

# SENATE BILL REPORT

## SB 5579

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As of February 26, 2009

**Title:** An act relating to the deposit of public funds.

**Brief Description:** Addressing the deposit of public funds.

**Sponsors:** Senators McDermott and Oemig.

**Brief History:**

**Committee Activity:** Ways & Means: 2/26/09.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Steve Jones (786-7440)

**Background:** A public depository is a financial institution (such as a bank, trust company, or savings association) authorized by the state to accept the deposit of public funds belonging to the state, a state agency, or a county, city, or other political subdivision of the state.

A credit union is not authorized to be a public depository, nor is any financial institution claiming an exemption from state sales tax or state property tax. A federally chartered credit union is exempt from state sales tax and is, therefore, ineligible to serve as a public depository.

The State Treasurer is authorized to contract with financial institutions for the provision of custody services for negotiable instruments (investments) owned by local governments or institutions of higher education. Credit unions are not authorized to provide custody services under these contracts.

**Summary of Bill:** Credit unions are authorized to serve as public depositories. A financial institution may serve as a public depository regardless of any exemptions from state taxes.

The State Treasurer may contract with credit unions for the provision of custody services.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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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.*

**Committee/Commission/Task Force Created:** No.

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

**Staff Summary of Public Testimony:** PRO: Allowing credit unions to serve as public depositories provides more options for public officials, and at a lower cost than commercial banks. Credit unions are member-owned service organizations that respond to the needs of their members, and credit union members are asking for the authority to deposit public funds. This is a convenience to our members and our communities. While credit unions do enjoy some tax exemptions, they pay many other taxes, and commercial banks enjoy several tax preferences. The total value of tax preferences provided to banks is larger by several magnitudes than credit unions' tax breaks. Credit unions would have to meet the same financial reserves required of banks, so the risk to depositors would not be increased.

CON: This bill represents a significant policy change. This bill has fiscal impact to state government because commercial banks pay state taxes on the public deposits they receive, while credit unions would not. The tax burden on banks is significantly higher than credit unions. Adding credit unions to the guarantee pool would increase risk to the other members of the pool.

**Persons Testifying:** PRO: Senator McDermott, prime sponsor; Terry Belcoe, North Coast Credit Union.

CON: Brad Tower, Community Bankers of Washington; Denny Eliason, Washington Bankers Association; Greg Pierce, Washington Financial League.