
Business & Financial Services Committee

HB 1320

Brief Description: Establishing the Washington investment trust.

Sponsors: Representatives Hasegawa, Hudgins, Kenney, Appleton, Kirby, Moscoso, Ryu, Goodman, Roberts, Takko, Ormsby, Hunt, Fitzgibbon, Upthegrove, Dickerson, Darneille, Seaquist, Van De Wege, Green, Blake, Sullivan, Moeller, Frockt, Stanford, Pettigrew, Eddy and Reykdal.

Brief Summary of Bill

- Establishes the Washington Investment Trust.

Hearing Date: 1/25/11

Staff: Alison Hellberg (786-7152).

Background:

The State Treasurer (Treasurer) manages the state's funds. This includes investing the state's operating cash in short-term, interest bearing accounts. The stated purpose of the Treasurer in investing the funds is to generate returns while preserving the state's ability to access the funds. The Treasurer is also the Chair of the Public Deposit Protection Commission, which is responsible for protecting public deposits in banks and thrift institutions.

The Department of Financial Institutions (Department) regulates state-chartered banks. This includes overseeing solvency issues. The Department examination reports containing information obtained from financial institutions and regulated persons are confidential and privileged information. This includes examination reports concerning banks, savings banks, savings and loan associations, credit unions, securities brokers, and investment advisers. Financial and commercial information and records supplied by businesses or individuals during application for loans or program services by financial institutions and local agencies are not subject to public disclosure.

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.

There are general constitutional prohibitions on lending of the state's credit and the state investing in private firms. There is also a constitutional limit on the amount of debt that can be incurred by the state.

Summary of Bill:

The Washington Investment Trust (Trust) is created and its purposes are enumerated:

- support the economic development of Washington by increasing access to capital for businesses and farms within Washington;
- provide financing for housing development, public works infrastructure, educational infrastructure, student loans, and community quality of life projects;
- provide stability to the local financial sector;
- reduce the costs paid by Washington for banking services;
- lend capital to banks, credit unions, and non-profit community development financial institutions to assist in meeting their goals of increasing access to capital and providing banking services; and
- return earnings, beyond those necessary for continued sound operation of the Trust, to the General Fund.

The Legislature makes findings and declares its mission and intent. The Legislature finds that access to capital is vitally important for the health, security, and well-being of all individuals and businesses in the state. The lack of accessible capital, as currently experienced due to the economic downturn, is exacerbating the economic hardships faced by working families and businesses. It further finds that it can best direct economic development policy initiatives, build a strong and resilient economy, and use the people's collective resources for their own benefit in an efficient manner with an investment trust at its disposal.

The stated mission of the Trust is to promote agriculture, education, community development, economic development, housing, and industry in Washington by building a resource to help stabilize and grow Washington's economy; use the resources of the people of Washington within the state; support the common good and public benefit of Washington; and leverage Washington's financial capital and resources. It may work in partnership with financial institutions, community-based organizations, economic development groups, guaranty agencies, and other stakeholder groups. Transparency, accountability, and accuracy of financial reporting and compliance with all applicable laws and rules are crucial to sound fiscal management of the institution to meet its long-term objectives.

The stated intent of the Legislature that all state funds be deposited in the Trust and be guaranteed by the state and used to promote the common good and public benefit of all the people and their businesses within Washington.

Founding Task Force.

A Founding Task Force (Task Force) is established to develop an implementation plan for the Trust and make recommendations on the following issues by December 1, 2011:

- strategic five-year plan;
- capital requirements of the trust;
- sound underwriting practices for the trust;

- standards to ensure that loans result in the outcomes described in the approved loan applications;
- content and other requirements for quarterly reports submitted by the Trust to the commission;
- transition of state banking functions to the Trust;
- timeline for depositing state moneys into the Trust;
- cash management and banking needs of the state;
- transparency requirements for Trust operations;
- ethics and conflict of interest requirements for the commission, the board, and officers and employees of the Trust;
- additional necessary legislation; and
- initial capitalization options for the Trust.

The membership of the Task Force is specified. The President of the Senate appoints one member from each of the two largest caucuses of the Senate. The Speaker of the House of Representatives appoints one member from each of the two largest caucuses of the House of Representatives. The President of the Senate and the Speaker of the House of Representatives jointly appoint members representing a small sized state-chartered bank, a medium sized state-chartered bank, a federally chartered bank, local governments, and four citizens with a background in financial issues. The Director of the Department of Financial Institutions, the State Treasurer, and the Governor, or their designees, are also members of the Task Force.

Staff support for the Task Force is provided by the Office of Program Research and the Senate Committee Services. The Task Force may contract with additional persons with specific technical expertise and may accept gifts, grants, loans, or aid from public or private entities to contract with additional persons.

Investment Trust Commission.

The Investment Trust Commission (Commission) is comprised of the Governor, the Lieutenant Governor, and the State Treasurer. The Commission has rulemaking authority to adopt rules regarding the objectives of the Trust, the criteria for evaluating and approving loans, individual and aggregate lending limits for one borrower, and eligibility for borrowing. The Commission appoints a President and other officers of the Trust who have relevant experience in the banking sector.

Investment Trust Powers and Duties.

The Trust must begin operations by January 1, 2013 and be fully operational by July 1, 2013. All state moneys must be deposited in the Trust by June 30, 2015. All deposits are guaranteed by Washington. The Trust may purchase, guarantee, or hold loans made by private financial institutions; make loans to qualified individuals and businesses; accept deposits from any source and deposit its funds in other financial institutions; invest state moneys in a manner that ensures appropriate cash management; and act as a clearinghouse and provide other related services. Whatever portion of the Trust's earnings not necessary for the sound functioning of the trust must be returned to the General Fund.

Investment Trust Programs.

The Trust may establish lending programs to support public purposes that may include:

- improving access to credit for Washington small businesses and farms;

- promoting sustainable agriculture, renewable energy, conservation, energy efficiency, sustainable mining, industry and manufacturing, tourism, public transportation, community involvement;
- providing resources for infrastructure development;
- financing affordable housing and supporting personal home mortgages and default protection;
- expanding student loans, educational infrastructure, and individual development accounts; and
- financing job creation programs, including green economy jobs.

Investment Trust Advisory Board.

An Investment Trust Advisory Board (Board) of 15 members is created to review the Trust's finances. Board members include eleven representatives, appointed by the Governor, of the state's financial, agricultural, housing, economic development, infrastructure, labor, and education sectors. Legislators representing the two largest caucuses of each chamber will also serve on the Board.

Reporting and Auditing Requirements.

The Trust must operate with capital adequacy and other standard indicators of safety and soundness monitored by the Department of Financial Institutions. The Trust must undergo independent audits on the same basis as state-chartered banks. The Trust must submit quarterly reports to the Commission. The form and content of these reports will be developed by the Task Force. By December 1 of each year, the Commission must make a report to the Legislature on the affairs of the Trust, which should include any recommendations for legislative action.

Other Provisions.

The Trust is exempt from the requirements of the Public Deposit Protection Commission, exempt from all fees and taxes levied by the state or its subdivisions, and certain Trust records are exempt from public disclosure. Total compensation of employees of the Trust may not exceed 10 times the average salary of all state employees or 1,000 percent of the federal poverty level.

Appropriation: None.

Fiscal Note: Requested on January 18, 2011.

Effective Date: Sections 1 through 3 of the bill relating to the intent, the Task Force, and definitions take effect 90 days after adjournment of the session in which the bill is passed. The remaining sections of the bill take effect December 1, 2011.