

# SENATE BILL REPORT

## HB 2661

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As Reported By Senate Committee On:  
Financial Institutions & Housing, February 20, 1996

**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 & Housing: 2/15/96, 2/20/96 [DP].

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

**Majority Report:** Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair; Hale, Roach, Sellar, Smith and Sutherland.

**Staff:** Katie Healy (786-7403)

**Background:** The Public Deposit Protection Act (PDPA) was adopted as a new concept for collateralizing bank balances of public treasurers' accounts. This means that in the event of the default of one bank, all participating banks in the state collectively assure that no loss of funds shall be suffered by any public treasurer or custodian of public funds.

The Public Deposit Protection Commission (PDPC) was created, 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 state banks and thrifts. Public funds are those moneys belonging to or held for the state, its political subdivisions (local government), municipal corporations, agencies, courts, boards, commissions, or committees, and includes moneys held in trust. Public funds can only be deposited in commercial banks and thrift institutions that have been designated as public depositories.

In the event of default of a public depository, the PDPC establishes the amount of public fund loss. Federal insurance coverage and the failed depository's pledged collateral against public deposits are applied. Then, each participating depository is assessed for its proportionate share of the shortfall.

Public funds deposited in out-of-state or alien bank accounts are not protected from loss by the PDPC.

**Summary of Bill:** Within the PDPA, several definitions are modified or added. Public corporations are added to the list of entities for whom a treasurer or custodian holds public funds. References to public depository or savings association are modified to coordinate with

federal definitions. The definition of investment deposits is expanded to include money market deposit accounts. The definition of public depository and financial institution is amended to accommodate branches of out-of-state banks or thrifts doing business in the state. Net worth is redefined to include the components of equity capital as reported to the appropriate regulatory authority, and includes provisions for rule-making to adjust equity capital. Definitions are added for depository pledge agreement and for trustee.

Washington branches of out-of-state banks and saving associations may be approved as public depositories. The 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 PDPC chair, when delegated the authority by the commission, may 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 agreement is between the financial institution, the PDPC, and the institution's trustee. The types of securities that may be used as collateral are updated.

Technical changes and clarifications are made.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** This is an agency request bill which makes necessary housekeeping and technical changes. The bill updates and modernizes public deposit protection provisions to account for changes in interstate banking and FDIC requirements.

**Testimony Against:** None.

**Testified:** Peter Rex, Treasurer's office (pro).