

Date of Hearing: May 2, 2011

ASSEMBLY COMMITTEE ON BANKING AND FINANCE
Mike Eng, Chair
AB 750 (Hueso) – As Amended: April 25, 2011

SUBJECT: Finance: investment trust blue ribbon task force.

SUMMARY: Creates the investment trust blue ribbon task force with the purpose of establishing a California Investment Trust which would be a state bank receiving deposits of state funds. Specifically, this bill:

- 1) Provides that the Secretary of Business, Transportation and Housing (BTH) will convene the task force.
- 2) Specifies that the task force will include the following members:
 - a) The Secretary of BTH;
 - b) Two individuals representing and having a background in one or more areas of finance, including, but not limited to, individuals working in for-profit and nonprofit financial and academic institutions, and economic development practitioners to be appointed by the Senate Committee on Rules;
 - c) Two individuals representing and having a background in one or more areas of finance, including, but not limited to, individuals working in for-profit and nonprofit financial and academic institutions, and economic development practitioners to be appointed by Speaker of the Assembly;
 - d) Five members representing and having a background in one or more areas of finance, including, but not limited to, individuals working in for-profit and nonprofit financial and academic institutions, and economic development practitioners to be appointed by the Governor; and,
 - e) The Controller, Treasurer, and Governor or their designees.
- 3) Requires the task force to choose its chair from among its membership.
- 4) Requires the Secretary of BTH and the legislative members to convene the first meeting on or before February 1, 2012.
- 5) Establishes a quorum at the meeting to constitute majority plus one of the members serving on and appointed to the task force at the time the meeting is convened. Thereafter, a quorum shall constitute a majority of the members plus one who are eligible to service on the task force.
- 6) Provides that a quorum is not necessary for conducting meetings except for meetings where the draft report and final report are to be voted on.

- 7) Establishes that the purpose of the task force shall be to consider the viability of establishing the California Invest Trust, which would be a state bank receiving deposits of state funds to report to the Legislature.
- 8) Requires the task force to:
 - a) Undertake a general assessment of the state's current network of public and private financial resources for the purpose of identifying potential areas of state trust focus. Among other resource issues, the task force shall consider, at a minimum, how a state trust could be designed to do the following:
 - i. Strengthen the economic and community development needs of California.
 - ii. Provide greater financial stability to individuals and businesses.
 - iii. Reduce the cost paid by state government for banking services.
 - iv. Generate earnings beyond those necessary for continued operation of the trust, which could be used to supplement the General Fund.
 - b) Consider the types of financial products that could be offered to address currently unmet financial needs and more efficiently deliver existing financial resources and products. The task force shall take a broad view in assessing individual-, business-, and community-level financial needs including, but not limited to, products that improve access to capital for businesses, farmers, homeowners, students, the unbanked, and local governments.
 - c) Examine various administrative and operational structures for organizing a trust including, but not limited to, boards of directors, sources of deposits, oversight and audit of financial activities, and guarantees of financial products.
 - d) Consider options for integrating a state trust model into the existing state financial resource network including, but not limited to, ideas such as lending capital to banks, credit unions, and nonprofit community development financial institutions.
- 9) Establishes that the task force will be staffed from existing resources provided by the BTH Agency.
- 10) Provides that the appointed task force members shall be reimbursed solely for the actual travel costs for attending meetings. Costs associated with state government officials attending meetings shall be paid by the respective government entities.
- 11) Requires the task force to provide a report to the Legislature by December 1, 2012.
- 12) Requires the report to include all of the following:
 - a) A recommendation on the viability of establishing the California Investment Trust; and,

b) A list of issues and considerations.

13) Provides that the task force if supportive of a California Investment Trust to provide:

- a) The administrative structure of the trust;
- b) The capital requirements for the trust's initial capitalization and for ongoing operations;
- c) How the initial capitalization can be achieved and how operating costs could be paid;
- d) The oversight of the trust to protect the interests of the state and the rights of individuals and entities that may access the products or services, or both, of the trust;
- e) An outline of transition actions necessary for establishing the trust; and
- f) A draft of statutory and constitutional changes that may be necessary to establish the trust.

14) Specifies that the task force will become inoperative on January 1, 2017.

15) Makings the following declarations:

- a) California communities have suffered greatly since the financial crisis of 2007. During the last several years, monthly unemployment levels have remained above 10 percent leaving millions of Californians out of work. Bankruptcies among small businesses and individuals are up, capital markets are tight, and local communities have limited resources to address their economic and community development challenges.
- b) While Californians have been especially hard hit in this recession, residents of other states have also suffered. In responding to the sluggish capital markets, several states, including Maine, Oregon, Rhode Island, and Washington, are examining the appropriateness of creating a state bank.
- c) The creation of the California Investment Trust could serve to more effectively meet the financial needs of the state including, but not limited to, the following:
 - i. Supporting the economic development of California by increasing access to capital for businesses in the state.
 - ii. Providing financing for housing development, public works infrastructure, educational infrastructure, student loans, and community quality of life projects.
 - iii. Providing stability to the local financial sector.
 - iv. Reducing the cost paid by state government for banking services.

- v. Lending capital to banks, credit unions, and nonprofit community development financial institutions to assist in meeting their goals of increasing access to capital and providing banking services.

EXISTING LAW:

- 1) Requires the Treasurer to receive and keep in the vaults of the Treasury or to deposit in banks or credit unions all moneys belonging to the state.
- 2) Requires the Controller to account for all expenditures as scheduled in the Budget Act including providing a monthly comparison between actual and estimated revenues.
- 3) Establishes various financing programs relating to housing, small business, infrastructure and schools. These programs are administered through multiple agencies under differing goals, processes and reporting requirements.
- 4) Provides that any report required or requested by law to be submitted by a state or local agency to the Members of either house of the Legislature generally, shall instead be submitted as a printed copy to both the Legislative Counsel and the Secretary of the Senate, and as an electronic copy to the Chief Clerk of the Assembly. Each report shall include a summary of its contents, not to exceed one page in length. If the report is submitted by a state agency, that agency shall also provide an electronic copy of the summary directly to each member of the appropriate house or houses of the Legislature. Notice of receipt of the report shall also be recorded in the journal of the appropriate house or houses of the Legislature by the secretary or clerk of that house. (Government Code, Section 9795)
- 5) Defines "report" as any study or audit. (Government Code, Section 9795)

FISCAL EFFECT: Unknown.

COMMENTS:

According to the Author, this bill is needed to explore the viability of a California State Bank. In response to the sluggish economy several states including Maine, Oregon, Washington and Rhode Island are examining the appropriateness of creating a state bank. The author feels California should also consider this option to help the state address its challenges.

AB 750 would put the task force in the hands of the BTH Agency. The BTH Agency includes 14 departments and several economic development programs and commissions consisting of more than 45,000 employees and a budget of \$18 billion. The Agency's portfolio is one of the largest and most diverse in the State of California. Its operations address a myriad of issues that directly impact the state's economic vitality and quality of life including transportation, public safety, affordable housing, international trade, financial services, tourism, and managed health care.

Currently, California has the The California Infrastructure and Economic Development Bank (I-Bank) is located within the BTH Agency and is governed by a five-member Board of Directors. The I-Bank was created in 1994 to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California. The I-Bank operates pursuant to the

Bergeson-Peace Infrastructure and Economic Development Bank Act (as of March 2010) contained in the California Government Code Sections 63000 et seq.

The I-Bank 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. The I-Bank's current programs include the Infrastructure State Revolving Fund (ISRF) Program, 501(c)(3) Revenue Bond Program, Industrial Development Revenue Bond Program, Exempt Facility Revenue Bond Program and Governmental Bond Program.

Background: Due to the economic crisis we are still recovering from, the issue of states creating their own state banks has picked up steam. The best and only example of a state bank is the Bank of North Dakota (BND). In 1919, the state legislature established BND with \$2 million of capital.

BND was charged with the mission of "promoting agriculture, commerce and industry" in North Dakota. It was never intended for BND to compete with or replace existing banks. Instead, Bank of North Dakota was created to partner with other financial institutions and assist them in meeting the needs of the citizens of North Dakota. Today, the Bank operates with more than \$270 million in capital. The State of North Dakota began using bank profits in 1945 when money was first transferred into the General Fund. Since that time, capital transfers have become the norm to augment state revenues. To this point, BND is perceived to be a success.

According to the U.S. Census Bureau, the population size of North Dakota as of July 1, 2009, is 646,844. To compare, California has a population size as of July 1, 2009, of 36,961,664. This is a drastic difference that should be discussed when trying to implement a task force for a state bank.

Other States:

Currently, 11 states have decided to look into creating state banks. These states include Illinois, Virginia, Hawaii, Oregon, Washington State, Massachusetts, Maryland, Arizona, Vermont, California and Maine.

Oregon: In 2011, Oregon introduced SB 889 and HB 3452. This measure requires the Oregon Finance and Credit Board to formulate and implement investment and management policies and practices for state funds controlled and administered by state agencies. This measure is in the beginning of the legislative process.

Washington: The State of Washington introduced in 2011, HB 1320 and SB 5238. This measure would enact an investment trust blue ribbon task force. The measure was heard in a policy committee and did not move forward. Their legislature just reintroduced the measure in special session on April 26, 2011. In 2010, Washing tried to create a state bank with HB 3162. This measure did not pass out of the policy committee.

Maine: Introduced in 2011, LD 1452 which would Create the Maine Street Economic Development Bank. Provides that the bank may not make, purchase, guarantee, modify or hold loans until the bank has adequate capital of at least \$20,000,000. This measure is in the beginning stages of their legislative process.

Hawaii: Hawaii attempted with HR 853 to create a task force to establish a Bank of the State of Hawaii. Rather than moving forward with a bill the legislature is moving a resolution HR 139 which would create a task force.

Illinois: Introduced HB 5476 to create a state bank. Currently pending in their Rules Committee.

Virginia: Introduced HJ 62 to establish a study on whether to create a state bank. Measure is no longer moving forward.

Massachusetts: Introduced SB 2331 which proposes a study on whether to implement a state owned bank. This measure passed and waiting to select candidates for the commission.

Maryland: Introduced SB 789 to establish the Maryland State Bank Commission to review and evaluate the creation of a Maryland State Bank; providing for the membership and staffing of the Commission; prohibiting members of the Commission from receiving specified compensation, but authorizing the reimbursement of specified expenses; requiring a final report by a specified date; etc. This measure is no longer moving forward.

Arizona: Introduced HB 2221, to create a bank of Arizona. This legislation is no longer moving forward.

Vermont: Introduced H361, This bill proposes to require the secretary of commerce and community development to contract with a nonprofit corporation to develop and introduce into the state economy a companion currency to be called Vermont dollars. This is in the beginning of the legislative process.

Committee Action:

It should be noted that the Assembly Banking and Finance Committee would like to conduct an oversight hearing on the issue of whether or not it is feasible for California to create a state bank. A hearing involving this topic has not taken place and necessary to provide legislatures with as much information as possible.

Suggested Amendments:

- 1) On page 3, line 22, add "or their designee"
- 2) On page 4, line 13, delete "legislative"
- 3) On page 4, line, 16, delete "at the first meeting"
- 4) On page, 4, line 18, delete, "Thereafter, a quorum shall"
- 5) On page 4, delete lines 19-20

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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