
Business & Financial Services Committee

ESB 6349

Brief Description: Concerning public funds and deposits.

Sponsors: Senators Benton and Mullet; by request of State Treasurer.

Brief Summary of Engrossed Bill

- Changes the definitions of certain terms related to the Public Deposit Protection Commission and public depositories.
- Makes related changes and clarifications concerning public depositories.

Hearing Date: 2/24/16

Staff: Peter Clodfelter (786-7127).

Background:

Public funds may generally only be deposited in financial institutions that the Public Deposit Protection Commission (Commission) has approved as public depositories. Established in 1969, the Commission is comprised of the Governor, the Lieutenant Governor, and the State Treasurer. The State Treasurer chairs the Commission and provides administrative support.

The Commission is responsible for protecting all public funds deposited in public depositories. A public depository is a financial institution that does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under Washington law, that has been approved by the Commission to hold public deposits, and that has segregated for the benefit of the Commission eligible collateral having a value of not less than the financial institution's maximum liability. Financial institutions are defined as any national or state-chartered commercial bank or trust company, savings bank, or savings association, or branch or branches thereof, located in Washington. Pursuant to authorization added in 2010 and 2012, state and federal credit unions may act as limited public depositories of funds for public agencies, up to the maximum amount insured by the National Credit Union Share Insurance Fund, which is currently \$250,000.

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.

Public funds are those moneys belonging to or held for the state, its political subdivisions, municipal corporations, agencies, courts, boards, commissions, or committees, and includes moneys held in trust. All public funds deposited in public depositories, including investment deposits and accrued interest on such investment deposits, must be protected against loss. Investment deposits are time deposits, money market deposit accounts, and savings deposits of public funds available for investment. Time deposits must bear interest at a rate not in excess of the maximum rate permitted by any applicable government regulation.

The eligible collateral that every public depository must at all times maintain pursuant to a depository pledge agreement with the Commission and a trustee must be segregated by deposit with the public depository's trustee and must be clearly designated as security for the benefit of public depositors. A trustee is a third-party safekeeping agent that has completed a depository pledge agreement with a public depository and the Commission. Such a third-party safekeeping agent may be the Federal Reserve Bank of San Francisco, the Federal Home Loan Bank of Seattle, or such other third-party safekeeping agent approved by the Commission.

Eligible collateral that the Commission may accept is defined as specific classes of securities:

- certificates, notes, or bonds of the United States;
- state, county, municipal, or school district bonds or warrants of taxing districts of any state in the United States;
- bonds, notes, letters of credit, or other securities or evidence of indebtedness constituting the direct and general obligation of a federal home loan bank or federal reserve bank;
- revenue bonds of Washington or any authority, board, commission, committee, or similar agency of Washington, and any municipality or taxing district of this state;
- direct and general obligation bonds and warrants of any city, town, county, school district, port district, or other political subdivision of any state, having the power to levy general taxes, which are payable from general ad valorem taxes;
- bonds issued by public utility districts; and
- bonds of any city of the State of Washington for the payment of which the entire revenues of the city's water system, power and light system, or both, less maintenance and operating costs, are irrevocably pledged, even though such bonds are not general obligations of such city.

The Commission may determine by rule or resolution whether any security is or will remain eligible as collateral when it is desirable or necessary to do so in the Commission's judgment.

The Director of the Department of Revenue must notify the Commission quarterly of the names and addresses of any financial institutions that have claimed exemption from the payment of any sales or compensating use or ad valorem taxes under Washington law.

Summary of Bill:

When the Commission accepts a letter of credit from a federal bank or a federal reserve bank as eligible collateral from a public depository, the letter of credit is not subject to a completed depository pledge agreement and, accordingly, the Commission must act as the safekeeping agent of the letter of credit rather than a trustee.

The definition of "public depository" is amended to harmonize the definition with the separate authorization for credit unions to act as public depositories in a limited scope. The requirement that the Director of the Department of Revenue must notify the Commission quarterly of the names and addresses of any financial institutions that have claimed exemption from the payment of any sales or compensating use or ad valorem taxes under Washington law is removed.

It is provided that investment deposits do not include time deposits represented by a transferable or negotiable certificate, instrument, passbook, or statement, or by book entry or otherwise.

The definition of "trustee" is amended so that eligible trustees include all federal home loan banks or other third-party safekeeping agents approved by the Commission, instead of specifically the Federal Reserve Bank of San Francisco and the Federal Home Loan Bank of Seattle or other third-party safekeeping agents approved by the Commission.

A reference to an obsolete federal agency is removed.

The requirement that time deposits must bear interest at a rate not in excess of the maximum rate permitted by any applicable government regulation is removed.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.