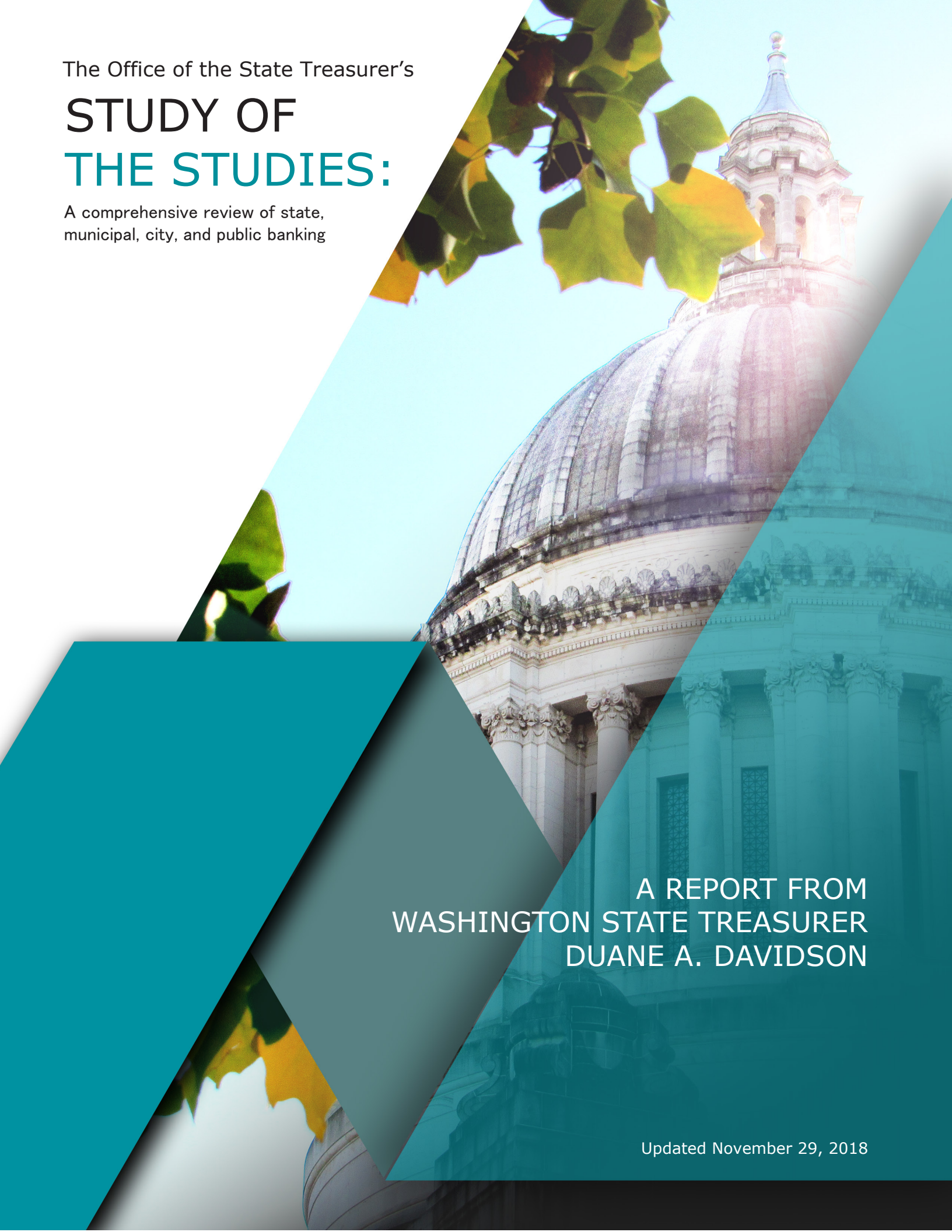
The Office of the State Treasurer's

STUDY OF THE STUDIES:

A comprehensive review of state, municipal, city, and public banking



A REPORT FROM
WASHINGTON STATE TREASURER
DUANE A. DAVIDSON

Updated November 29, 2018

The Office of the State Treasurer (OST) is the bank for Washington state government. It is responsible for the safety and security of the state's money, now and into the future.

As a fiduciary steward of taxpayer dollars, OST also has several key roles in managing Washington's finances:

- The office manages cash flow of all major state accounts with deposits, withdrawals and transfers – more than $246 billion in Fiscal Year 2017.
- It allocates the state's operating cash to investments that bear interest but remain available for withdrawal, as needed; and it grows the short-term surplus operating cash of cities, school districts, counties and other taxing bodies through its Local Government Investment Pool.
- OST keeps careful accounts of all transactions, using the Agency Financial Reporting System (AFRS) and the custom-developed Treasury Management System (TM$).
- The Treasurer issues and manages the state's debt. State debt is issued via bond sales to finance some of the state's major capital and transportation projects; and through certificates of participation to finance real estate and equipment for state agencies and local governments. The Treasurer also manages the School Bond Guarantee Program which assures voter-approved bonds issued by school districts.
- To foster transparency and comply with legislative requirements for all state agencies and offices, OST inventories its activities, provides updates on its budgeted operating expenditures, and issues summary financial reports for the current two-year state budget period.

Study of the Studies:

A comprehensive review of state,
municipal, city, and public banking

Treasurer Duane A. Davidson

Contents:

October 30, 2018

In recent years, we have heard discussions around the idea of a state bank, including hearing from various working groups formed by the Legislature to address the concept. This year, the Legislature funded a study, providing $480,000 to hire consultants to develop a proposal for the creation of a public cooperative bank.

During the legislative session last year, I made a commitment that my office would conduct a thorough review of all the previous studies completed by other states and municipalities on this topic. Each of these studies were completed over a great deal of time and at a great public expense. This summer I assigned my staff, who are banking and finance experts, to analyze these studies and first determine why these other governmental entities wanted to create a public bank; and second, discover why it was not pursued. Our "study of the studies" focuses on the data and conclusions from each study completed around the country, and examines some examples of existing public banking institutions.

Within this report are both a strong series of empirical facts and detailed findings taken from the observations, as well as decisions local municipalities and state governments made based on their own studies. It is preceded by a presentation summarizing the findings which includes relevant talking points on each section.

Similarly to many of the conclusions within, I firmly support building upon Washington's existing structure of banking and do not support public banking because of the higher risk and lower return on investment compared to the current private banking system. I take my fiduciary responsibilities seriously serving on the Board of the public employee retirement accounts. Also, as guardian of Washington's local government investment funds and Rainy Day Fund, I have a deep-rooted interest in doing the right thing by protecting Washingtonians' finances. Using any of these resources to capitalize a bank would be reckless. The evidence from this and other municipalities' studies has established there is too much taxpayer risk, and not nearly enough proven benefit from the formation of a state bank.

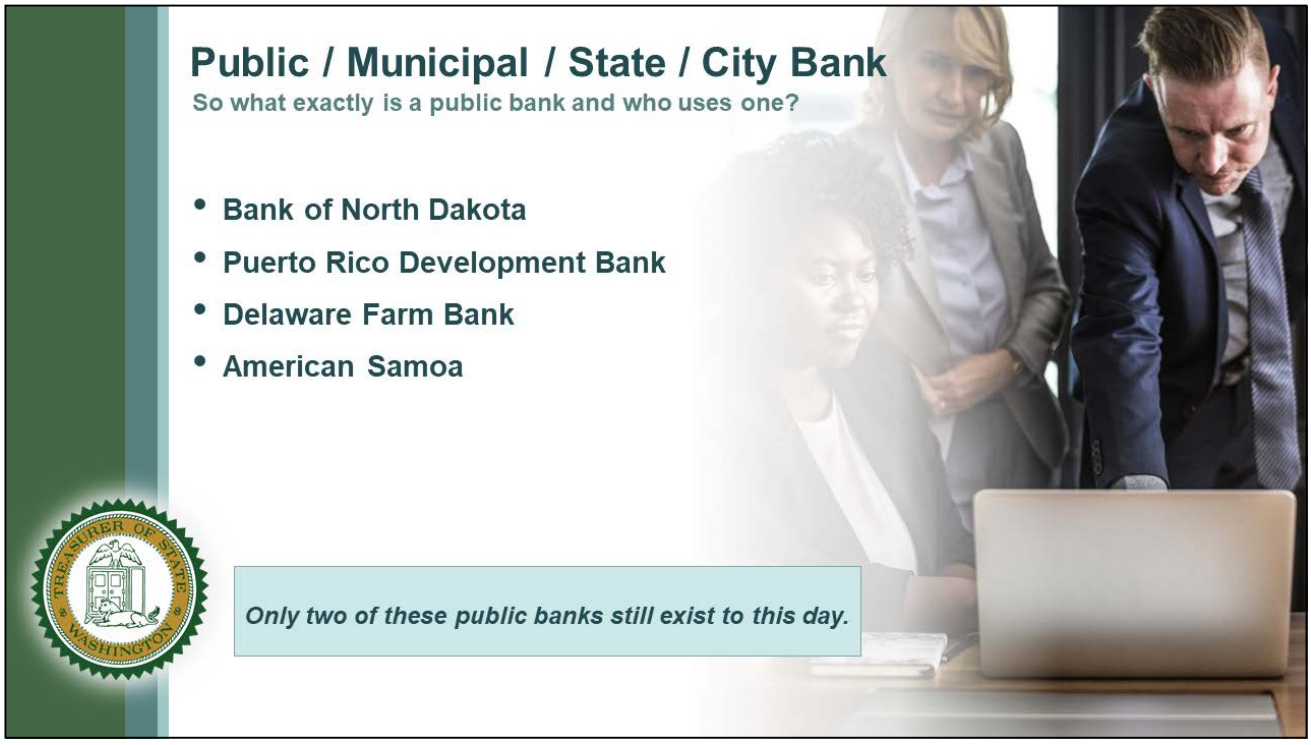
My hope is in the future we can put an end to studying this idea and focus efforts to revitalizing the Public Works Assistance Account, a program currently underfunded but with a rich history of success financing infrastructure for local governments.

I want to thank the OST staff members who devoted their time to this study of studies. I feel it is important to consider this issue from an objective standpoint, which is why the team that took on this project did so with the ultimate goal of ensuring their comprehensive review accurately reflects the findings from each study.

Sincerely,

Duane A. Davidson

This presentation includes talking points from the Office of the State Treasurer based on studies that researched public banking.



Talking points:

A state, municipal, or public bank is a financial institution owned or affiliated with a state, city or public entity.

Not many state banks exist today for a number of reasons. Here are some examples:

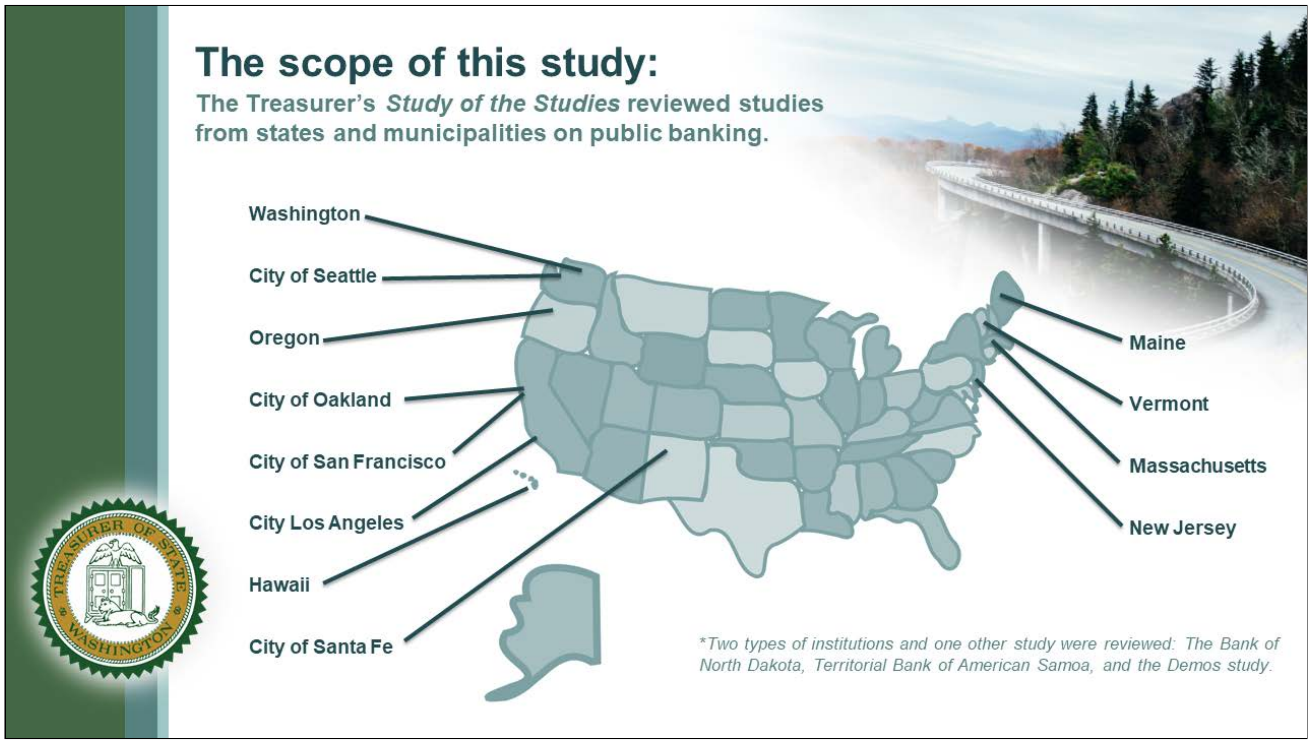
- Bank of North Dakota – Established in 1919, and operates with one office in Bismarck, North Dakota. It was originally established to help area farmers have access to banks when private banks were too few in the area.

- Puerto Rico Development Bank (FAILED) – It was established 1942 and liquidated in the Summer of 2017.

- Delaware Farm Bank - The state owned 49 percent of the bank from 1800s to 1975. In 1976, the state increased ownership to 80 percent. On verge of failure in 1981, it was purchased by a private Pennsylvania Bank.

- American Samoa - This unincorporated territory of the United States has a state bank that opened its doors in 2016.

END NOTE: Only two of these public banks still exist today.



Talking points:

After the 2018 legislative session, the Treasurer's Office reviewed and summarized all of the most current studies states and municipalities completed regarding public banking.

- The studies varied in their methodology and the depth of their research.
- They ranged from large task forces lasting months, to conversation starters.
- This presentation is a look at the findings of the studies and provides some Washington specific information based on what the other studies found.

The cities and states that produced studies were all quite different in their economic make up, but shared some common elements and interests.

***Demos is a non-partisan public policy research and advocacy organization headquartered in New York City.**

Talking points:

When we began this project, we reviewed the Federal Deposit Insurance Commission Pamphlet on the elements of starting a community bank.

Drawing out standards from that document and summarizing what each study said about each element.

The eight elements we looked for from each entity were:

1. Purpose, products, market or service that the potential public bank might provide.
2. Constitutional, legal or regulatory processes to consider.
3. The overall financial risk involved.
4. Estimated capital required to start a new banking system.
5. Organizational and associated costs.
6. FDIC insurance or full faith and credit of the state.
7. Necessary staffing needed to accommodate the state and the corporate governance structure.
8. Internet technology and cyber security needed to support the system.

In our review, we also highlight some of the unique information from each study.

Talking points:

Public entities had many different reasons for studying the issue; however, some common themes emerged as to why they looked into public banking:

- Gain greater access to credit or capital.
- Help fund state government with bank profits.
- Stabilize the state/city economy during economic downturns.
- Provide a stable source of infrastructure funding and economic development.
- Provide better banking services for public entities at fair prices.
- Fill in the gaps where there are not current financial services.
- To set up participation loan programs and increase the lending capacity of their own community banks.
- Provide cannabis banking options.

The studies detailed why they considered state banking, but no study showed the exact market failure where a state bank could fill a need.

Numerous studies indicate the market, need, or business plan is not identifiable.

Most of the studies described "possible gaps" that a state bank could fill, however none of them conclusively provided a business plan or complete market analysis which would answer the question: "What is lacking and how would the state bank or city bank conclusively fill the gap?"

END NOTE: In the end, no new state banking system was adopted based on the studies.

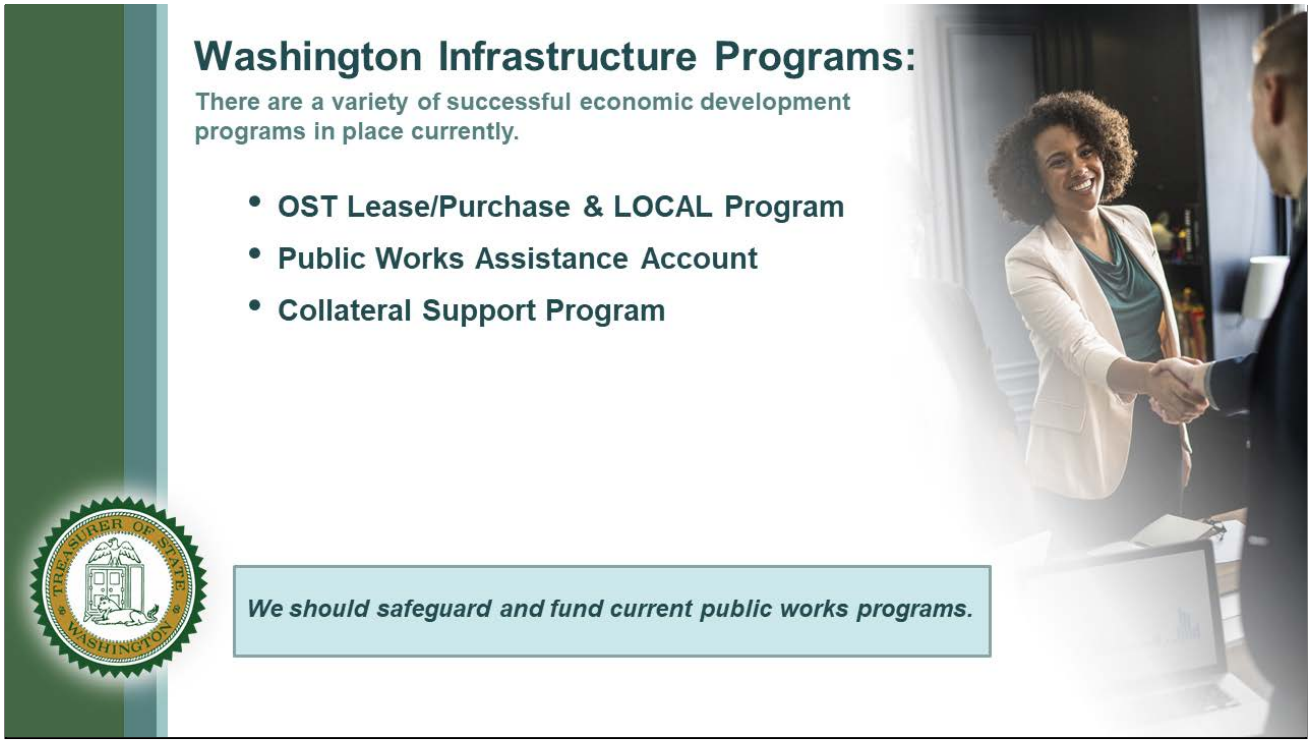
Talking points:

Almost all of the studies state that a goal of a public bank would be to boost economic development, lower the cost of infrastructure financing, and create jobs.

Several cities and states indicated that they started their studies on state banking because they were looking for additional economic opportunity.

- San Francisco's goal for their public bank would be to provide lower cost funding for acquiring existing properties, according to their study which is not yet complete.
- City of Santa Fe wanted to reduce their borrowing cost by eliminating the practice of financing infrastructure projects through costly bond issues.
- The *Demos Study* talks of lowering the cost of local government infrastructure through less costly bond financing.
- Vermont's paper indicated they considered combining their many financing agencies, all with their own debt loads, to create economies of scale.

END NOTE: Washington currently has successful programs working to achieve infrastructure financing goals and support economic development.



Talking points:

The state has a variety of competitive programs designed to ensure agencies benefit from economies of scale and the state's low tax-exempt financing rates.

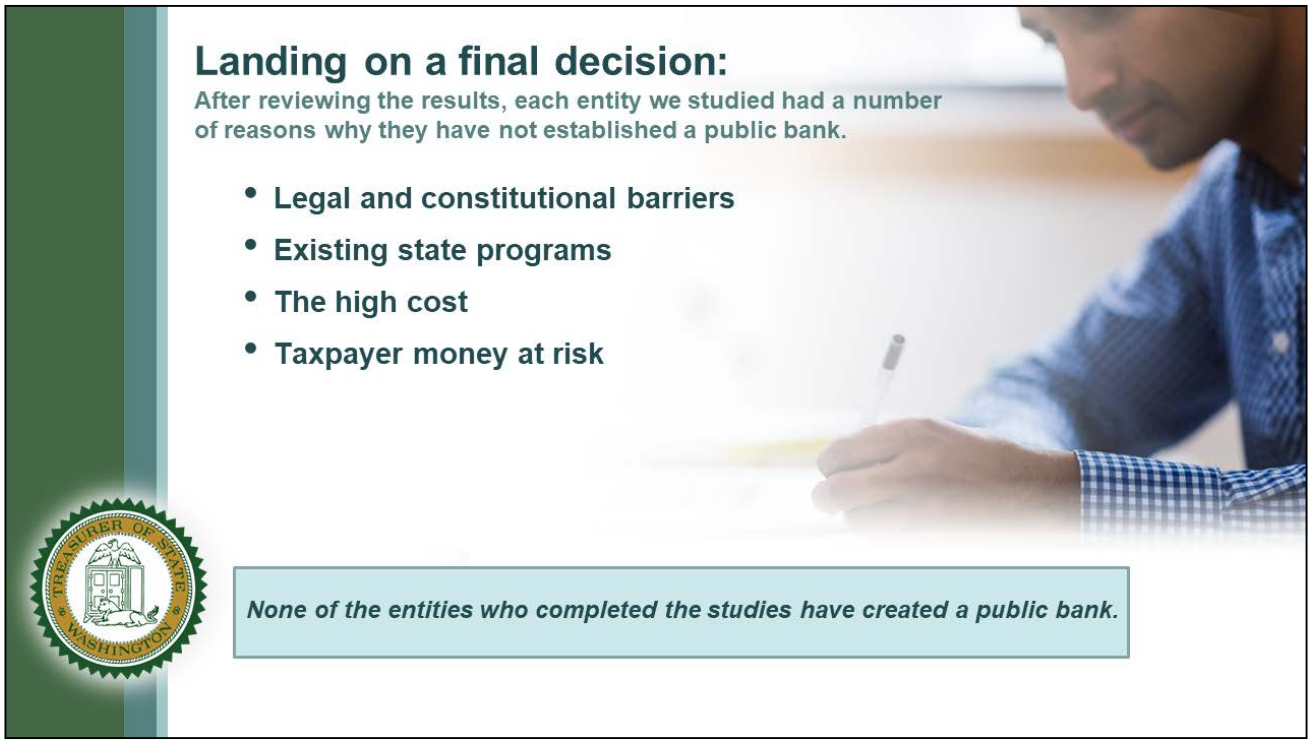
- The Office of the State Treasurer (OST) operates two Certificates of Participation (COP) programs: the LOCAL Program and State Lease/Purchase Program. Both programs provide Washington Local Governments and State agencies with financing opportunity for essential real estate and equipment purchases.

- The Public Works Assistance Account has several programs to help cities, counties, special purpose districts and municipal organizations. However, my office believes that we can improve the Public Works Trust fund by fully funding it, and restoring it to its previous state. These programs include:
    - Emergency Loan Program
    - Pre-Construction Loan Program
    - Construction Loan Program

- Collateral Support Program: This program by the Washington Dept. of Commerce provides small businesses with collateral support for short term bridge loans.

In previous years our state's Public Works Assistance Account (PWAA) met needs brought on by population growth and business expansion. The PWAA is experiencing reduced resources and repayments have been swept by the Legislature in recent years. OST is working on a central repository of information for infrastructure programs in the state.

END NOTE: We should safeguard and fully fund our current public works programs.



Talking points:

As a result of these studies, no entity or government has gone forward with public banking due to results that showed:

- There are large legal and constitutional barriers that would have to be addressed.
- There are already many state programs in place that fulfill the goals of a public bank.
- Creating a public bank is too expensive – associated costs are far too high.
- The risks to state, city and taxpayer money are simply too great.

Cities and states concluded they would need to complete much more research on what market niche a public bank would fill and how it would be implemented.

END NOTE: None of the entities who completed the studies have created a public bank.

Talking points:

An enormous challenge would be keeping a public bank free of political influence.

- The Santa Fe study finds federal law may limit inter-bank lending, stating that if one of the reasons for the bank is to allow lending to the city itself then federal law may limit that activity.

- The Massachusetts study concludes that state bank management will have to be insulated from political interference and risky lending.

- Many of the studies find a high likelihood for favoritism.

Concern about political influence:

- Santa Fe mentions if one of the reasons for the bank is to allow lending to the city itself then federal law may limit that activity — specifically laws that apply to inter-bank lending between employees, owners, and the like. It also mentions that in the FDIC's statement of Policy for Applications for Deposit Insurance, the FDIC expresses its concern about institutions owned by domestic governmental units being controlled by the political process. Lastly, the FDIC notes that these institutions raise very special concerns relating to management stability. None of the existing public banks have FDIC insurance.

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- According to the study, the public sector finds it too risky to undertake an alternative mission of state banking to fund loans and investments that serve a social purpose. The study concludes that state bank management will have to be insulated from political interference and risky lending.

Studies highlight a concern about the political arm reaching in:

- The Massachusetts study states that an alternative mission to a state bank might be to fund loans and investments that serve a social purpose, but that the private sector finds too risky to undertake. Thus, the study concludes that any state bank would require excellent management, and that this management would have to be insulted from political interference and risky lending.

- Vermont notes that any state bank enacted would need conservative management and limited outside influences.

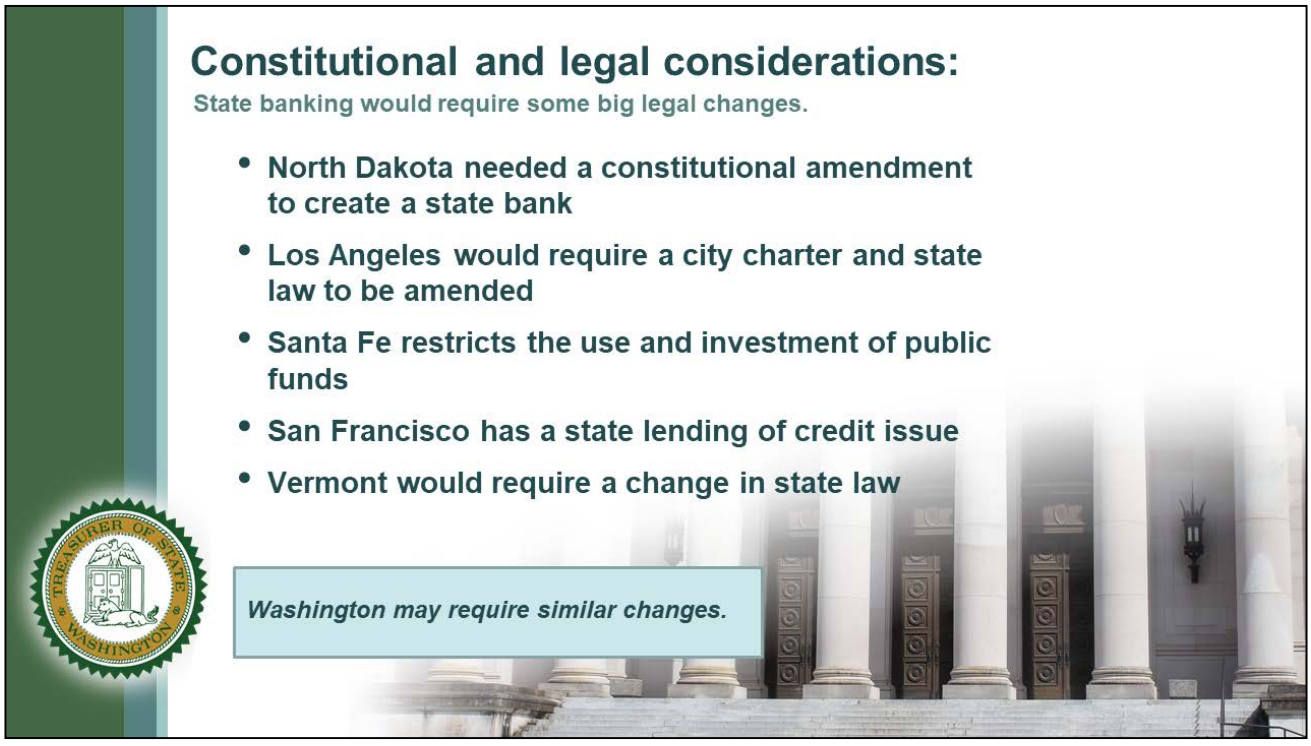
Studies that show a high likelihood for favoritism:

- American Samoa had to work for many years to obtain a routing number because the Federal Reserve would not grant one as the bank may be subject to political influences. It was hard to separate the decisions and operations of the bank from the political process. The Territorial Bank of American Samoa had to establish a relationship with a correspondent bank to obtain the routing number required for ACH transactions.

- The City of Santa Fe study cites federal laws that prohibit self dealing in banking between owners, directors, managers, and employees of banks.

Favoritism can lead to poor management and bad decisions.

END NOTE: In the end, if it fails, lawmakers may end up paying bailouts with taxpayer money.



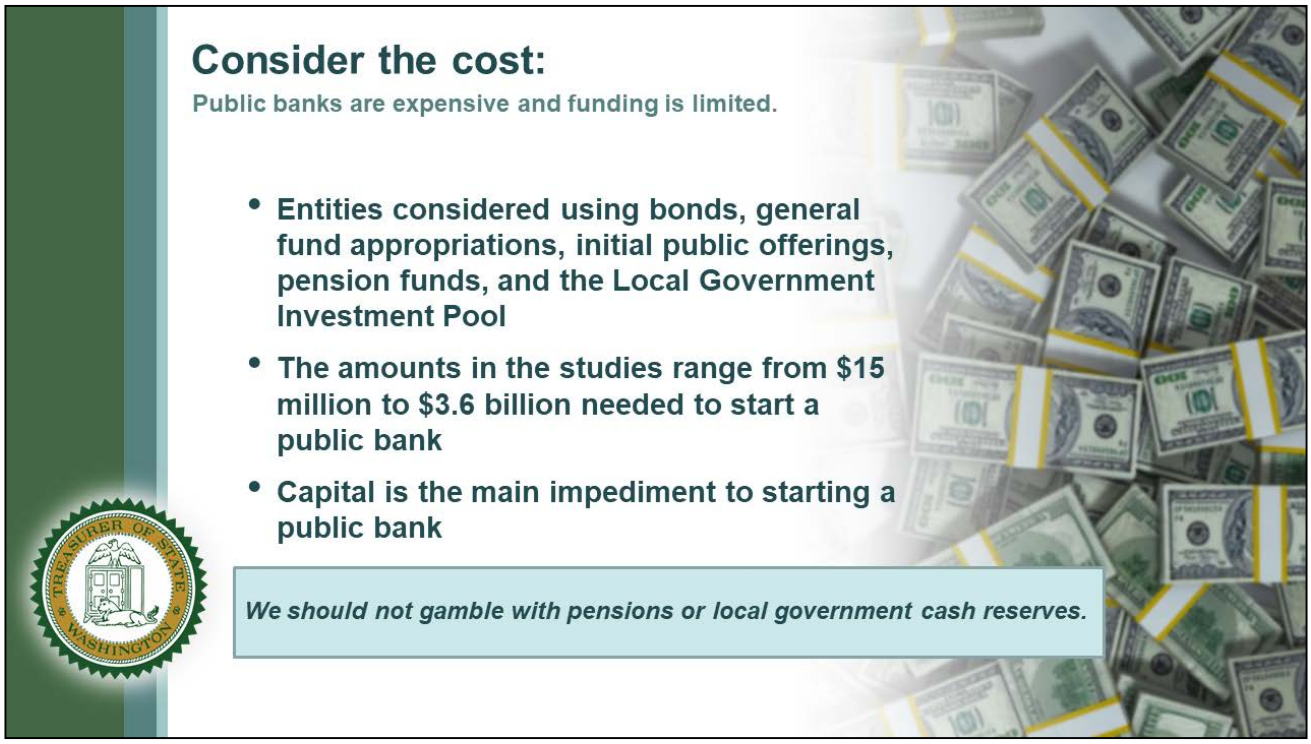
Talking points:

There are many constitutional and legal considerations to think about because Washington has a constitutional provision that prohibits lending and gifting to private entities.

Some legal hurdles we found that other city/states had to face included:

- In 1919, when the Bank of North Dakota began, there was a constitutional amendment that provided for the bank.
- In Los Angeles, the city charter and state law would have to be amended to allow for a public bank.
- Santa Fe has restrictions on the use and investment of public funds in New Mexico.
- San Francisco identified the illegality of the state lending to private entities, leaving the city with a lending of credit issue.
- Vermont would need to see changes in state law around the lending of credit.

END NOTE: In Washington, we may require similar changes.



Talking points:

Most studies concluded that there is currently no money to start a public bank, and that there needs to be a significant investment to start this enterprise.

- The studies show entities considered different funding sources to start a state bank. They looked at using bonds, general fund appropriations, initial public offerings, pension funds, and the Local Government Investment Pool.

- Estimated costs of what would be needed to start a state bank range from a very small public bank of $15 million to a large institution of $3.6 billion.

- Most studies indicate that capital is the main impediment to starting a public bank.

Examples of high costs found in the studies:

- The State of Oregon study and the State of Washington study completed by The Center for Innovation state that a state bank would need $100 to $300 million. Sources include bonds, general fund revenue, bank stock IPO, and the state's pension funds.

- While American Samoa is not a study, but a public bank example, it capitalized with a ten million taxable bond offering, $3.5 million appropriation, and now has $13 million in capital, which is a very small financial institution.

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- The Bank of North Dakota was capitalized with $2 million in 1919, which is $30 million in today's dollars.

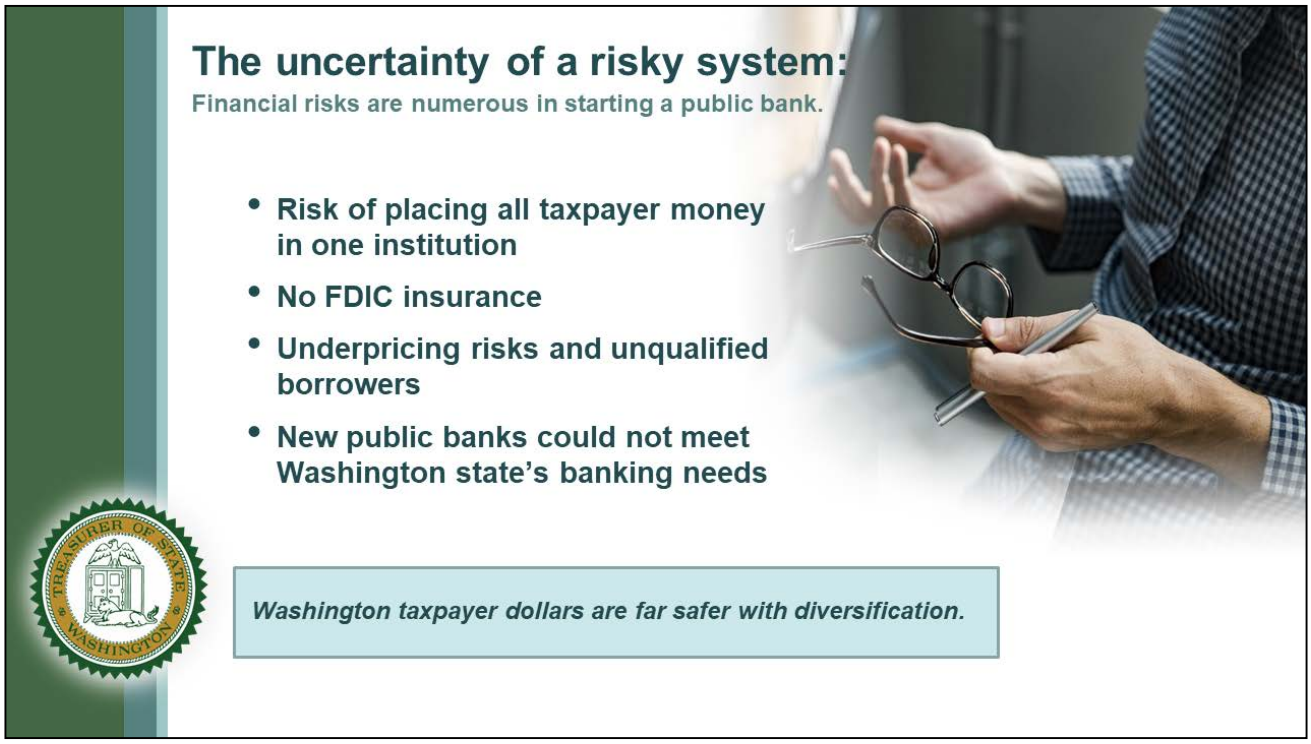
- The City of Santa Fe estimated that they needed $110 million to start the bank.

- Massachusetts says that it would cost $3.6 billion to start the public bank. This is 21% of the state's outstanding debt.

- San Francisco estimates approximately $15 to $50 million would be needed based on bay area community bank capitalization: $1 million in regulatory startup costs, $10 to $30 million for capital, $500,000 to $1 million in IT and Data systems, and 15 employees with salaries totaling about $2 million per year.

None of the studies provide a definitive business plan for this funding. Finding funding for a state bank in Washington would likely require a look at using pensions or local government cash reserves for funding, putting all that money at risk.

END NOTE: We should not gamble with pensions or local government cash reserves.



Talking points:

Financial risks are far too great.

With so much uncertainty and the potential to lose taxpayer money, public banking is not worth the risk.

Some of the biggest risks identified in the studies are:

- The risk of placing all taxpayer money in one institution, with no banking partnerships to share the risk.
- With no FDIC insurance, there is a serious risk of insolvency for the state and the possibility of a required tax payer bailout.
- A public bank could underprice risks, leading to risky loans to unqualified borrowers who may default on their loans.
- A newer bank would not have the sophistication, capacity, or volume of money to meet a state's banking needs.

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The studies identified the potential for risk:

- Los Angeles: Their study finds the current system spreads risk among banking partners, and one state bank would consolidate all risk in the city, putting taxpayer money at risk.

- Maine: This study indicates there would be a loss of interest income from moving all state deposits from higher yielding demand deposits, and lost tax revenue from moving funds into a nontaxable financial institution.

- The City of Santa Fe: Their study suggests it would be a long process to obtain regulatory permission for a state bank, and listed many reasons for concern. There would need to be an assessment of public bank integrity on multiple factors including: political influences in lending decisions, self-dealings, and corruption considerations. Careful considerations of investment and lending authority would have to be taken as to avoid risks of insolvency and private banks and credit unions from competition. The study finds that there should be limits considered on loans to one borrower. Government run banks could also underprice risk, and this could mean politically involved lending which could place the bank in peril.

- Massachusetts: The Massachusetts Treasury needs a large amount of services for its office. The Treasurer's duty, to keep deposits secure and provide an adequate rate of return, cannot be met by a start up bank: $40 billion in cash flow, $20 billion in bonds, and another $9 million in municipal depository trust. The study shows a smaller state bank <u>could not</u> meet the needs of the state.

- Vermont: The study finds that there would be lost tax revenue, liquidity demands, and possible downgrading of Vermont's bond rating if they started a public bank.

END NOTE: Washington's system adds security and avoids potentially catastrophic loss through diversification.

Talking points:

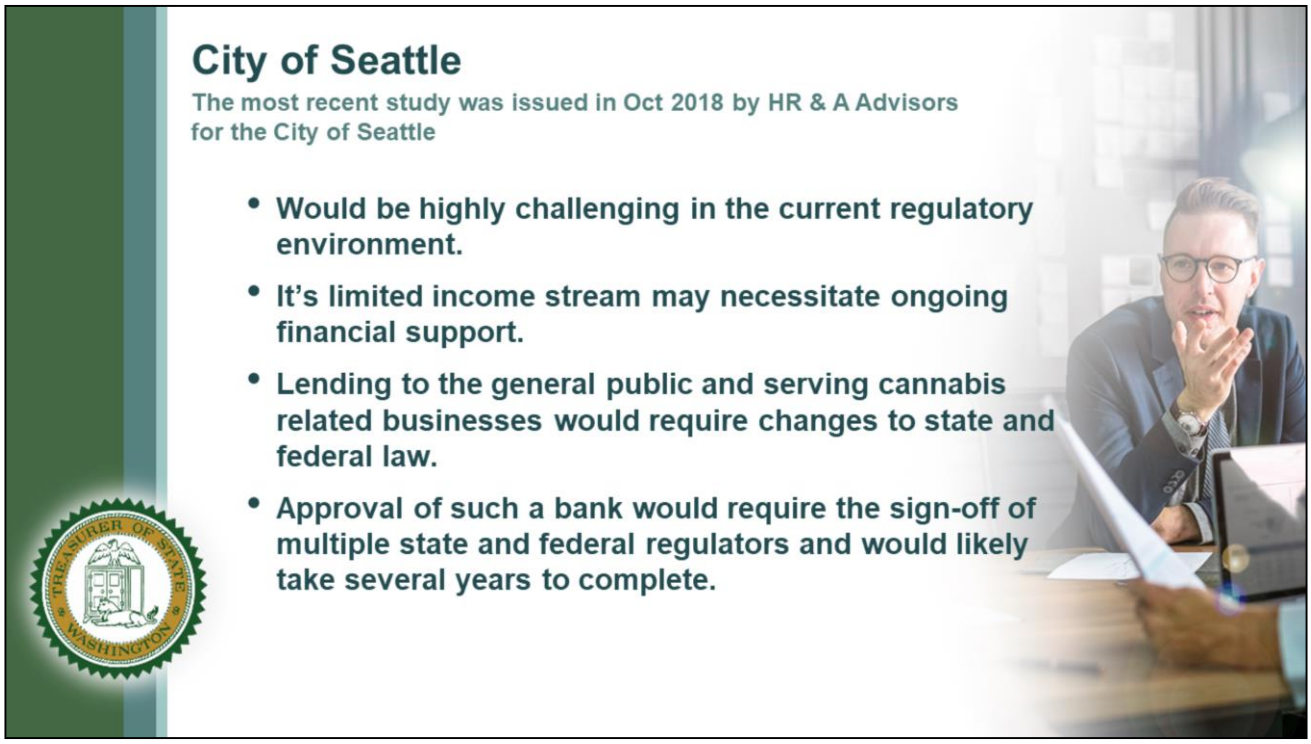
Washington has a better standard for managing and protecting taxpayer dollars.

- Safely investing tax dollars, which reduces risk and avoids the potential for collapse with diversification.
- We keep fees low, paying a little under a penny per transaction ($.0087 to be exact). The national survey of banking prices indicates we could have paid as high as 13 cents per transaction.
- Today the Local Government Investment Pool investments are approximately $14 billion, and has distributed back to local governments over $500 million in earnings at an average of .5267% over the last decade.
- Washington continually exceeds the federal funds rate.

How North Dakota compares to Washington investment practices:

- The North Dakota State Treasurer's Office does not invest the state's tax dollars. They are required to deposit cash in the Bank of North Dakota, and in 2017 had $2.5 billion deposited, earning .05%.
- In comparison, the Washington State Treasurer manages the state's reserves of approximately $7 billion, and over the last decade distributed $600 million in earnings at the average rate of 1.45%. That's twice what the Bank of North Dakota shared in profits with the State of North Dakota over the same time period.
- Washington investments are in safe government investments, and have been managed under strict standards while at the same time providing a reliable return to the state.

END NOTE: In the end, Washington safely grows tax payer dollars and sees a good reliable return on investment.



Talking points:

City of Seattle:

The most recent study was issued in Oct 2018 by HR & A Advisors for the City of Seattle

Consultants letter of introduction states "We were dismayed when we discovered the sheer complexity of the proposal" and "at best a long term process, requiring numerous layers of regulatory review and eventual compliance with a restrictive slate of limitations on its capacity to lend and raise capital."

Findings in the study:

- Would be highly challenging in the current regulatory environment.
- It's limited income stream may necessitate ongoing financial support.
- Lending to the general public and serving cannabis related businesses would require changes to state and federal law.
- Approval of such a bank would require the sign-off of multiple state and federal regulators and would likely take several years to complete.

Talking points:

After careful review of each study, OST fully recommends against adopting a public banking system.

"The Office of the State Treasurer supports building upon Washington's existing structure of banking and does not support public banking because of the higher risk and lower return on investment compared to the current private banking system."

- *Washington State Treasurer Duane A. Davidson*

Study of the Studies

A comprehensive review of state, municipal, city, and public banking

Treasurer Duane A. Davidson

Office of the State Treasurer

October 30, 2018

Municipal Bank of Los Angeles, February 2018

Purpose / Products / Services

- Decrease city dependence on commercial banking services.
- Reduce costs associated with commercial banking services.
- Ensure equitable access to banking services for all city residents and businesses, including cannabis.
- Generate new revenues for the General Fund.
- Provide small business loans, job training loans, and student loans.
- Reduce costs associated with bond issuances.
- Ensure that city funds support the development of economic and housing opportunity in the city.

Constitution and Legal/Regulatory

- Changes to federal and state law are required to form the Municipal Bank of Los Angeles (MBLA).
- The City Charter would need to be amended to form the Municipal Bank of Los Angeles which is on the ballot November 6, 2018.

Risk Assessment

- Los Angeles requires banking services similar to those of a multi-national corporation. With an approximately $11 billion portfolio, millions of transactions, hundreds of accounts, and contracts for services with dozens of banks, the city has developed a system that ensures a careful management of its financial resources and spreads risk among its banking partnerships. Consolidation and transfer of these banking services into MBLA, or any single institution could increase risk to the city's financial health.

Capital Considerations

- No source of funds to capitalize the MBLA is available.

Organizational Costs

- Start-up costs for the MBLA are exorbitant with no available source of funds to cover those costs.

Deposit Insurance—Federal Reserve/FDIC

- The MBLA would have difficulty qualifying for insurance to protect depositors.

Other studies considered within

- A thorough review of other studies from cities and states was done and reported that all concluded that the challenges were too great.
- Several bank models were studied. Those include:
    1. Chartered Commercial Bank or Credit Union: The California Department of Business Oversight (DBO) would need to grant a special exemption in order to operate a financial institution. They are the sole authority for chartering a private sector bank. The DBO requires FDIC approval as well. All banks must obtain FDIC insurance according to State law.
    2. Tribal Banking: The United States Treasury Department's Office of the Comptroller of the Currency licenses federally recognized Native American tribes that want to explore entry into the national banking system.
    3. Community Development Financial Bank (CDFI): CDFI's are FDIC insured banks that have a primary mission of promoting community development. CDFI's may be banks, credit unions, loan funds, microloan funds or venture capitalist providers. They are different from traditional banks because they target low and moderate-income markets and work in urban and rural communities with access to credit that are often underserved by the traditional banking industry.
    4. Bankers' Banks: These are owned by their member institutions and provide traditional and nontraditional banking services for their members. They do not take deposits from or make loans to the general public, unaffiliated corporations or government.
    5. Infrastructure Bank: California Infrastructure and Economic Development Bank (IBank) was created in 1994 within the Governor's office. The IBank has broad authority to issue tax exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities and leverage state and federal funds. IBank is not actually a bank, but rather a pass through finance agency. It is not chartered or insured.
    6. Public Benefit Corporation (PBC): Established in 2012, it is a corporation organized under General Corporation Laws section 14600 that has a strong social and environments mission, and must operate consistent with that mission. The material positive impact must be demonstrated against a third party standard. The Department of Business Oversight would need to provide an exemption because PBCs are not explicitly allowed to receive deposits. Only chartered banks and credit unions are permitted to receive deposits under California law.

7. Export-Import Bank of the United States: As with IBank, Export-Import Bank is not an actual bank, but rather a finance agency.
8. Los Angeles Community Development Bank (LACDB): It was created in 1995 and charged with making loans to businesses located within the federally designated Empowerment Zone. It was not a bank but rather a finance agency. The structure of the organization, however, hindered the LACDB's ability to make loans. Due to the range of difficulties associated with its programs, the LACDB dissolved in 2004 and filed for bankruptcy.

Staffing/Corporate Governance

- The study did not mention this topic.

IT Cyber Security

- The study did not mention this topic.

Other Obstacles

- City funds could not be deposited in the MBLA for at least three years. California law requires that City funds be deposited into a chartered and federally rated financial institution that has been in operation for three years.
- The MBLA would have difficulty providing adequate collateral to support city-banking requirements.
- It is anticipated that formation of a public bank will take several years.

Final Result

- The commercial bank and credit union models require compliance with state and federal regulations that would constrain formation and operation of a public bank. A Community Development Financial Institution may be an option to perform the functions of a public bank because of their ability to accept deposits and stated function of promoting economic development in underserved communities, but they may have difficulty meeting requirements related to banking services such as access to adequate capital, collateral, insurance, and other resources that provide customers with protection from risk. A CDFI would not be able to provide banking services to the city under existing circumstances.
- If the council wishes to continue to explore formation of MBLA, the Chief Legislative Analyst recommends that a consultant be retained with experience in the complexities of state and federal banking laws. The city attorney recommends that legal counsel with this specialized experience be retained as well.
- In a unanimous vote, council members on June 26, 2018, gave the go-ahead to begin the process of adding a measure on the November 2018 ballot that would amend city charter in order to create a city-owned bank. The city's code currently prohibits it from entering into a "purely commercial venture," unless it is approved by voters.

San Francisco, Ongoing 2018

The study timeline was extended and the final report is due 11/1/2018. The summary below is based on reports to the council.

Purpose / Products / Services

- Five policy objectives in order of importance:
  - Affordable housing
    - Goal: Provide or facilitate lower-cost funding for housing development and rehabilitation; Provide or facilitate lower-cost funding for non-housing infrastructure projects.
    - Lines of business:
      - ADU financing ($200-250k, 20-yr loans)
      - Small sites acquisition ($9mm loans for 30 units, current rates are 5.5-5%, would like 304% for 10-15 years)
      - Mezzanine financing ($3-5mm loan for workforce housing, 3-7% rates for 2-3 year term)
  - Small Business Lending
    - Goal: Provide or facilitate loans for small businesses, particularly those run by individuals from traditionally marginalized groups, such as communities of color, documented and undocumented immigrant communities, and low-income communities.
    - Lines of business:
      - General Contractors
      - New Businesses
      - Letters of credit
  - Infrastructure
    - Goal: Provide or facilitate lower-cost funding for acquiring existing properties.
    - Lines of business:
      - 15-20 year loans for investments
      - Purchase SF muni bonds
  - Un- and Underbanked
    - Goal: Provide or facilitate access to non-predatory banking services and products, particularly for marginalized communities, such as communities of color, documented and undocumented immigrant communities, and low-income communities; Provide or facilitate alternatives to predatory products and services, such as payday loans; Provide or facilitate products and services that will assist in community wealth building.
    - Lines of business:
      - Payday Alternatives
      - Refinance high-cost debt

- Cannabis Banking
    - Goals: Provide or facilitate payments solution for cannabis businesses; Provide or facilitate location for deposits for cannabis businesses; Provide or facilitate loans for cannabis businesses.
    - Lines of Business:
        - Deposits
        - Payments
        - Lending

Constitution and Legal/Regulatory

- Changes to State law would be required (lending of credit issue).

Risk Assessment

- The study has not mentioned this thus far.

Capital Considerations

- Potentially $10-30M (based on Bay Area community banks, which seems to be the preferred model).
- Funds would likely have to come from appropriation of government funds ($10b budget), voter approved bonds, or solicitation of philanthropy.
- Fifty percent of budget is self-sustaining/enterprise, fifty percent is General Fund.
- Of the General Funds, $2.8 billion is non-discretionary leaving $2.2 billion in government funds available to fund the bank, as well as San Francisco's, other General Fund programs.

Organizational Costs

- Estimated $15-50 million in start-up costs.
- Estimated Startup costs include:
    - $1 million in regulatory start-up costs (accounting & legal fees).
    - $10 to $30 million in capital (depending on scale goal).
    - $500,000 to $1 million for IT and data systems.
    - One-time renovations (vault, teller stations) and ongoing security.
    - Agreements with 3rd party contractors.

Deposit Insurance—Federal Reserve/FDIC

- Very brief discussion of internally insuring, or utilizing private banks for some function for FDIC access.

Other studies considered within

- The study did not mention this topic.

Staffing/Corporate Governance

- 15+ employees w/ total salary of about $2 million per year.
- Must have an independent board of directors with banking knowledge and be insulated from political process.
    - FDIC will evaluate insurance for public banks due to "ultimate control by political process" and "unique supervisory concerns".

IT Cyber Security

- The study did not mention this topic.

Other Obstacles

- The study did not mention this topic.

Final Result

- The final report is due on November 1, 2018.

City of Santa Fe, January 2016

Purpose / Products / Services

- Improvement in the city's liquidity management.
- Improvement in the city's investment performance.
- Improvement in the administration of the city's capital financing.
- Encourage and broaden use of crowdfunding techniques which may help the sourcing and funding of smaller loans. The City may even use such a technique to fund smaller City-sponsored capital improvement projects, as an alternative to raising taxes or using limited bond proceeds.
- As and when loan demand increases, participate upon request (and approval) in up to 50% of loans underwritten by the banks that qualify under a local economic development plan.

Profits, Infrastructure Financing, Student loans — see above

- There could be financial benefit to the city if a charted public bank were implemented.
- Potential reduction of the city's borrowing costs by eliminating the financing of infrastructure projects through costly bond issues.
- Participate in financially sound loans that promote public welfare.

Constitution and Legal/Regulatory

- Must be determined if existing legal authority applicable to the city's use and investment of its own funds would allow the use of those funds to capitalize the public bank. There are restrictions on the use and investment of public funds in New Mexico law.
- Article X, Section 6 of the New Mexico Constitution could prohibit the use of city funds to fund a public bank.
- The establishment of a government owned "Bank" in the State of New Mexico appears to be a direct violation of the terms of the Anti-Donation Clause of the New Mexico Constitution, Article IX, Sect. 14.

Risk Assessment

- It would take substantial resources to prepare an approvable application to at least three different state and federal regulators to establish the public bank.

- Rules against self-dealing – One concern with a public bank is the integrity, political influence in lending decisions, self-dealing, and similar potential for corruption:

    - If one of the purposes is to allow lending to the city, federal law may limit that activity; specifically affiliate rules that apply to inter-bank lending. It is not clear how 12 U.S.C. § 371(c) and 12 C.F.R. § 225.4(a)(1) would apply to a publically owned bank.

    - Numerous federal statutes under both the banking and criminal codes prohibit self-dealing for owners, directors, managers, and employees of banks. See,e.g., 12 U.S.C. § 376, 18 U.S.C. § 215.

Capital Considerations

- The City has an inadequate source of unrestricted cash from which it can source equity for a bank. They estimate it would cost $110 million in capital, just to open its doors.

- Alternative sources of equity can also be considered, such as charitable fund (PRIs), bond issue from public entity, or mini-bond funded by citizens.

Organizational Costs

- The city has an inadequate source of unrestricted cash from which it can source equity for a bank.

Deposit Insurance—Federal Reserve/FDIC

- In the FDIC's Statement of Policy for Applications for Deposit Insurance, the FDIC expresses its concern about institutions owned by domestic governmental units being controlled by the political process. Additionally, the FDIC notes, the institutions could raise special concerns relating to management stability, and the New Mexico Regulation and Licensing Department's ability and willingness to raise capital. While not a definitive rejection of granting deposit insurance, the FDIC makes clear their concerns.

Other studies considered within

- Legal memorandum that provides an initial, general analysis and framework for discussion of the major legal issues involved with establishing a public bank.

- Follow up legal memorandum that makes clear the legal challenges involved.

Staffing/Corporate Governance

- In the follow up Legal Memorandum it is made clear that the city has not fully considered the requirement of a truly independent board of directors (and bank officers) and that there is a potential for conflict with the city council.

IT Cyber Security

- The study does not mention this topic.

Other Obstacles

- The interplay of the New Mexico Open Meetings Act and the inspection of the New Mexico Public Records Act with the creation of a new bank "owned" by a government entity does not appear to have been fully considered under the feasibility study.

- Careful consideration should be given to the investment and lending authority of a state-owned bank in order to avoid risks to the solvency of the institution and prevent undue competition with privately owned banks. Appropriate limitations should be established on loans to insiders and affiliated entities. There should also be limitations established on loans to one borrower or group of affiliated borrowers.

- When the government owns the banks, lending decisions could become increasingly driven by politics, rather than economics. Resources flow to those with influence. Government-owned banks may also tend to underprice risk in order to gain votes.

Final Result

- Santa Fe's Public Bank Feasibility Study identified areas of the city's financial management policies and practices that were not performing optimally. Phase I recommended the creation of a city banking function (without having to charter a bank). This was done in 2017 with the creation of a City Treasury Division separate from the Finance Department. The Treasury Division has updated the city's collateral policy, optimized investment returns with maintaining liquidity and safety, and have utilized available fund balances to pay off expensive debt obligations.

- The City now has a road map for establishing a public bank (Phase II). If the legal hurdles are overcome and prior to any of the below steps being taken, the City will need to adopt one or more ordinances or resolutions authorizing and directing the appropriate actions:
    1. Identify the proposed functions of the Public Bank.
    2. Create a business plan for the Public Bank.
    3. Create a bank holding company.
    4. Apply for a bank charter.
    5. Apply for deposit insurance from the Federal Deposit Insurance Corporation.
    6. Establish operations, assuming all approvals are granted.

State of Hawaii, January 2012

- Hawaii's study was titled *Should Hawaii Establish a State Bank?*. In lieu of performing a study, Hawaii reviewed a research report authored by the New England Public Policy Center of the Federal Reserve Board of Boston titled, *The Bank of North Dakota: A model for Massachusetts and other states?*. The report concluded the Bank of North Dakota (BND) model was not a reasonable model for Massachusetts.

- Hawaii's paper summarized the conclusions and issues identified in Massachusetts' report. No state specific issues were addressed.

- Hawaii concluded a determination of what a state bank would accomplish for Hawaii is critical before answering the question of should they open one. Once the goal of a state bank is identified, perhaps other existing avenues of financial assistance could be found that would better accomplish the goal. If it is clear a state bank is the best method to accomplish the goal, then Hawaii should discuss its creation, drawbacks and solutions.

Massachusetts - 2011

Purpose / Products / Services

- A 2010 law created a Commission to study whether Massachusetts should operate a state bank, or state-owned bank for infrastructure development.

- Bolster small business lending and infrastructure in Massachusetts.

- The benefits of a state-owned bank may include: stabilizing the state economy, providing local businesses access to credit, augmenting the lending capacity of small community banks, and helping to fund state government with profits.

Constitution and Legal/Regulatory:

- This was not explored because they decided to not pursue a state bank.

Risk Assessment

- Concerns were raised about pulling state and public funds out of private banks, and about the state putting all of its money in a non-FDIC insured institution.

- Massachusetts Treasury has $40 billion in cash flow, $20 in bonds, and $9 billion in Massachusetts Municipal Depository Trust. Not every financial institution can provide services needed by the Treasurer. It would be expensive to replicate the services necessary. The Massachusetts Treasury would need deposits to be secure, and provide an adequate rate of return, otherwise cannot place money in such an institution.
- The Massachusetts bond rating is good, and the financial markets receptivity to MA shows that the markets believe MA has shown fiscal discipline and has not taken undue risks.

Capital Considerations

- Capital could be substantial — $3.6 billion, or 21% of the state's direct debt outstanding.

- Taking state/public deposits out of the private institutions could disrupt the economy, and a long gradual phase-in would delay any benefits of state-owned bank lending.

Organizational Costs

- The study did not mention this specifically but it is included in capital considerations.

Deposit Insurance—Federal Reserve/FDIC

- The study assumed the entity would not be insured like the Bank of North Dakota. This was a significant risk for them to take with Massachusetts state monies. Funds must be secure through insurance or collateralization or through review of underlying depository instruments.

Other Studies Considered

- The Massachusetts study took an in depth look at the Bank of North Dakota.

Staffing/Corporate Governance

- The study does not mention this topic.

IT Cyber Security

- The study does not mention this topic.

Other Obstacles

- If such a bank serves to help with infrastructure, it would have to support projects with dedicated revenue streams to support the repayment of loans. Policymakers would have to match revenue streams to projects, and this may be difficult to do.

Outcome

- The role of the Bank of North Dakota in stabilizing the North Dakota economy is small, and thus a public bank would not stabilize the Massachusetts economy.

- State agencies perform the same functions as the Bank of North Dakota in providing credit to businesses (lending of credit in WA), and provide many options for financing and economic development.

- In North Dakota, small private banks are a large part of the market place, and in Massachusetts, there are many large private banks. This is not true in North Dakota. This banking structure reflects the state's geographic and population characteristics as well as the history of bank regulation and deregulation. Smaller banks may view a public bank as a partner, but larger marketplace financial institutions in Massachusetts may see it as a competitor. The study proposed a private bankers bank charter which are privately owned and provide services to banking members as a better alternative.

- On average the Bank of North Dakota transfers 2/3 of its profits to the state. This is under one percent of total state revenue and total state expenditure in North Dakota.

  The study found that the states should not overestimate the revenue contributions from having a state-owned bank: the new revenues to the state are less than bank transfers, revenue risks exist and the state is liable for any public bank losses, and traditional state revenue stabilization tools remain important.

- Increasing the lending capacity of smaller banks in Massachusetts is not as necessary. The ability to offset credit crunches has not been proven by the Bank of North Dakota.
- The start-up costs are prohibitive and risky which for Massachusetts would be $3.6 billion or 21 percent of state's direct debt outstanding (all in one basket).

- The study recommends that Massachusetts focuses on getting more capital to small business through focusing on state programs that target small business access to capital.

- The study recommends that a state bank option not be pursued and that the Legislature focuses on improvements to Massachusetts infrastructure programs and study the possibility of a state infrastructure bank. In addition, the study recommends that the Legislature look at state infrastructure and change definitions to include other items not traditionally funded such as forests, farmlands, and waterways.

From the Federal Reserve Study to the Commission

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- The Commission should not recommend that the legislature pursue a state bank.
- It is too costly — the state could not justify spending the money when no market exists.
- There are no other states except North Dakota to use as an example, North Dakota remains successful but it is a very different economy and financial market than Massachusetts.
- The public funds would be exposed to unnecessarily high risk. Public funds cannot be used for gap financing and the rate of return would need to match that currently earned under management of the Treasurer.
- Infrastructure investment activities in Massachusetts are substantially more established than in North Dakota. There are many Massachusetts programs that already exist that lend and provide infrastructure. Strengthening these programs is a better idea.

DEMOS, April 2011

Banking on America: How Main Street Partnership Banks Can Improve Local Economies

Purpose / Products / Services

- Capitalize new local public structures and services.
- Provide state government with banking services at fair price.
- Create jobs/spur economic growth.
- Generate revenue/multi-million dollar dividends.
- Lower debt costs.
- Banker's bank services to community banks.
- Participation loans.

Profits, Infrastructure Financing, Student loans — see above

- Profits shared with state's general fund.
    - $310 million estimated for Washington State.
- Letters of credit to local governments.
- Participation loans.
    - $2.6 billion estimated for Washington State.

Constitution and Legal/Regulatory

- The paper did not discuss any legal or regulatory concerns to start/open a partnership bank. In fact, it dismissed concerns that starting a bank is complex by noting that new private banks are opened every year.
- These were raised as methods for the partnership bank to help community banks make loans to small businesses.
    - Purchase of community bank stocks.
    - Interest rate buy-downs.

Risk Assessment

The study did not mention this topic; however, the study noted the safeguards the Bank of North Dakota has to manage risk.

- Independent audits.
- Risk management – The Bank of North Dakota does not carry below-market rate or above average risk loans.
- Loan loss reserves – The Bank of North Dakota loan-loss allowance is 1.79 percent – Average for similarly-sized banks is 2.03 percent.

- Capital standards – The Bank of North Dakota maintains a capital ratio higher than required by the Federal Reserve.
- Loan reviews, lending limits, underwriting standards.
- Credit review.

Capital Considerations

- The study suggested the source of start-up capital might be the state General Fund, general obligation bonds, or 'other' dedicated state funds.

Organizational Costs

- The study did not mention this topic.

Deposit Insurance—Federal Reserve/FDIC

- The study did not mention a need to obtain deposit protections. The endnotes call out FDIC insurance as unnecessary because the FDIC's $250,000 cap covers only a tiny portion of the state's deposits.

Other studies considered within

- *Washington State Bank Analysis* – Center for State Innovation, Dec 2010. This study was heavily referenced as source material particularly for statistics and figures.

- *Oregon State Bank Analysis* – Center for State Innovation, February 2011.

- *States Continue to Feel Recession's Impact* – Center on Budget and Policy Priorities, March 2011.

- *Overview of the Bank of North Dakota and thoughts on the creation of a similar entity in Vermont* – Vermont Tiger, January 2010.

- *The Value of Too Big to Fail* – Center for Economic and Policy Research, September 2009.

- They also considered/referenced several of their own studies:
  - *Back to Work: A Public Jobs Proposal for Economic Recovery* – Demos, March 2011.
  - *Bigger Banks, Riskier Banks* – Demos, January 2010.
  - *It Takes a Pillage: Behind the Bailouts, Bonuses and Backroom Deals from Washington to Wall Street* – Demos, October 2010.

Staffing/Corporate Governance

- The study notes the Bank of North Dakota (BND) is run by a 'professional banking staff', not an economic development agency. However, the Bank of North Dakota works closely with North Dakota's Economic Development Agency and are housed together. It does not clarify if the banking staff are state employees or not.
- Operational overhead is lower than private banks due to the lack of costs like branches, ATMs and marketing.

IT Cyber Security

- The study does not mention this topic.

Other Obstacles

- The study does not mention this topic.

Final Result

- Demos produced a white paper that states that partnership banks are the solution to spur economic development through loans to small businesses.

- Demos is a public policy research and advocacy organization with four goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible US engagement in an interdependent world.

Maine, May 2011

Purpose / Products / Services

- Maine experienced a dramatic reduction in small business lending because of the recession.
- Increase access to capital (lending), particularly to small businesses, during times of tight credit standards, resulting in job creation and retention.
- Generate dividends / interest earnings for the state's General Fund or Rainy Day Fund.
- Make loans more secure by providing participation loans, in commercial and industrial areas, that spread the risk and reduce the number of loans that are put into non-accrual status.
- Stabilize the lending market during an economic downturn.
- The bank would be capitalized by state money, serve as the repository for state deposits, publicly governed, and return a negotiated portion of bank profits to the state. The state rather than the FDIC would guarantee deposits.

Constitution / Legal / Regulatory

- No mention of any constitutional, legal, or regulatory issues – only that Maines's state bank would operate outside of the FDIC regulation and be tax-exempt.

Risk Assessment

- The study does not mention risk directly. The study assumes there would be a loss in interest income due to moving state deposits from higher yielding demand deposit accounts in banks and lost income tax revenue from moving deposits into a nontaxable financial institution.

Capital Considerations

- Several possible sources for start-up capital are mentioned: general fund revenue (no debt); or general obligation bonds (20-year); or general obligation bonds with a sinking fund; or bank stock IPO (sale of stock in the bank); or pension or other state money (invested in stock of state bank).
- The report does not specify how much capital is needed; however, $100 million is used in various charts calculating potential returns / dividends to the state.

Organizational Costs

- Operational costs are not mentioned. The report acknowledges that a public bank would take some time to start-up operations, to assemble its loan portfolio, and to mature its operations.
- The report estimates the dividend return to the state would be positive in year three, 70% of profits would be returned by year five.
- Estimated net profit to the state would be $6.4 million per $100 million in start-up capital.
- The report mentions that: "while state dividends are one source of funds to the state's general fund, interest is also earned on the state money deposited with a state bank."

Deposit Insurance – Federal Reserve / FDIC

- State bank will guarantee deposits rather than the FDIC.

Other Studies Considered Within

- North Dakota State Bank

Staffing / Corporate Governance

- The state bank will be publically owned. The study does not mention staffing.

IT / Cybersecurity

- The study does not mention this topic.

Other Obstacles

- The study does not mention this topic.

Final Result

- The study states that, in conclusion, a state bank would have a positive effect on state revenue and could effectively strengthen the banking industry and create and sustain jobs through a revenue positive investment in a state bank.

Vermont Legislative Joint Fiscal Report, January 2010

Purpose / Products / Services

- Increase credit availability.
- Better source of capital.
- Helps community banks which are few in Vermont.
- Create a reserve fund for the state and help stabilize the state economy.

Constitution and Legal/Regulatory

- Changes to state law would be required (lending of credit issue).

Risk Assessment

- There is no FDIC insurance and this is a risk. Vermont maintains the vast majority of deposits in an FDIC insured institution. Fiduciary responsibility could limit the ability to transfer funds to a state bank without these protections.
- Any state bank would have to have conservative management and limited outside influence.

Capital Considerations

- The Bank of North Dakota was capitalized in 1919. In today's dollars, Vermont would need about $25 million, which is the minimum required for Vermont private de novo banks. The amount and source of capital would need to be explored.

- Fund managers handle the Tobacco Trust Fund, the Higher Education Trust Fund and pension funds. As such, these resources may not be available for a new state depository.

- There is no money to begin a bank at this time.

- The State of Vermont has $214.8 million deposited in 14 banks headquartered in the state. This amount fluctuates daily. Because of this fluctuation, it would be difficult to use this money to capitalize a state bank.

Organizational Costs

- The study does not mention this topic.

Deposit Insurance—Federal Reserve/FDIC

- The study mentions that there is significant risk to the state if state deposits are not FDIC insured.

Other studies considered within

- There was a lot of reference to the Bank of North Dakota.

Staffing/Corporate Governance

- The model would be similar to the Bank of North Dakota.

IT Cyber Security

- The study did not mention this topic.

Other Obstacles

- Combining some of Vermont's many finance agencies may create economies of scale, but they all have very different missions (like housing and economic development) and each have a considerable amount of their own debt.
- The Bank of North Dakota supports private banks and also carries out several Federal Reserve Bank functions. The context in Vermont is quite different as many of the state's banks are nationally integrated and use Federal Reserve Services. The specific functions, support, and relationships that a bank would have would have to be explored.
- Vermont banks are not isolated and have extensive markets and ties to other financial institutions and regional markets. Vermont is a very different economy than North Dakota.

Final Result

- The final report did not implement a state bank and asked for more resources to assess the need and merit of a state bank.

State of Oregon, December 2010

Purpose / Products / Services

- Meet a decline in lending due to financial institutions' tightening of credit standards.
- Increase state revenues, strengthen the State's banking industry, create and sustain jobs.
- Assist in infrastructure financing.
- Possible participation lending to community banks and credit unions in the state, which could increase the total size of the loan, reduce the interest rates, and provide loan guarantees.
- Assist banks during economic downturns and would encourage competitions.
- The state bank could be a depository bank, which is not insured by the Federal Deposit Insurance Corporation (FDIC), but Oregon will insure it.

Constitution and Legal/Regulatory

- The study does not mention this topic. It does mention that policy makers will be involved but does not describe the process for creating the bank.

Risk Assessment

- The study does not mention this topic. However, the study indicates that there would be less risk if the state bank collaborates with a financial institution using participation loans. In calculations to determine a profit or stock dividend, Oregon includes a provision for loan loss.

Capital Considerations

- Funding sources include General Fund revenue, 20-year bonds, general obligation bonds with a sinking fund, and bank stock initial public offering (IPO).
- In addressing Return on Assets (ROA), Oregon provides different calculations for different funding sources. For the bonds, Oregon used $100 million. For the bank stock IPO example, $300M in bond stock issuances, which could be, in part, capitalized through state pension funds.
- Oregon has not determined how much startup capital is needed.

Organizational Costs

- Start-up capital of $100 to $300 million is provided in ROA examples.

- The study does not mention any ongoing operational costs or which agency/who will pay for those costs.

Deposit Insurance—Federal Reserve/FDIC

- The Oregon State Bank will operate outside of FDIC regulation.

Other studies considered within

- Popp, Anthony V. & Widner, Benjamin. (March 12, 2009). *New Mexico's Public Funds Investment Policies: Impact on Financial Institutions and the State Economy*. Arrowhead Center, New Mexico State University.

- The analysis frequently references the North Dakota state bank.

Staffing/Corporate Governance

- The bank will be a government owned depository.

IT Cyber Security

- The study does not address ongoing security for a state bank.

Other Obstacles

Oregon's white paper ends with "Questions for Further Consideration".

- Under start-up capital: Are the scenarios politically feasible, what is the impact to increasing the general government bonds, and can the bonds or stock promote the health of the pension funds?
- Under deposits: Will the state bank only take state deposits, and how can other financial institutions best utilize the depository services and letters of credit the Oregon state bank would provide?
- Under loans: Will there be limitations for loans, is the bank allowed to purchase real estate loans from the secondary market, will there be provisions for loans targeted toward specific economic development purposes, and how can other financial institutions best utilize the participation loans?

Final Result

- The analysis does not provide a recommendation. As mentioned above, the analysis lists questions for further consideration.

Washington State Bank Analysis, December 2010

Washington also had an Infrastructure and Public Depository Task Force in 2017. The task force recommended several short-term steps on infrastructure financing and failed to reach consensus on whether to pursue a depository institution. https://tre.wa.gov/about-us/infrastructure-public-depository-task-force/

Purpose / Products / Services

- Improvement lending in a poor economy (Small Business Association lending declined 35% between 2007 and 2009).

- Improved lending might improve unemployment (study estimates that 7,400 - 10,700 additional small business jobs in Washington could be created or retained).

Profits, Infrastructure Financing, Student loans — see above

- From a $100 million capitalization – a state bank could see $71 million after 10 years, up to $675 million after 40 years.

- According to the study, a Washington State Bank would have a positive Return on Equity (ROE) of real profits to the state within 4 years with prudent banking practices.

- Study suggests a 6.65% annual ROE, but does not take into account operating expenses and does not adjust for inflation.

Constitution and Legal/Regulatory

- The study does not mention this topic.

Risk Assessment

- The study does not mention this topic.

Capital Considerations

- Study suggests capitalizing using the state's pension fund.

Organizational Costs

- The study does not mention this topic.

Deposit Insurance—Federal Reserve/FDIC

- The study does not mention this topic.

Other studies considered within

- The study does not mention this topic.

Staffing/Corporate Governance

- The study does not mention this topic.

IT Cyber Security

- The study does not mention this topic.

Other Obstacles

- The study does not mention this topic.

Final Result

- This study is a conversation starter.

Bank of North Dakota, State Bank, 1919

Purpose / Products / Services

- Promoting agriculture, commerce and industry.
- The Bank of North Dakota (BND) can accept private deposits but does not compete with the private sector.
- There is only one office located in Bismarck.

Profits, Infrastructure Financing, Student loans

- The Bank of North Dakota started sharing profits with the state in 1945 and has shown a profit each year according to available data since 1971.
- 2017 was the fourteenth year for record profits. Bank of North Dakota typically shares 50% of the bank's profits with the State.
- The Bank of North Dakota houses the Public Finance Authority that does infrastructure financing for political subdivisions.
- In 1967, the Bank of North Dakota started issuing the nation's first federally insured student loans, and participating in commercial and residential mortgage loans.
- The Bank of North Dakota's loan portfolio is made up of 36% commercial loans and 37%student loans.
- In 2017, the Bank of North Dakota sold off the federal student loan portion due to the regulatory burdens established by the United State Department of Education, to increase default prevention efforts.

Constitution and Legal/Regulatory

- North Dakota's constitution was amended in 1919 in order to allow lending to private citizens and enacted several statutes to allow for a state bank.

Risk Assessment

- Fifty percent of The Bank of North Dakota's loan portfolio is guaranteed by federal and state agencies.

Capital Needs

- North Dakota initially sold a $2 million bond in 1919 rather than withdrawing existing deposits at local banks. This equates to $325 million currently, taking into account inflation and growth in the ND economy.

- When initial capitalization proved inadequate several years later, the state withdrew funds from banks in western ND, leading to 18 bank failures in the following three weeks.
- The North Dakota Government must deposit all cash into the Bank of North Dakota and it earns a small amount of interest.

Organizational Costs

- Total operational costs were $30 million in 2017. This includes salary and benefits, data processing, occupancy, equipment and other operating expenses.

Deposit Insurance—Federal Reserve/FDIC

- Deposits are guaranteed by the full faith and credit of the state.
- Deposits have dropped $1.2 billion since 2015.

Staffing/Corporate Governance

- The Industrial Commission operates, manages and controls the Bank of North Dakota. The Governor appoints an advisory Board of Directors. The Board consists of seven persons two must be bank officers.

Final Result

- As of December 2017, the Bank of North Dakota had assets and liabilities totaling $7 billion and the net income was $145 million.

American Samoa, State Bank, 2016

Purpose / Products / Services

- American Samoa currently has only three financial institutions. Bank of Hawaii is leaving, and American Samoa will be left with only two commercial banks: Australia New Zealand Bank (ANZ) and the Territorial Bank of American Samoa (the state owned bank). ANZ has assets of $250 million and the state owned bank has assets of $60 million. ANZ has three branches and 10 ATM machines and 59 point of sale terminals. Many of ANZ services have decreased over time. They curtailed commercial lending on American Samoa for a number of years. The regulator said there have been no business loans on the island for the last five years.

- American Samoa has limited financial institutions: some payday lenders, money transmitters, ATMs, and merchant services.

- The Government Retirement Fund is $185 million and offers some loans to large institutions including government entities. Ten percent of the retirement fund can be loaned locally.

- American Samoa suffers from a lack of financial services and products. It is mainly a cash based society and regularly the ATMs run out of cash. Very few merchants have credit card terminals or point of sale transactional machines. The lack of a widespread source of cash and lack of electronic payment systems has hindered the economic development of American Samoa. There are no credit cards offered and few merchants accept credit cards.

- The Territorial Bank opened its doors on October 3, 2016. When it first opened, it took deposits and made small loans to consumers. There were no commercial loans until the bank received a routing number in early 2018. In 2016, the new bank also opened safe deposit boxes.

- There were no electronic payments until the routing number was received. The Territorial Bank currently has a correspondent bank from Utah. The bank is modeled after Bank of North Dakota. American Samoa's population is 56,949, mostly in rural areas. The new bank will serve the underserved populations. The Territorial Bank plans to offer all banking services, and anticipates a large market for auto loans that will sell to a secondary market. It will also work to become a Small Business Administration lender.

- All government entities in American Samoa place their deposits in the government owned bank; however, governments may not apply for any loans from the Territorial Bank. All deposits are insured solely by American Samoa.

Constitution and Legal/Regulatory

- The new Office of Financial Institutions regulates the Territorial Bank. The bank board will comply with federal laws by appointing highly skilled compliance officers.

- American Samoa mentioned the federal Community Reinvestment Act and the fact that the entire island qualifies under the Act as distressed and underserved.

- The Territorial Bank will strictly enforce the Bank Secrecy Act and Money Laundering laws by creating a robust customer identification program, and assuring quarterly audits. The audit committee will review the results and make recommendations. The documents did not mention other specific federal laws, and there was no mention of any constitutional or legal impediments to starting the bank.

Risk Assessment

- Recently (2016), they established an Office of Financial Institutions that regulates all financial service providers in the territory. The new regulator will assure compliance with Territorial law and other federal laws.

- The bank Board would keep the Territorial Bank away from the political process and ensure that there would be complete separation between the Board and the legislature. Any board members affiliated with the government must not engage in managing the bank while on the Board, and the financial regulator enforces this.

Capital Considerations

- The Territorial Bank is capitalized through the taxable bonds from the American Samoa Economic Development Authority for $10 million and government donated fixtures and furniture.

- They received $3.5 million in startup costs as an appropriation. They have $13 million in capital now (a very small bank). They adhere to the standard for healthy banks at ten percent capital. The bonds are not considered a debt of the bank.

Organizational Costs

- There was $3.5 million in startup costs from an appropriation. The Bank of Hawaii will donate two brick and mortar facilities once the bank leaves the territory. The government contributed computers, furniture, and desks.

Deposit Insurance—Federal Reserve/FDIC

- The Territorial Bank of American Samoa received a routing number from the Federal Reserve in 2018, and a master account. Thus, they have access to the electronic payment systems. They have not secured FDIC insurance and they are working toward getting deposits insured in the next couple of years of operations.

- For the first three years of operation, there will be no FDIC insurance. The American Samoan government will insure all deposits. After three years, the Territorial Bank's business plan contemplates private participation or conversion to nongovernmental ownership. They have a correspondent banking relationship with a Utah bank.

Other studies considered within

- They modeled the Territorial Bank based on the North Dakota model. They cited that in 2015 North Dakota was in its 12th consecutive year of profits, and that the Bank of North Dakota is the largest and healthiest bank in North Dakota. They also balanced the unique culture of American Samoa society with the need for financial services.

- American Samoa has very limited financial institutions as well as merchant and banking services. American Samoa has unique credit risk factors that may not fit into the model of traditional credit risk management methods. There are no Uniform Commercial Codes; there are communal land systems, and a cultural bias towards cash.

Staffing/Corporate Governance

- They have a Territorial Bancorp, which is the holding company for the Territorial Bank of American Samoa. The Territorial Bank has complete separation between the government, and the bank (per bank bylaws), and the regulator enforces this separation. In addition, the bank's Board of Directors assures no government intervention in the running of the bank.

- There are seven board members four appointed by the Governor from the territorial government, and three appointed from the general population. All board members are approved by the legislature. The Board members serve four-year terms.

- All those who manage banking operations have extensive banking experience. There will be an internal audit committee and compliance officers will work with the audit committee. The audit committee also works with outside independent auditors.

IT Cyber Security

- The bank has chosen FBS Gold to provide an operating and accounting system. Other than the type of system, there is no mention of security.

Other Obstacles

- The biggest obstacles for the Territorial Bank were obtaining a routing number, and a correspondent bank relationship. American Samoa appointed their first financial regulator in 2016. The culture and the economy play a large role in the lack of financial services in the community.

Final Result

- They opened the bank in 2016 and obtained a routing number in 2018. The plan is to operate the government bank for three years without federal FDIC insurance. In the first 36 months of operation the Territorial Bank will apply for FDIC insurance, and once issued, will allow for private participation or convert to non-government ownership. Since the Territorial Bank has just received a routing number, it is too early to evaluate success or lack of success.

"The Office of the State Treasurer supports building upon Washington's existing structure of banking and does not support public banking because of the higher risk and lower return on investment compared to the current private banking system."

DUANE A. DAVIDSON

WASHINGTON STATE TREASURER

Washington State Treasurer Duane Davidson commissioned this study to identify and highlight facts involving the public banking issue.

The Office of the State Treasurer maintains key working relationships with other governments across Washington, and facilitates investment within the state.

For more information about the Office of the State Treasurer visit www.tre.wa.gov.