and D. Sommers.

Staff: Charlie Gavigan (786-7340).

Background: Public funds can be deposited only in commercial banks and thrift institutions that have been designated as public depositories by the Public Deposit Protection Commission (PDPC). This commission was created in 1969 and is comprised of the Governor, the Lieutenant Governor, and the State Treasurer. The State Treasurer chairs the commission and provides administrative support. The PDPC is responsible for protecting all public funds deposited in Washington banks and savings associations. Public funds are those moneys belonging to or held for the state, its political subdivisions (local governments), municipal corporations, agencies, courts, boards, commissions, or committees, and includes moneys held in trust.

To be approved as a public depository, a bank or thrift must meet minimum requirements of the PDPC and must pledge securities as collateral to protect public funds on deposit in all public depositories (not just for that particular institution). If deposit insurance and collateral pledged by a failed institution are insufficient to reimburse all public depositors, the other public depositories are each assessed a proportionate share of the shortfall.

The PDPC can authorize state and local government entities to establish demand accounts in out-of-state and alien banks. No single government entity can hold more than \$50,000 in one account, and the aggregate cannot exceed \$1 million. These accounts are not secured by the PDPC, but are the sole responsibility of the government entity establishing the account.

Summary of Bill: Washington branches of out-of state banks and savings associations may be approved as public depositories. The Public Deposit Protection Commission (PDPC) may adjust net worth requirements to account for interstate branching of Washington banks into other states and out-of-state banks into Washington. The chair of the PDPC, when delegated the authority by the PDPC, can allow state and local government entities to establish demand accounts in out-of-state and alien banks.

All public depositories must enter into depository pledge agreements. This is a tri-party agreement between the financial institution, the PDPC, and the institution's trustee. The types of securities that may be used as collateral are changed and clarified.

Technical changes and clarifications are made. For example, references to "qualified public depository" are changed to "public depository," incorrect references to the director of the Department of Financial Institutions are corrected, and public corporations are included in references to public funds.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: This bill is necessary to update and modernize public deposit protection provisions to account for changes in interstate banking and FDIC requirements, and to make necessary technical and housekeeping changes.

Testimony Against: None.

Testified: Peter Rex and Patty Richards, Office of the State Treasurer (supports).