Review of the Status Report on the Benefits and Risks of a State Public Cooperative Bank

The League of Women Voters of Washington Public Bank Task Force

BOTTOM LINE UPFRONT

The League of Women Voters of Washington established a public bank task force to evaluate whether a WA state owned public bank will benefit the state of Washington. The task force reviewed the status report on the benefits and risks of state chartered public cooperative bank prepared by William Longbrake, Ph. D. and Justin Marlowe, Ph.D. of the Daniel J. Evans School of Policy and Governance, University of Washington. The report did not address the questions (see the questions in CONCLUSION) we had on the proposed Washington Investment Trust (SB5995) aka a WA state public cooperative bank because their study was based on the predetermined scope by the Treasurer and the 2017 WA State Infrastructure and Public Depository Task Force.

BACKGROUND:

In the 2017-18 Washington Legislation session, Senator Hasegawa introduced the bill SB6375, AN ACT Relating to developing a publicly owned depository business plan; and creating a new section, requesting further pursuant of it in an effort to establish a WA State owned public bank (WA PB). The bill was passed with bi-partisan supports and the legislature appropriated a fund (Supplemental Appropriation Bill, SB6032) for two studies, Study 1; to evaluate the benefits and risks of establishing a WA state public co-operative bank (WA PCB) and Study 2; to develop business plan for the WA PCB. For 2018, $192, 000 of general fund was appropriated to conduct Study 1, requesting the delivery of the report in Dec 2018 and for 2019, $288,000 was allocated for Study 2 to develop a business plan with a due date of the end of June 2019.


REVIEW OF THE EVALUATION OF THE BENEFITS AND RISKS OF A STATE-CHARTERED, PUBLIC COOPERATIVE BANK STATUS REPORT:

The report has two main parts: The first part is comprised of two sections. The first section is describing nine state funding programs which have potential benefits to the state (the state has
more than 80 funding programs). The second section is Need to Know Survey to find whether municipalities and political subdivisions in WA were satisfied with the current state funding programs and would use services provided by the WA PCB. The second part is a discussion and analysis of potential models for WA PCB.

The report’s introduction stated that “it would examine the benefits and risks to public government agencies of publicly owned banking whose members would be restricted to public governmental agencies.” Further the study suggested they would examine whether gaps exist in the existing state funding services that could be filled effectively by a public cooperative bank.

The study was conducted based on the issues raised by the WA Treasurer’s office and Office of Financial Management in the Treasury Department as stated in the Supplemental Appropriation Bill SB6032 Section 129, (17) (a) “Evaluate the benefits and risks of establishing and operating a state-chartered, public cooperative bank in the state of Washington, specifically including the business and operational issues raised by the 2017 WA State infrastructure and public depository Task Force.

Those issues listed in the final report of the WA state Infrastructure and Public Depository Task Force are:

- Revitalize the Public Works Trust Program
- Work to increase financing (and safeguard it for the future) for what has been a very successful revolving loan fund program
- Review with local government stakeholders the need for additional infrastructure lending options

Part 1.

Section 1: Current State Funding Programs

Washington State has more than 80 programs and subprograms administered by 12 agencies providing grants, direct loans or issue bonds to supports local governments and their public subdivisions’ financial needs. The study briefly reviewed nine programs that provide access to capital to finance infrastructure investments. The report stated that the collection of programs was not designed to operate as a system. This has led to inefficiency and resulted in program underutilization. Since the Great Recession (2008), many support programs have been unfunded or underfunded. However, the report did not indicate that these situations are unfilled gaps that can be filled by the state public cooperative bank

Section 2: User Need Survey

“User Need Survey” that was sent out to all cities, counties, and public utility districts in Washington State. The survey questions asked the respondents to “identify their satisfaction with existing Washington State programs, or their interest in a potential programs. The questions
regarding interest in participating in potential programs and services offered by a public cooperative state bank were framed as either yes/no/unsure or using the Likert Scale (1: Unlikely; 2: Somewhat Unlikely; 3: Neutral; 4: Somewhat Likely; 5: Likely). The overall survey response was only 19%. The responses to their satisfaction to existing funding programs and interest in potential state funding opportunities by the Likert Scales are mainly “unlikely interested”. The survey found that some of the responders had no knowledge of particular state funding programs from which they could benefit. The response rates to the question “Considering the services that WA PCB might offer, do you think your jurisdiction/agency might have an interest in membership?” are 32% ‘yes’, 22% ‘no’, and 46% ‘unsure’. Many of ‘unsure’ expressed that “they were satisfied with the services currently available through the state government, banks, and credit unions and/or would require additional information about how the WA PCB would function to provide a decisive “yes” or “no” answer regarding their agency’s interest in membership.”

The survey results may indicate that the municipalities and public utility districts lack knowledge and information about what various state funding programs exist and how those programs could benefit them. For the question on “interest in access to services offered by a WA PCB, the high (46%) response rate of ‘unsure’ suggests that the surveyor may have failed to provide responders with adequate information about a potential WA PCB and how it is different from the existing state funding programs.

**Part 2. Structural and Legal Analysis of Potential Public Cooperative Bank Models**

For the structural analysis, the Appropriation Bill SSB 6032 instructed to develop the benefits and risks study using a model of Federal Home Loan Bank which is a member-only bank. Although Sen. Hasegawa’s SB6375 bill, which requested a study for developing a publicly owned depository business plan, did not specify the model, the analysis for establishing WA PB was done solely based on the Federal Home Loan Bank model. The report discussed various ways to establish a membership bank and the subsequent discussions were evolved around the types of a membership structure such as it would be a member-owned bank, or whether the membership is mandated and so on. Those discussions also included bank capitalization, required funding and funding sources, governance, and regulatory oversight. The makeup of the governance and regulatory oversight discussed were also depended on the membership structure. We hope that the Business Plan report will suggest what membership structure would be most feasible and applicable to build a WA PCB. It was to be published at the end of June 2019 (The time of writing this review, it was not publicly available).

For the Legal analysis, the study concludes “that an intergovernmental public cooperative bank can be created in Washington State, but would require enacting a substantial authorizing statute and amending various existing statutes. A range of options are lawfully available for capitalizing a public cooperative bank and structuring its services. Some possible credit-support tools to backstop a public cooperative bank’s obligations would likely require a constitutional amendment to avoid making state or local guarantees count against the state’s or local governments’ debt limits.”
Some of the constitutional provisions listed below also make it very challenging to consider establishing a WA PB that takes deposits from private persons, guarantees those deposits, and makes loans to the private sectors (personal or business accounts).

Article VIII, Sections 5 and 7 and Article XI, Section 9
Art. VIII, Secs. 5 and 7 of the Washington Constitution, together with Art. XI, Sec. 9, prohibit the state and local governments from giving away public funds to private persons, companies or associations without corresponding consideration, or from providing credit support or loans to private sector entities.

However, Bank of North Dakota which is the only state-owned bank in the nation does business with private sectors. The bank established a more flexible version of the state-owned bank by a constitutional amendment through the ballot initiative process in 1919 (The North Dakota Bank of North Dakota Referendum (House Bill 18)).

CONCLUSION

The report’s conclusion stated that it “focused on the first half of the mandate stated in the Legislature’s budget proviso: an evaluation of the benefits and risks of establishing a state-chartered, public cooperative bank.” However, nowhere in the report were the benefits and risks clearly described but they simply explained the existing state financial services and their current status. Furthermore, the status report that discusses the structural and legal situations used hypothetical scenarios based on various membership models for the bank. It would be more pertinent for us to evaluate what model(s) the legislators would choose for establishing a WA PB and how the model would impact the economy of WA. After the legislature reads the business plan, it may have a chance to focus on one or two models for further discussion or make a revision to the proposed Washington Investment Trust, aka a WA State Public Cooperative Bank.

Finally, the status report concluded that the creation of a state-chartered public cooperative bank improves the financial services for the state agencies and political sub-divisions by increasing access and lowering costs. Again, this conclusion came out of nowhere given that it was not discussed elsewhere in the text. The body of the report hardly hinted the conclusion. The title of the report, the introduction, the body of the report and the conclusion are all disconnected. What we anticipated from the status report was to seek answers to the questions:

1. What does the SB5995 (2019), Washington Investment Trust aka WA state public bank (WA PB) propose?
2. How does the WA PB function as a bank?
3. How would the WA PB perform compared to existing state funding programs?
4. What are the benefits and risks of establishing a WA PB?
5. Do the benefits outweigh the risks?

William Longbrake, Ph. D. and Justin Marlowe, Ph.D., asked none of the questions and/or provided few answers. Probably this is because their study was based on the report by the 2017
WA State Infrastructure and Public Depository Task Force (WA SIPDTF). The WA SIPDTF lead by the state treasurer lacked a crucial point on studying the establishment of WA PB; that a WA PCB would be a certified bank. Instead, they treated WA PB like another state agency funding program in the task force discussion. They need to have the realization that WA PB would do banking business like other commercial banks, but its clients are only public sectors. Also, the members of WA SIPDTF may have not known how a bank functions. We hope that the business plan would address the questions and answers with this realization.