Summary of Report of the Commission to Study the Feasibility of Establishing a Bank Owned or Constituted by the Commonwealth of Massachusetts (MA)  
August 8, 2011

I. The Commission examined the technical, legal & financial feasibility by examining
   • The financial performance & lending practices of other states with state-owned banks, to see if they successfully filled lending gaps not filled by the private sector.
   • How MA public funds are now invested or deposited.
   • Infrastructure investment activities of other states with state-owned banks.
   • Lending practices of existing public agencies in MA that perform lending services, including to support infrastructure.

II. The Commission was composed of a broad range of banking industry people, treasurer of MA and heads of public & quasi-public agencies. They held 6 meetings plus 4 public hearings with 16 testifiers including from the MA Bankers Association.

III. The Commission relied on research of the Federal Reserve Bank of Boston which cited in its Research Report four benefits commonly put forth for a state bank: 1) stabilizing the state's economy, 2) providing local businesses improved access to credit, 3) augmenting the lending capacity of community banks and 4) helping fund state government through profits. They asserted that the Bank of North Dakota (BND) supported only the number 3). Their report also noted that since the 1970s, the trend has been towards governments easing control over the banking sector. Their recommendation was to 1) identify a specific market failure that a state bank could address, then 2) investigate ways to leverage the already existing network of quasi-public agencies to fulfill that need.

IV. The Commission also looked at the viability of establishing a state infrastructure bank (SIB) which would function much like a revolving loan fund. One constraint of a SIB is that once the capital project is built, project-based revenues (such as tolls) or general revenues would need to be generated and used to repay the loans with interest. As loan funds are repaid, they would replenish the fund so that new loans could be made.

V. The Commission took an extensive look at the lending and infrastructure investment services of quasi-public agencies including their performance management oversight. They seemed appreciative of the reorganization of these entities, although still recognizing the need for more capital for infrastructure. (Their “Mass Housing” model (page 18) could be useful for Washington state.) They observed that it may be useful for MA state to consider expanding the public infrastructure definition to include “non-built” environment needs such as forest lands, waterways and farm lands to support their preservation, although this is not in their mandate.

VI. The Commission recommended not establishing a public bank owned by the Commonwealth because of
   • MA lacks a proven need to justify the initial capital investment.
   • North Dakota, having the only existing model of a state-owned bank, is vastly different from MA in economy & banking industry.
   • A MA state-owned bank would be exposed to unacceptably high risk due to providing risky gap financing & its rate of return would have to match that currently earned under the management of the Treasurer.
• MA currently has an established network of public & quasi-public agencies which offer various lending programs & services including lending to help support infrastructure. They believe that bolstering those programs would be a faster and more effective way to meet gaps in their capital markets.
• MA does, however, have unmet capital needs for very small businesses which could be met in other ways.

VII Conclusion: While the Commission recommends that legislature not pursue the creation of a state-owned bank, the Commission recommends further actions and studies that could help better meet any unmet needs within the commonwealth.

VIII. Addendum: Senator Spilka’s letter (dated August 8, 2011) in which she concludes: “I cannot support the conclusion to stop further examination of a state-owned bank.”

Summary by Adele Reynolds, Seattle-King County LWV for the LWVWA Public Bank Task Force, August 2019.
APPENDIX F: Useful Links

The Commission to Study the Feasibility of Establishing a Bank Owned by the Commonwealth:
http://www.mass.gov/?pageID=ehedterminal&L=3&L0=Home&L1=Economic+Analysis&L2=Key+Initiatives&sid=Ehed&b=terminalcontent&f=Commission+to+Study+the+Feasibility&csid=Ehed

Official Website of the Bank of North Dakota:
http://www.banknd.nd.gov/

Prairie Public Clip on the Bank of North Dakota:

Federal Reserve Bank of Boston Report:

The Public Banking Institute:
http://publicbankinginstitute.org/

MassDevelopment:
http://www.massdevelopment.com/

Massachusetts Growth Capital Corp.:
http://www.mcdfc.com/

MassHousing:
https://www.masshousing.com/portal/server.pt

Massachusetts Quasi Public Annual Reports:

FDIC Applications for Deposit Insurance Statement of Policy: