California Infrastructure and Development Bank- IBank

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HISTORY: The IBank was set up 20 years ago as a revolving fund. With very limited funding it has provided: (a) a handful of small infrastructure loans (**a total of $600 million**, averaging $10 million), and (b) **a conduit for $36 billion** of tax-exempt municipal bonds for state agencies. In the last 5 years its Small Business Financing Center (SBFC) has provided **$1.5 billion of loan guarantees** to non-governmental financial institutions, including credit unions and CDFIs, for their loans to small businesses and farms

NEEDED CHANGES: This limited success was possible despite the legislatures withdrawal of IBank funding of $280 million in 2003 (because of the dot-com debacle). The IBank subsequently raised over $350 million from revenue bonds. Interest payment on these is 2/3 of expenses greatly limiting retained earnings. The State Treasury must invest in a bond replacing the external revenue bonds for which the state will receive interest comparable to a T-bill. **The legislature must authorize the IBank to become a depository with an account at the Federal Reserve**. *In only two years and with minimal expense the IBank , unlike proposed city banks or a state bank, would become a functioning bank not a bank in name only with expanded capacity for both municipal loans and loan guarantees.*

EXPANDED LOANS AND LOAN GUARANTEES: The above bond redemption would leave the IBank with over $400 million of tier 1 capital **allowing up to $4 billion of loans to low-risk public entities** (cities, counties, JPAs, pension funds but *not* individuals or businesses). The $1 billion/year of conduit bonds it presently processes (much like CMFA and CSCDA) could be replaced with loans at below market interest. Needed infrastructure could be financed with lower sales and property tax and more loan guarantees could be implemented by its SBFC division for small and medium sized businesses, farms, and for credit unions.

DEPOSITORY INSTITUTION: The important challenge will be to obtain sufficient short-term deposits to act as reserves for loans. The state, public pension funds, and municipalities could use the IBank as a money-manager for their deposits with **competitive** interest rates and low transaction costs. This also avoids the risky unregulated markets used by private banks (ie no swaps or derivatives). Short-term deposits over the term of the loan from each client would serve as partial reserves (compensating balances) for its own loan portfolio. Daily accounting of deposits will be used to adjust for the cost of required reserves, while excess reserves would be swept into accounts yielding higher returns. The payments of interest on each loan (minus its operational costs including the cost of reserves) would be added to the client account semi-annually. Thus a 3% loan (versus current munis at >4%) could yield the account over 1%. The loans would produce returns rather than expenses and do so at lower interest cost.

A CREDIT UNION FOR MUNICIPALITIES: "A public bank for public entities". Importantly interest payments on municipal loans are returned to the depositors account minus operational charges. The later includes a fee facilitating more loans and loan guarantees. This process will begin to reduce the bond interest (from sales and property tax) paid annually by municipalities to the wealthiest 2% of households. This "regressive taxation", currently at $25 billion, equals half the state personal income tax paid by that 2% annually. Even if IBank growth is restricted it would be a functioning model that instills public trust in a state bank that lowers interest rates, expands infrastructure, and minimizes transfer of muni bond interest to the wealthiest households.

Authorizations for the IBANK: The first three items need to be done short-term, and the next six once the transition to a depository institution is approved by the Federal Reserve.

Short-term

State Treasury to invest in a 5-year revenue bond (with interest rate comparable to a 5-year T-bill) to allow the IBank to redeem outstanding revenue bonds.

IBank to prepare application for a depository account at the Federal Reserve including a 3–year financial projection

Dept of Business Organization to issue charter as a state depository institution upon provisional acceptance by the Federal Reserve

Upon Approval as a Depository Institution

State Treasury to back deposits by public entities in the IBank with full faith and credit of the State of California (as per Bank of N. Dakota)

State Treasury to open account at the IBank to make it a money-manager and to provide overnight loans for maintaining its required reserves (in lieu of the Fed or FHLB window)

The upper limit of an ISRF loan is raised to $100 million and the annual total is targeted initially at $1 billion thereby meeting the current level of requests for infrastructure funding

The IBank to provide loans for at least $1billion annually of what were formerly "conduit bond" for state agencies

Revise CA Govt Code 63071(b) to raise the limit of outstanding IBank loans from $5 billion to $50 billion to allow for future growth

Raise the legal limit for IBank rate reduction bonds from $10 billion to $20 billion to allow for possible refinancing at lower rates