

# SENATE BILL REPORT

## SB 5396

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As of February 2, 2017

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

**Brief Description:** Concerning municipal access to local financial services.

**Sponsors:** Senators Angel, Liias, Wellman, O'Ban, Cleveland, Hasegawa and Hunt.

**Brief History:**

**Committee Activity:** Financial Institutions & Insurance: 2/02/17.

**Brief Summary of Bill**

- Adds federal or state-chartered credit unions as financial institutions that the Washington Public Deposit Protection Commission may designate as a public depository.

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Staff:** Jeff Olsen (786-7428)

**Background:** Unless expressly authorized by statute, public funds must be deposited in an eligible financial institution that has been designated as a public depository by the Washington Public Deposit Protection Commission (Commission). To be approved as a public depository, a financial institution 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 (FDIC). If deposit insurance and collateral pledged by a failed institution are insufficient to reimburse all public depositors, the other public depositories, as part of the public depository pool, are each assessed a proportionate share of the shortfall.

Credit unions may function as a public depository only for the purpose of receiving certain public deposits. State and federally chartered credit unions may only accept public deposits up to the amount insured by the National Credit Union Share Insurance Fund (NCUSIF). Currently, the maximum amount of funds, per depositor, insured by the NCUSIF is \$250,000.

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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 Commission can request a public depository to furnish information on its financial condition, public deposits, and on the exact status of its net worth. The Commission may also 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 depository.

**Summary of Bill:** The bill as referred to committee not considered.

**Summary of Bill (Proposed Substitute):** Federal or state-chartered credit unions are added as financial institutions that the Commission may designate as a public depository. The restriction allowing a federal or state credit union to only receive public deposits up the maximum insured amount of \$250,000 is repealed. The restriction that a public depository may not claim exemption from the payment of any sales or use tax or ad valorem taxes in Washington is repealed.

The Commission may rely on information from the National Credit Union Administration to investigate the condition of any financial institution which makes application to become a public depository or has been designated as a public depository.

**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 on Proposed Substitute:** PRO: Credit unions are not-for-profit cooperatives that are governed by members, to benefit their members and their communities. Local governments are the custodians of public funds and they need more choices. In some communities, banks have closed branches or have stopped managing public deposits, and these communities are being underserved. Credit unions are local and support their communities. There are three layers of protection for public funds including insurance, collateral, and a pool of funds from public depositories. Credit unions would be allowed to accept public deposits over \$250,000, would need to put up collateral, and would subject credit unions to risk sharing in case of a failure or loss of public funds. The closure of certain local bank branches has resulted in municipalities having to travel up to 2 hours to make cash deposits and conduct their business. In other cases, a credit union located right next to a municipal office is unable to accept their deposits due to restrictions in current law. School districts and other local districts were surprised to learn they could not deposit funds in their local credit union due to current restrictions. It is in the best interest of Washington citizens to have more choices and options available to government agencies and local governments.

CON: This is an expansion of a tax preference for credit unions to provide a service in the marketplace that is currently available and subject to the business and occupations tax. The tax preference for credit unions was not intended to benefit corporations and governmental entities. There are currently nearly 1500 banks in Washington that accept public deposits, and are able to provide service. Public deposits require unique management, and technology

allows banks to effectively manage public deposits. Banks invest in public bonds to the benefit of local communities. Credit unions don't pay taxes, and they shouldn't benefit from accepting public deposits. This bill goes beyond servicing underserved, rural communities, and allows very large credit unions to compete in urban areas that already have full services provided by tax paying banks. In a single pool, banks would be competing on an un-level playing field, but if a there is a failure, banks would be responsible along with other participants, and that is unfair.

OTHER: In response to the financial crisis and a bank failure in Clark County, the Office of the State Treasurer developed and put in safeguards to protect public deposits including the creation of a single risk pool to better spread the risk and protect public deposits.

**Persons Testifying:** PRO: Senator Jan Angel, Prime Sponsor; Troy Stang, NWCUA; Terri Jefferys, Commissioner; Hal Scoggins, citizen; Scott Adkins, Inspirus CU; Chris Bradberry, Fibre Federal; Tom Johnson, STCU; Kristine Cowan, Peninsula Community CU; Arnold (Arnie) Davis, WSACT; Meredith Green, WSACT.

CON: Brad Tower, Community Bankers of Washington; Denny Eliason, Washington Bankers Association; Alan Crain, Kitsap Bank.

OTHER: Brad Hendrickson, Office of the State Treasurer.

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