



MURIEL BOWSER
MAYOR

May 29, 2020

The Honorable Phil Mendelson, Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Dear Chairman Mendelson:

Today, I am transmitting to the Council of the District of Columbia for its consideration, the "Public Bank Feasibility Study Report" ("Report"). The purpose of this Report is to share the findings from the public bank feasibility study conducted by the Department of Insurance, Securities and Banking.

This Report details the history of public banks in the United States, using the Bank of North Dakota as a case study, as well as concerns related to public banks and the advocacy efforts undertaken by other communities regarding public banking. The Report then considers District-specific issues related to public banking, including potential governance and legal issues, bank start-up costs and capitalization, and ongoing operations. Finally, the Report offers recommendations should the District decide to further pursue the possibility of forming a public bank.

If you have any questions, please feel free to contact DISB Acting Commissioner Karima Woods at (202) 442-7760.

Sincerely,

A handwritten signature in black ink, appearing to read "Muriel Bowser", written over a printed name.

Muriel Bowser

Enclosure

Handwritten signature or text, possibly "Handwritten" or "Handwritten".

Public Banking Feasibility Study

For the Government of the District of Columbia



Submitted to

Government of the District of Columbia
Department of Insurance, Securities and
Banking
1050 First Street NE, Suite 801
Washington, DC 20002

Submitted by

NYMBUS Corporation
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GOVERNMENT OF THE
DISTRICT OF COLUMBIA
MURIEL BOWSER, MAYOR

TABLE OF CONTENTS

Executive Summary	ii
1.0 Introduction	4
1.1 Background	4
1.2 Two Primary Motivations for Public Banks	5
1.3 Study Approach.....	6
1.4 Overview of Report.....	6
2.0 History and Advocacy of Public Banks in the United States	8
2.1 Bank of North Dakota: A Historical Case Study	8
2.2 Public Bank Advocacy: Interest, Government Response, and Studies	10
2.3 Concerns in Response to Public Banking Proposals	13
3.0 Consensus Document	15
3.1 National and Local Commercial Banking Conditions	15
3.2 Public Engagement: Methods and Findings.....	20
3.3 Consensus Statement.....	22
4.0 Strawman: Establishing and Operating a Public Bank: Legal, Regulatory Requirements, and Costs	23
4.1 Governance Issues.....	24
4.2 District Legal and Regulatory Review	26
4.3 Bank Start Up Costs and Initial Capitalization	30
4.4 Annual Ongoing Banking Operations.....	32
4.5 Unmet Needs: Analyzing the Market Failures and Interventions	40
5.0 Findings and Recommendations.....	63
5.1 Findings and Actions from other Government Feasibility studies.....	63
5.2 Summary of Findings for The District	653
5.3 Recommendations for the District: Next Steps	664



EXECUTIVE SUMMARY

In the aftermath of the financial crisis and subsequent evidence of predatory lending practices, engaged citizens have become concerned with the state of the commercial banking industry. Specifically, they have expressed their dissatisfaction with the use of large, private banks for government accounts. This has resulted in local and state governments inquiring about the use, applicability, and effectiveness of a public bank in their jurisdiction.

A growing number of city and state governments have conducted feasibility studies examining whether the creation of a public bank can address possible market failures of the private banking system. These perceived shortcomings include, but are not limited to, profit-driven lending practices, high-interest rates and fees, and insufficient capital available for public policy purposes like affordable housing, small business lending, and infrastructure projects, among others. Notably, arguments in favor of establishing a public bank are quite similar across the various cities and states.

Based on the Council of the District of Columbia’s mandate, the Department of Insurance, Securities and Banking was charged with examining the public bank option and conducting a feasibility study. The Department ensured that extensive public outreach was a part of the feasibility study. The purpose of the outreach was to understand the desire, needs, potential structure, costs, and constraints of establishing and operating a public bank in the District. The stakeholder engagement included several town hall meetings, 15 focus groups, and stakeholder interviews as well as two public surveys on consumer and business banking habits. This level of public engagement was critical to understanding the perceived failures of the private commercial banking system in adequately meeting the needs of citizens and businesses in the District. It also helped to elucidate the interest in banking alternatives, as well as the potential costs and benefits of a public bank.

Our public outreach engagement helped to identify the major factors that have led segments of the community to support public banking. **The primary reason identified by public banking advocates is to have the District government stop using “Wall Street Banks,” which would save costs, keep the dollars local, and divest from banks that engage in harmful practices.** Advocates also identified the lack of fairness with which public funds are managed by commercial banks, particularly in the way these banks prioritize profit over the public interest. **In addition, six major areas were identified as “unmet needs” in commercial banking,** or perceived market failures that, from the perspective of some

community members, could be more adequately addressed by a public bank. These areas include inefficient small business and student lending, lack of affordable housing, unbanked and underbanked communities, lack of financial services for the cannabis industry, and lack of funding for green infrastructure projects.

Assessing the “feasibility of a public bank” requires a very clear and direct understanding of the exact problem(s) for which a public bank could be considered an efficient, effective and equitable solution. In the District’s case, proponents are looking for a public bank to be the answer for divesting from large commercial banks and to help address a set of identified unmet capital access needs of District citizens and businesses. Our team assessed the feasibility of establishing some form of a public bank and also analyzed the merits of using a public bank to deal with these more effectively than alternative options.

To answer this question, we first assessed the legal and regulatory issues concerning the establishment of a government-run financial institution in the District. These issues were identified by government officials, financial industry experts, and public bank advocates during the public engagement phase. Our team also analyzed the D.C. Code and identified laws regulating banking and public fund management in the District.

We also analyzed the potential costs of establishing, capitalizing and operating two models of public banks: 1) a limited depository public bank similar to the Bank of North Dakota; and 2) a special purpose lending bank in the District. We developed two pro forma financials to assess the likelihood of a public bank succeeding in terms of divesting from large commercial banks, reducing banking service costs to the government, and providing a sufficient array of quality banking services required by the District government’s financial operations. We also assessed the potential for a District public bank to address the identified market failures that leave many District citizens and businesses without sufficient access to capital. This framework was used to determine the level of positive impact a public bank could have in each area of unmet need.

Both models suggest the potential for channeling government deposits into more productive investment in the underserved sectors of the District’s economy. **Our extensive research, public engagement, and feasibility analysis led to key District findings and four encompassing recommendations, which are detailed in Chapter 5.**

1.0 INTRODUCTION

1.1 BACKGROUND

Similar to legislative efforts across the country, the Council of the District of Columbia introduced a non-binding resolution to divest District funds from Wells Fargo in early 2017. Specifically, Wells Fargo's illicit activities, along with general concern about large commercial banks (defined as having assets larger than \$50 billion), led to the legislation.¹ Subsequently, the District's Department of Insurance, Securities and Banking (DISB or Department) was charged with conducting a study to determine the feasibility of establishing or chartering, a public bank for the District. Since there is no single, universally accepted definition or standard scope of services of a public bank, the request for proposals (RFP) states the purpose of the bank is to: help finance community projects; provide a more robust lending climate for District small businesses and others who have historically been denied access to credit; provide enhanced fiscal management; and maximize returns on public funds and investments. The purpose of the feasibility study is to determine whether a public bank could effectively address problems associated with the shortcomings of the private commercial banking industry in the District and do so in a way that effectively uses public funds and investments.

Upon Council's direction and after advertising through an RFP, DISB selected the NYMBUS Corporation, with subcontractor Econsult Solutions, Inc., to conduct the feasibility study. The District's efforts of commissioning a study have been chronicled by local media, in addition to public bank advocates.² Most news coverage focused on educating the public on the purpose and mission of public banks and summarizing the specifics of the District's feasibility process and timeline. In addition, there have been several advocacy blogs in favor of a public bank, alongside coverage chronicling significant criticism of the use and effectiveness of a public bank.³

Based on our research, we believe the following three points bring helpful context to this study:

- (1) It is very important to note that the sentiments and opinions that support the establishment of a public bank are quite similar across various cities and states, and are not at all unique to the District of Columbia. Current advocacy efforts center on widespread dissatisfaction with state and local governments doing business with private, profit-maximizing, commercial banks, particularly in the wake of the 2008 Recession. Recent disclosures about certain practices of

¹ PR22-0188 – Sense of the Council Urging Reassessment of Relationship with Wells Fargo Resolution of 2017. Introduced March 21, 2017.

² Chaffin, Gordon. "A look at what a public bank could mean for DC." *The DC Line*, August 1, 2018. <https://thedcline.org/2018/08/01/a-look-at-what-a-public-bank-could-mean-for-dc/>

³ Cowan, Edward. "Viewpoint: Proposal for a 'public bank' merits scrutiny." *Current Newspapers*, May 24, 2018. <https://currentnewspapers.com/viewpoint-proposal-for-a-public-bank-merits-scrutiny/>

Wells Fargo and other large financial institutions have increased this sentiment. Advocates also express the belief that fees paid by the government to commercial banks are “too high”, and represent funds taken out of the local economy. Public bank advocates look to the problems caused by the financial crisis and cite a number of economic and social problems associated with reliance on the private commercial banking sector as the predominant providers of banking services to state or local government.

- (2) A significant portion of the general population is not aware of what a public bank is nor why they are being considered by local and state governments. Those that were aware tended to be public bank advocates or financial industry professionals in both the private and public sectors. These advocates and subject matter experts participated heavily in the District-wide public meetings.
- (3) We assess the feasibility of a public bank as a solution to the perceived market failures of the entire capital structure, not just commercial banks. The private commercial banking system is not the only source of capital or banking services in the District. A wide range of non-commercial bank and non-bank entities, along with District government programs, combine to address areas of financial needs not sufficiently covered by the commercial banking industry, and addressing the issues effectively requires these players to be part of the solutions.

1.2 TWO PRIMARY MOTIVATIONS FOR PUBLIC BANKS

There are two important perspectives that have fostered advocacy for public banking in America, especially in recent years. First, there is the view that governments pay more for banking services with private, profit-maximizing financial institutions than they would with a public bank. Additionally, any profit made from service fees and earnings derived from deposits of public funds would not necessarily be directed back to their source economy. Furthermore, it is believed a public bank would allow for the partial or complete divestment of public funds from Wall Street banks, thus relinquishing taxpayer support of some considerably dangerous and harmful commercial banking practices. Costs associated with private banking would be reduced by having a government-established financial institution.

Second, some argue that private banks do not adequately address many public financial needs since their motivations are centered on profit and not necessarily on mitigating financial market failures or the externalities of inefficient banking practices. In this case, a public bank could do a better job (for various reasons the study examines in detail below) in servicing the District’s unbanked and underbanked populace, small and minority businesses, and furthering the District’s public policy objectives like increasing the inventory of affordable housing units, advancing green infrastructure projects, and increasing small business and student loan lending.

A public bank may serve as an answer to these two problems, by fulfilling the role as either a District bank or a special purpose bank/lending institution. Distinguishing these roles will help bring clarity to the purpose, process, and mechanics of the feasibility of setting up a public bank.

1.3 STUDY APPROACH

Per the requirements and specifications of the RFP, NYMBUS studied the feasibility of a District public bank by combining existing data sources with extensive information gathering efforts such as public outreach and analysis of the District's banking market. The study's approach is fourfold:

1) **PREMISE** – We identified the reasons for establishing a public bank – addressing perceived failures of the current commercial banking system (and the current government interventions) to service the citizens and businesses of the District.

2) **MARKET RESEARCH** – We thoroughly examined interest in and efforts to establish public banks in other cities and states. The Project Team conducted a comprehensive set of interviews and focus group discussions as well as a review of existing feasibility studies, proposed legislation, and academic research on public banks. For each, the team defined and to the extent possible, quantified, the needs “gap” or problem presented in those studies, after which the team identified and examined the extent of existing non-commercial bank efforts, including District government programs currently in place to try to address these issues.

3) **ANALYSIS** – We assessed and analyzed via the pro forma likely operations of two forms of a public bank, including the fundamental issues of capitalizing and operating the bank on a sustainable and efficient basis. This includes both the legal considerations and the regulatory landscape, as well as the governance of the public bank.

4) **INSIGHT** – We provided recommendations after considering whether the potential net benefit of a public bank is greater than the net benefits of an alternative policy options that can address the same "needs gaps." This underlying economic analysis applies standard public finance theory to help develop the final recommendations.

This four-pronged approach generated the inputs necessary to effectively assess the feasibility of establishing a public bank for the District. The team used that information to evaluate the potential advantages and challenges of establishing and operating a public bank and to assess whether it would improve or address the identified private sector banking failures better than existing private or public sector alternatives.

1.4 OVERVIEW OF REPORT

The study is organized in the following manner:

- Chapter 2 discusses the Bank of North Dakota as a case study. In addition, it details the history of public bank advocacy and describes some of the concerns raised by public bank advocates and critics.
- Chapter 3 is the Consensus document. It describes the District's financial landscape in terms of bank branch locations and small business lending trends. It also provides a 25-city comparison on the key Community Reinvestment Act (CRA) metrics. In addition, this chapter details the

extensive public engagement conducted through public meetings, focus groups, surveys, and interviews, and a consensus statement that summarizes the results of the outreach.

- Chapter 4 is the Strawman document, which analyzes two hypothetical public bank models in the District. It details the legal, regulatory, and operational requirements for the District to establish, own, and operate a public bank. This chapter also details the issues associated with capitalization, collateralization, and operational costs to run a public bank and provides illustrative pro forma for comparison. Chapter 4 concludes with an analysis of the impact of a public bank on six particular public policy issues that were identified as common areas of “unmet needs” during our research and public engagement.
- Chapter 5 summarizes our findings with regard to the feasibility of a District public bank and provides recommendations for moving forward.

2.0 HISTORY AND ADVOCACY OF PUBLIC BANKS IN THE UNITED STATES

2.1 BANK OF NORTH DAKOTA: A HISTORICAL CASE STUDY

The United States' oldest operating public bank, the Bank of North Dakota (BND), has provided credit for farmers since its inception in 1919. The impetus for forming BND centered around the state's reliance on a robust agricultural sector, especially wheat exports. At that time, farmers in North Dakota were reliant on out-of-state companies that ran grain mills, railroads, and commercial banks for loans to support farms in years with poorer harvests.⁴ After several years of frustration over price gouging from these companies, a combination of farmers and progressives organized a party called the Nonpartisan League, which subsequently took control of both houses of the state government and elected a governor in a single election.⁵ The Nonpartisan League was founded by Socialist politicians with the narrow focus of establishing state control over the agricultural industry in North Dakota in order to support the interests of farmers. The political control achieved by the Nonpartisan League allowed the North Dakota government to unanimously pass legislation establishing the BND.

While the BND initially focused on providing financial services to farmers in the state, its role as a lender in North Dakota has expanded to providing checking accounts, savings and IRA accounts, certificates of deposits, wire transfers, and student loans to the public. The bank also serves as the depository for and provider of banking services to all North Dakota government agencies.

Though BND offers retail financial services to consumers, like checking and savings accounts, these services are limited compared to commercial bank offerings and only make up 1.5 percent of all deposits the BND receives.⁶ BND has a policy of supporting financial institutions in the state and does not compete with commercial banks for retail deposits by targeting consumers, pursuant to a policy written into the bank's original charter.⁷ Individuals and businesses seeking residential, agriculture, or business loans work with their local financial institution, which can then apply to participate in a BND program. BND does not offer convenience products like debit cards, credit cards, ATMs, or online bill pay, nor does it operate bank branches; it has only one location in Bismarck.⁸ Additionally, BND only does participation lending with other local banks, who originate the loans.⁹ However, this policy has not limited BND's significant role in North Dakota's financial landscape. As of 2017, BND has over \$7

⁴ Mitchell, Stacy. "Public Banks: Bank of North Dakota." Institute for Local Self-Reliance, July 2, 2015. <https://ilsr.org/rule/bank-of-north-dakota-2/>

⁵ "History of BND" Bank of North Dakota. <https://bnd.nd.gov/history-of-bnd/>

⁶ "BND FAQ" Bank of North Dakota. <http://leg.wa.gov/JointCommittees/Archive/IFTF/Documents/2011Aug22/BND-FAQ.pdf>

⁷ "The BND Story" Bank of North Dakota. <https://bnd.nd.gov/the-bnd-story/>

⁸ "Savings/IRA" Bank of North Dakota. <https://bnd.nd.gov/public/savingsiras/>

⁹ "Checking" Bank of North Dakota. <https://bnd.nd.gov/public/checking/>

billion in assets, including a loan portfolio of almost \$5 billion. A portion of BND's annual net operating income is "returned" to the state's General Fund as revenue, while some is "retained" or reinvested in BND to improve and expand operations.

BND is often cited as a model for future iterations of public banks in America. Some public banking legislation proposed in various states are directly crafted after North Dakota's, utilizing the same language, governance structure, policies, and special loan funds as the existing BND law. Although BND can serve as an example for public banking advocates, it is also helpful to illustrate the differences between BND and the current political and economic climates of the jurisdictions that wish to replicate it.

- 1) Political environment – The desire to deal with North Dakota's farming capital access issues by establishing a public bank was shared by the majority of the state legislature as well as its constituents in 1919. The Council of the District of Columbia, while majority Democrat, has a variety of economic issues and public policy goals to improve the lives of District residents. This diversity is valuable; however, it may not make an ideal political environment for legislating comprehensive institutional reform.
- 2) Economy – The success of BND can be owed not only to simplicity in government but also North Dakota's economy. At the time, the state's economy was almost entirely agricultural. The BND was originally simple in its operations as it only served one social need. While it has expanded over the last century, BND's focuses are still relatively simple, and the state legislature retains its programs that focus on more nuanced forms of economic development. The District's capital access needs are much more diverse, and a public bank would need to address the capital liquidity needs of District residents, small businesses, and social impact investments, and comply with public fiscal operation.
- 3) Financial services landscape – By working with local banks, BND has not only secured its agreeableness as a state-run financial institution but has increased its effectiveness and influence. North Dakota has the most local banks per capita of any state in the country. Of the 83 banks, 77 are chartered by North Dakota, with 378 community branch locations across the state.¹⁰ This robust local banking environment increases residents' access to lending and other financial services while fortifying local banks and businesses. The District, however, has very few local banks. Of the 17 local banks (and 39 branch locations) operating in the District, only Industrial Bank is actually chartered in the District.¹¹
- 4) Insurance – BND is not insured by the Federal Deposit Insurance Corporation (FDIC). Instead, North Dakota law provides that all deposits in BND are guaranteed by state funds. District law

¹⁰ Independent Community Bankers of America. "Community Bank Footprint: North Dakota." ICBA analysis of FDIC Summary of Deposits and Call Report financial data as of 6/30/2017.

¹¹ Independent Community Bankers of America. "Community Bank Footprint: District of Columbia". ICBA analysis of FDIC Summary of Deposits and Call Report financial data as of 6/30/2017.

has specific requirements regarding the investment of public funds. Mimicking North Dakota's deposit guarantee policy may be too risky and present legal considerations in the District.

2.2 PUBLIC BANK ADVOCACY: INTEREST, GOVERNMENT RESPONSE, AND STUDIES

Despite the existence of BND and its relative success, public banking remained a relatively obscure and esoteric topic in the larger finance industry in the United States. The only other places in the United States that have had public banks in recent history are territories: the Puerto Rico Government Development Bank, a special, limited purpose public bank which closed in 2017; and the Samoa Commercial Bank, which was recently founded due to the island's only private bank leaving the territory in 2012.¹²

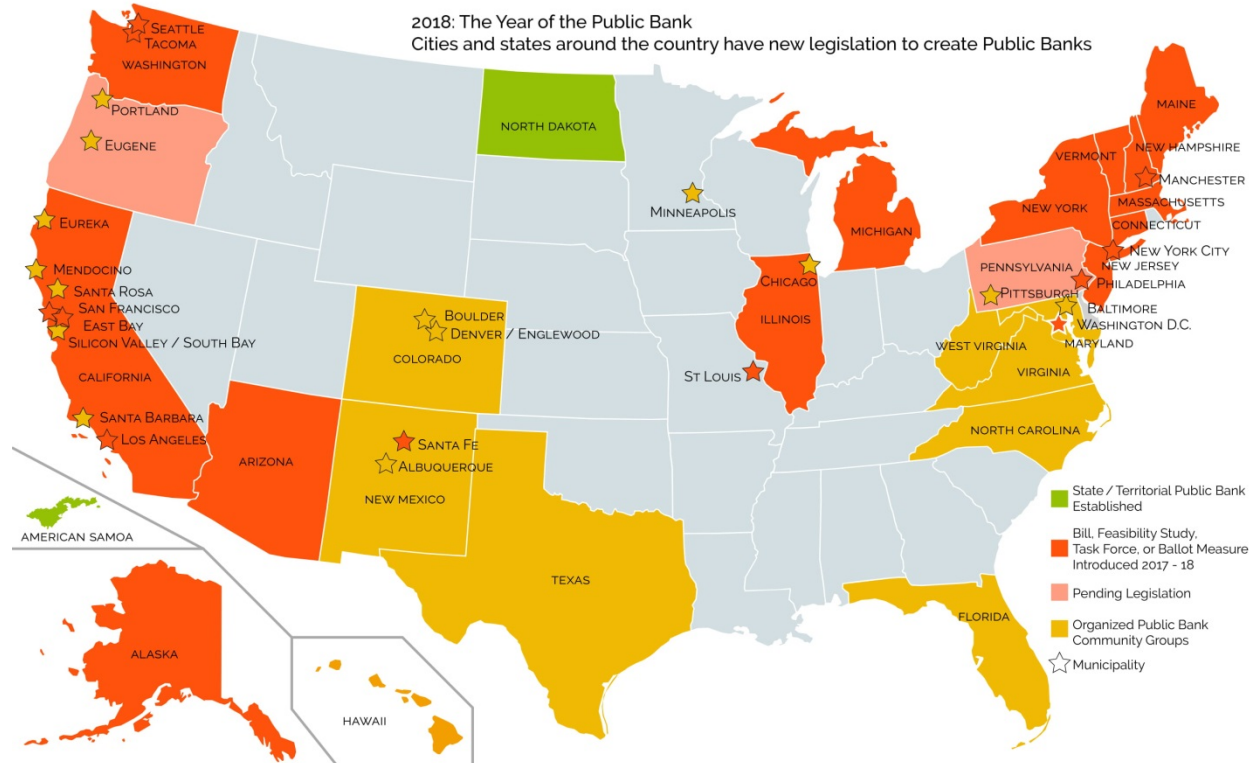
Prior to the 2008 financial crisis, there was little interest in public banking as an alternative to private banking.¹³ Since that time, there has been increased interest in tightening regulations for large banks. Pragmatic solutions, such as monitoring commercial banking behavior and performance along with a set of social indicators, have been considered. More recently, however, public banking has garnered interest as a more comprehensive solution than potential regulatory changes.

Interest in public banking rose again after disclosures of certain negative Wells Fargo business practices led to widespread public indignation, leading to some cities severing their relationships with Wells Fargo and other large private banks as their main depositor for public funds and primary provider of banking services to governments. This was due to a growing concern over consolidation along with other predatory practices in the private banking sector. Jurisdictions explored potential lending a public bank could provide beyond acting as the depositor for municipal funds. These potential services include providing low-interest rate home and student loans, additional funding to green infrastructure projects and other capital improvement projects, and financial services to legalized cannabis industries.

Although no other public bank has yet been established in the United States, the issue has been on the policy agenda for many states and local jurisdictions. This interest largely manifested through the creation of task forces and legislators calling for feasibility studies looking for an alternative to traditional commercial banking.

¹² Starting in June of 2016, the Puerto Rico Development Bank (GDB) began the process of winding down its operations as part of the response to Puerto Rico's ongoing debt crisis under Title IV of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). In 2017, GDB finalized its liquidation of over \$72 billion to municipal depositors and private bondholders. Efforts to restructure this debt are ongoing. See: Brown, Nick. "Puerto Rico board approves liquidation of Government Development Bank." *Reuters*, July 14, 2017. <https://www.reuters.com/article/us-puertorico-debt-gdb-restructuring/puerto-rico-board-approves-liquidation-of-government-development-bank-idUSKBN1A0012> See also: Pierog, Karen. "Puerto Rico completes first consensual debt restructuring." *Reuters*, November 29, 2018. <https://www.reuters.com/article/us-usa-puertorico/puerto-rico-completes-first-consensual-debt-restructuring-idUSKCN1NZ024>

¹³ "Intro to Public Banking." Public Banking Institute. http://www.publicbankinginstitute.org/intro_to_public_banking

Figure 2.1 – States, Territories, and Municipalities Exploring Public Banks

Source: Public Banking Institute (2019)

GOVERNMENT RESPONSE

Due to an increase in public bank advocacy in the past decade, at least 10 different city and state governments have conducted feasibility studies examining whether the creation of a public bank can address the shortcomings of the private banking system. The jurisdictions often cited multiple reasons for conducting a public bank feasibility study. A sample of the reasons are listed below (for a complete crosswalk of reasons stated by specific jurisdictions, along with works cited, please see Appendix C):

- Inaccessibility of the banking system to low-income and minority households
- Lack of investment in affordable housing
- Credit needs of small and minority businesses
- Address weak spending levels by small businesses in state economies
- Predatory student loan lending
- The inability of small businesses to obtain loans of more than \$500,000 from commercial banks
- Allow niche industries like the cannabis industry to access banking services
- Underinvestment in green infrastructure

- Startup venture and seed capital
- Gray infrastructure needs
- Response to the 2008 financial crisis
- Save money on paying interest to out-of-state banks
- Concerns brought up by Occupy Wall Street movement
- Find alternatives to traditional banks after ending relationships with Wells Fargo, Bank of America, etc.
- Low loan-to-deposit ratios
- Examine current banking practices of cities to address a lack of accountability

Some policymakers have forgone feasibility studies and put forth their own public bank legislation. However, no public bank legislation has made it out of committee.

STUDIES

The following is a list of cities or states that conducted feasibility studies since 2008. The District is unique in its municipal identity and is more similar in its economy, infrastructure, population, and needs to other large cities than many states. Therefore, we use cities in our analysis as variables of comparison where appropriate:

- Massachusetts *Report of the Commission to Study the Feasibility of Establishing a Bank Owned by the Commonwealth*, State Legislature, 2010
- Washington *State Bank Analysis Feasibility Study*, December 2010
- Maine *Maine State Bank Analysis*, 2011
- San Francisco CA, *City and County of San Francisco Board of Supervisors*, 2011 updated 2017
- Vermont *Exploring a Public Bank for Vermont*, 2013
- Santa Fe NM, *Public Banking Feasibility Study: Final Report*, 2016
- California *Banking Access Strategies for Cannabis-Related Businesses*, 2017
- Los Angeles CA, *Public Bank Framework and Existing Housing and Economic Development Funding Programs*, 2018
- New Jersey, *Exploring a Public Bank for New Jersey: Economic Impact and Implementation Issues*, 2018
- Oakland CA, *Multi-Jurisdictional Public Bank Feasibility Study*, 2018

Generally, the feasibility studies examined gaps in funding necessary to establish a public bank, banking legal requirements for the jurisdiction, capitalization costs and associated issues, and existing public finance structure. In addition, they often described alternative solutions to funding. Those studies that were unsupportive of creating a public bank cited cost, risk, better alternatives, or unclear impact as the main reasons. Those studies that were supportive pointed to potential positive impacts or they determined that the creation of a public bank would be legal.

This report cites information from the various state and city feasibility studies when their methodology, analyses, or assessments are insightful. An in-depth review of individual feasibility studies, including the reasons why they were explored, concerns identified, public reasons of support, findings, and recommendations prescribed are detailed in Appendix C.

2.3 CONCERNS IN RESPONSE TO PUBLIC BANKING PROPOSALS

As different jurisdictions consider a public bank for specific needs, those jurisdictions have had to address drawbacks associated with such a major public endeavor. A widespread public concern over public banks is their capitalization costs. Los Angeles performed preliminary studies on the possibility of creating a public bank and found the capitalization costs would be “exorbitant”.¹⁴ In Massachusetts, public criticism also has cited the expensive start-up costs of a public bank, concluding the existing financial structure the government currently relies on is adequate for the state’s needs.¹⁵ Vermont’s research on public banking found that withdrawing funds from the general fund to capitalize a public bank would increase interest rates on government-issued bonds used to finance public projects.¹⁶

Other critics have stated past cases of bureaucratic inefficiency and general concern in government’s competency to manage a public bank.¹⁷ In other words, some studies found that the creation of a public bank is not worth the costs and risks associated with mismanagement. Critics in Seattle cite the City’s excellent credit rating as a justification for sticking with the status quo. They purport that the City of Seattle’s needs are more efficiently met by private banks, whereas divesting from those banks and appropriating public funds to a city-run bank could especially hurt the people a public bank aims to help.¹⁸ Additionally, critics in Seattle referred to studies showing that banks that provided more construction and development loans – the kind of lending the proposed public bank would do – performed significantly worse than other banks.¹⁹

In states where cannabis is legal, concerns have been raised over the effectiveness a public bank would have in acting as a substitute for private banking. In many of these states, the primary impetus to exploring the possibility of a public bank is the difficulty the cannabis industry faces in accessing financing and depository services from commercial banks. Because some marijuana-related businesses have found a dearth of commercial banks willing to accept their deposits, they are more vulnerable to

¹⁴ While the study did not include an estimate of the capitalization cost required to create a public bank in Los Angeles, study authors characterized the costs as “exorbitant.” See: “Public Bank Framework and Existing Housing and Economic Development Funding Programs.” Chief Legislative Analyst for Los Angeles City Council, February 26, 2018. http://clkrep.lacity.org/onlinedocs/2017/17-0831_rpt_CLA_02-26-2018.pdf

¹⁵ Alix, Laura. “In Massachusetts, a call for a public bank to serve pot firms.” *American Banker*, February 22, 2018. <https://www.americanbanker.com/news/in-massachusetts-a-call-for-a-public-bank-to-serve-pot-firms>

¹⁶ “Exploring a Public Bank for Vermont.” *Vermonters for a New Economy*, December 2013. <https://publicbanking.files.wordpress.com/2014/01/public-banking-1-13-2014.pdf>

¹⁷ Tuoti, Gerry. “Treasurer-elect Deb Goldberg open to establishing public bank.” *Taunton Daily Gazette*, November 14, 2014. <http://www.tauntongazette.com/article/20141114/news/141117347>

¹⁸ Beekman, Dan. “A Seattle public bank? Backers say it’s a good idea.” *Seattle Times*, December 10, 2014. <https://www.seattletimes.com/seattle-news/a-seattle-public-bank-backers-say-it-s-a-good-idea/>

¹⁹ Fox, John. “Public Bank for Seattle; pipe dream or can it work here?” *Outside City Hall*, July 17, 2017. <https://outsidacityhall.wordpress.com/2017/07/17/public-bank-for-seattle-pipe-dream-or-can-it-work-here/>

crime, thus finding it necessary to operate primarily with cash. During Los Angeles' consideration of creating a public bank for the cannabis industry, the city attorney's office stated that Los Angeles' public bank would be subjected to the same federal laws concerning financial services for the cannabis industry as private banks. The study also found that accepting deposits from cannabis businesses could violate the Banking Secrecy Act and open the city and employees at the bank to criminal prosecution.²⁰

²⁰ "LA Voters To Weigh In On City-Owned Bank Idea." *CBSLA*, June 29, 2018. <https://losangeles.cbslocal.com/2018/06/29/la-voters-city-owned-bank/>

3.0 CONSENSUS DOCUMENT

The Consensus document examines the local and national financial environment to identify gaps in the commercial banking market for the District government, residents and businesses. The purpose of the Consensus document is to understand where the banking market is functioning as expected and where there are opportunities for the District or other actors to improve economic performance. It looks at the banking market from the point of view of the District's needs and of the larger market in terms of unmet financial needs. The Consensus document introduces these issues, and the subsequent Strawman document takes up these issues in more detail.

This chapter describes the District's current financing landscape. It details various Community Reinvestment Act (CRA) performance metrics, such as small business lending and bank branch location, while shedding light on geographic, racial and income-related disparities. In addition, it benchmarks the District's lending statistics against twenty-five cities. Finally, this section describes the extensive level of public engagement that was conducted as part of this feasibility study. It summarizes the public sentiment regarding the establishment and role of a public bank in the District.

3.1 NATIONAL AND LOCAL COMMERCIAL BANKING CONDITIONS

Commercial banking has been the focus of particular criticism in the wake of the 2008 Recession. Calls to divest from large banks and redirect money towards a more equitable America have grown louder over the past decade. Conversations around the 2008 Recession often centered on the issue of wealth allocation, its connection with commercial banking, and how the two create or exacerbate certain market failures. While this criticism is not specific to the recession, it has fostered attention and advocacy for improving the ways the private sector interacts with and responds to certain social needs.

The United States banking industry has experienced significant disruptions over the past decade. Changes to the financial regulatory system, major consolidations, slow economic growth, cybersecurity threats, and technological improvements have overhauled some status quo banking practices. These changes require banks to continue to seek greater economies of scale and to remain competitive, both through digitization and consolidation. Even though this has led to a significant reduction in costs associated with (and hence fees paid for) many standard consumer and business banking services, this change concerns many people. In particular, many believe this change has led to less access to capital and banking services for underrepresented segments of the population and small and minority businesses.

LOCAL BANKING CONDITIONS

At the local level, residents of the District are serviced by 31 banks, with hundreds of branch locations throughout the District.²¹ These banks provide a variety of financial services to District residents and small businesses.

Proximity to bank branch locations is an important factor of gaining access to capital for citizens' personal and professional lives. With fewer banks, residents have less access to the financial services and products and are less likely to build the credit history necessary to secure a mortgage or business loan. In 2017, the latest year of data available, there were 216 bank branch locations in the District.²² The Northwest Quadrant had 174 of the 216 branch locations, or 80 percent of all branch locations in the District, while the Southwest Quadrant only had one bank branch location (see Table 3.1). Notably, it is five times more likely that a bank branch would be present in a non-minority census tract than a minority census tract.²³

In terms of business lending, banks in the District provided 15,200 loans to small businesses with under \$1 million in annual revenues in 2017. The Northwest Quadrant had an overwhelming majority of business loans in 2017, with 75 percent of all business loans occurring in this area of the District. The other three quadrants saw significantly fewer business loans: the Northeast Quadrant and the Southeast Quadrant received about 14 and eight percent of all loans, respectively. The Southwest Quadrant had only a few business loans compared to the other Quadrants, receiving less than two percent of all business loans in the district (see Table 3.1). Notably, there are nearly twice as many small business loans issued in non-minority census tracts versus minority census tracts (10,077 vs 5,160).

These statistics alone cannot exclusively determine if discrimination is present in lending practices because key metrics such as the borrower's credit score and wealth are not required to be collected, and therefore, are missing from the analysis. However, they do provide a good baseline assessment of current lending practices.

²¹ Department of Insurance, Securities and Banking. "List of Banks in the District of Columbia." <https://disb.dc.gov/page/list-banks-district-columbia>

²² FFIEC, 2015.

²³ FFIEC, 2015.

Table 3.1 – Number of Branch Locations in 2017 and Business Loans in 2017 in Different Quadrants in D.C.

D.C. Quadrant	Number of Branch Locations (2017)	Number of Business Loans (2017)
NW	174	11,227
SW	1	313
SE	23	1,314
NE	18	2,383
Total	216	15,237

Source: Federal Financial Institutions Examination Council (2017)

Figure 3.1 – Bank Branches by Ward

Ward	Number of Bank Branches
1	16
2	104
3	39
4	5
5	10
6	20
7	8
8	8

Source: District of Columbia Department of Insurance, Securities and Banking, FY 2019 and 2020 Performance Oversight Hearing Responses

THE DISTRICT IN COMPARISON TO 25 MAJOR CITIES

Banking metrics for the District are above average relative to 25 major cities. The District had the highest rate of home loans per 1,000 households in low to moderate-income tracts. Similarly, the District performed well relative to the major 25 cities in home loans per 1,000 households in minority census tracts, nearly doubling the average number of loans in this category. The District also had double the number of bank locations per 10,000 households in lower to moderate-income tracts compared to the average across 25 cities (see Table. 3.2).

Table 3.2 – Comparison of Banking Metrics in 25 Major Cities

CITY	Bank Locations Per 10,000 Households, Lower To moderate Income Tracts	Bank Locations Per 10,000 Households, Minority Tracts	Home Loans per 1,000 Households, Lower to Moderate Income Tracts	Home Loans per 1,000 Households, Minority Tracts
Atlanta,GA	5.7	4.6	20	32
Baltimore ,MD	4.6	2.9	20	19
Berkeley,CA	4	6.7	14	39
Boston,MA	2.6	2.1	19	30
Buffolo,NY	4.4	3.2	7	5
Charlotte ,NC	4.6	3.4	21	44
Chicago,IL	4.4	4.4	17	26
Clevand ,OH	5.4	3.8	8	7
Dayton, OH	3.4	1.8	10	7
Detroit,MI	4.2	3.1	2	4
District of Columbia	7.7	3.9	39	50
Kansas City ,MO	5.1	2	17	13
Long Beach, CA	1.6	3.1	25	43
Los Angeles,CA	2.4	2.5	16	31
Minneapolis, MN	3.5	2.8	26	41
New York, NY	0.7	0.6	8	15
Oakland, CA	4.1	4.4	31	48
Philadelphia, PA	5.7	2.8	11	19
Pittsburg, PA	13.6	7.3	24	13
Portland, OR	6.4	6.7	30	66
Sacramento,CA	4.3	2.5	32	54
San Diego,CA	3.4	3.6	25	52
San Francisco, CA	9.3	8.9	17	35
San Jose, CA	5.1	4.7	35	54
Seattle, WA	9.1	4.4	17	92
Avg Across 25 Cities	3.8	2.6	16	26

Source: Federal Financial Institutions Examination Council (2015)

While the District performed well as a whole compared to other major cities, there are stark differences within the four quadrants of the District. In addition, there are differences between minority and low-income census tracts and non-minority and moderate to high-income areas. While this is just a snapshot

of lending practices, it suggests that disparities exist within the District, and helps to paint the picture of local banking conditions.

DISTRICT GOVERNMENT AS A CONSUMER

Individual households and commercial enterprises are not the only types of consumer in the banking market. The District government is a large financial enterprise that requires a vast array of financial services to run efficiently. According to the Office of the Chief Financial Officer (OCFO), the District's banks provided 2.9 million Wire and Automated Clearing House (ACH) transfers, managed over \$10.8 billion in debt, handled an additional \$4.0 billion in fiduciary programs such as a retirement fund, 401(a), and 529 College Savings plan, and issued over 975,000 payroll payments and 5,100 bank reconciliations in 2018.²⁴ Below is a snapshot of District funds balances at various depositories and investments (see Table 3.3). The District government used 27 different deposit accounts, including money markets, Certificates of Deposits (CDs), Negotiable Order of Withdrawal (NOW) accounts, and Sweep accounts to manage over \$12 billion in funds. This highlights the District's complex financial needs and the type of sophisticated financial infrastructure and services that it requires.

²⁴ Testimony of Jeffery S. DeWitt, Chief Financial Officer, Government of the District of Columbia. "Public Hearing on the Fiscal Year 2020 Budget of the Office of the Chief Financial Officer" April 5, 2019. https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/release_content/attachments/FINAL_OCFO%20FY%202020%20Budget%20Hearing.pdf

Table 3.3 – Amount of District Fund Balances in Various Banks at Year End (2015)

Institution	Type of deposit	Balance
Alliance Bernstein	Money Market Fund	\$9,022,109.00
Bank of America	Money Market Fund	\$296,342,484.91
Branch Banking & Trust Co. (BBT)	NOW	\$100,000,000.00
Blackrock (FFI)	Money Market Fund	\$223,853.17
United Bank	CD	\$50,000,000.00
Citibank*	Money Market Fund	\$133,508,355.00
City First Bank	CD, NOW account	\$10,000,000.00
Colombo Bank	CD	\$30,000,000.00
Dreyfus	Money Market Fund	\$311,019,587.47
DWS MM Series Institutional	Money Market Fund	\$28,097,223.00
Eagle Bank	CD	\$55,000,000.00
Federated	Money Market Fund	\$270,746,618.17
Fidelity	Money Market Fund	\$303,101,964.59
First American Prime	Money Market Fund	\$9,797,223.59
Goldman Sachs	Money Market Fund	\$334,560,254.94
DC Industrial Bank	CD, Money Market Fund	\$15,000,000.00
JP Morgan Chase	Money Market Fund	\$195,108,703.50
Morgan Stanley	Money Market Fund	\$4,306,741.50
PFM	Money Market Fund	\$25,648,208.27
Premier(Adams) Bank	CD	\$10,000,000.00
Public Financial Mgmt, Inc.(DTC)	Money Market Fund	\$7,668,939.81
UBS	Money Market Fund	\$33,860,037.95
US Bank	Money Market Fund	\$787,698.81
Sandy Springs Bank	CD	\$15,000,000.00
Western Asset Management Co.	Money Market Fund	\$338,062,514.76
Wells Fargo Bank	Money Market Fund	\$327,987,138.00
Wilmington MMF	Money Market Fund	\$175,259,738.19
Total		\$3,090,109,394.63

Source: District Office of the Chief Financial Officer (2015), DC Public Banking Center (2016)

3.2 PUBLIC ENGAGEMENT: METHODS AND FINDINGS

In conjunction with DISB, we conducted extensive public engagement across the District over the course of four months. This included several public meetings, numerous focus groups, and stakeholder interviews as well as two public surveys of individual and business consumers. Participants in the engagement included the general public, subject matter experts from the Bank of North Dakota, Harbor Bank, Wells Fargo, and Industrial Bank, and the District’s Office of Chief Financial Officer. It also

included active public banking advocates such as the D.C. Public Banking Center and the Public Banking Institute.

Each focus group was asked about different aspects relating to its area of expertise and how it connected to public banks. The topics of the focus groups included banking and investment, capitalization and costs, public banking, potential mission and governance, legal requirements, public infrastructure financing, environmental financing, affordable housing, student loan financing, small business, economic development, District fiscal policy, consumer issues, cash management, and nonprofit concerns. The sessions covered a combination of broader questions about the participants' knowledge and opinion on public banking as well as specific questions relating to the intersection of their area of expertise and public banking. The focus groups provided both qualitative and technical information that has helped to guide our analysis.

The surveys provided important qualitative information about personal and business banking needs as well. For example, the vast majority of consumer respondents had not used alternative financial services such as payday loans or pawn shops, but those that did cited inconvenient locations, unpredictable fees and a general distrust of banks as reasons for using those services. On the business side, respondents chose banks for their small business for better access to capital, financial education from banks, and accessible interest rates. They also mentioned the importance of digital services, nearby branches and ease of opening and accessing a variety of accounts.

Furthermore, the stakeholder interviews provided a critical opportunity to connect with subject matter experts and the meetings provided an avenue to reach the general public. This level of public engagement was critical to identifying the many nuances of the micro and macro successes and failures of the private commercial banking system. It also helped to elucidate the potential benefits and significant costs and concerns of moving towards a public bank.

In summary, most non-professionals were not familiar with the mission, goals, or operations of a public bank and were speaking speculatively about its ability to meet service and lending gaps. Those that were more familiar with public banks were the public banking advocates or the professionals in the financial industry. Overall, the advocates that attended outreach sessions were optimistic that a public bank could address some of the market failures of the commercial banking industry.

Not all discussion was in favor of establishing a public bank in the District. The subject matter experts in the finance industry and members of government fiscal offices raised several concerns, including the unlikelihood of a public bank being able to handle the sheer volume and complexity of the District's financial portfolio. In addition, the issues of startup and operational costs, as well as the insurance and collateralization requirements, were mentioned repeatedly.

For a full description of the pros and cons discussed during the public outreach phase, please refer to Appendix A.

3.3 CONSENSUS STATEMENT

From analyzing public data and gathering public feedback a consensus has arisen: the District government is a complex institution that requires a vast array of financial needs. These needs have historically been provided by large commercial banks; however, there are some stakeholders who wish to divest from such institutions. The District is operating in a robust lending environment, whereby it performs better than most major cities on standard bank metrics (i.e. home lending, business lending, and bank branches). However, within the District itself, lending patterns display disparities across the four quadrants as well as racial and income lines. These disparities are palpable and align with areas of need identified during the public engagement process.

IDENTIFIED NEEDS AND PUBLIC BANK MODEL

Through the course of our public engagement, the most commonly stated reason for establishing a public bank was to move away from Wells Fargo because of their predatory practices, the perceived cost of banking, and external control over local funds. In addition, six major areas were identified as commercial banking market failures that, from the perspective of some stakeholders, could be more adequately addressed by a public bank. These areas include inefficient small business and student lending, lack of affordable housing, unbanked and underbanked communities, lack of financial services for the cannabis industry, and lack of funding for green infrastructure projects.

Understanding the financial motivations and “unmet needs” is a key step to determining which public bank model would best serve those needs and if it is a feasible and practical objective. The disparities and lending needs of District residents and businesses led to the exploration of two public bank models: 1) a District bank for the financial needs of the jurisdiction, similar to the Bank of North Dakota model; and 2) a special purpose bank.

The following chapter reviews the governance, legality, and costs of these hypothetical public bank models. After which, we discuss the six “unmet needs,” which include insufficient small/minority business banking and lending, affordable housing, unbanked and underbanked communities, student lending, green infrastructure, and cannabis markets, in detail by analyzing the market failures, interventions, and impact of a public bank in those areas.

4.0 STRAWMAN: ESTABLISHING AND OPERATING A PUBLIC BANK: LEGAL, REGULATORY REQUIREMENTS, AND COSTS

This Strawman presents a basic hypothesis of what a public bank could be for the District. The following five key components must be addressed to establish a public bank:

1. Governance issues, including public bank mission, oversight, and decision-making objectives.
2. Legal and regulatory issues, including the fundamental question as to whether the District has the authority to establish a public bank, and whether the District can deposit public funds in it.
3. Initial capitalization and bank startup costs for a limited depository bank or a special purpose bank.
4. Annual ongoing banking operational costs, along with a pro forma for the different bank structure scenarios.
5. “Unmet needs” including an analysis of the perceived market failures, interventions, and potential impact of a public bank in these areas.

The following chapter examines what is essentially the “cost side” of a public bank feasibility analysis. Implicit in many of the arguments for utilizing a public bank to accomplish these goals is the assumption that the value of those benefits will outweigh the costs associated with the establishment and successful operation of a public bank.

To determine the feasibility of a public bank the following must be considered:

- What is the appropriate public bank model? How much it would cost, in both direct fiscal and intangible terms for starting up and capitalizing the banking enterprise, and more significantly, to operate the bank in a sustainable manner;
- The steps and timing issues associated with the establishment of the bank and setting it into operation, with sufficient capacity to provide the diverse and high-quality services to meet the District’s immense set of banking needs; and
- How the bank would interact with existing departments, agencies, and programs of the District government, as well as existing private and public non-banks.

TWO HYPOTHETICAL MODELS

Addressing these key issues is dependent upon the structure of, and roles envisioned for, the public bank. As noted in the Consensus Document, the basic structure of a traditional public bank requires a depository

role for the particular government's funds and a set of banking services provided to the government. The structure may explore varying degrees of lending options, ranging from a full-service retail bank to something as "simple" as a targeted, single-purpose, lending institution. Due to the wide variation, we chose to analyze two scenarios which were informed by our research and public engagement feedback, as detailed in the Consensus Document.

The basic public bank model would be a District-owned bank that utilizes public fund deposits as its sole source of deposits, as it serves as the bank for the District government. This is a model similar to BND, although it would not operate as a retail (deposit) bank, meaning that it would not accept deposits from individuals or businesses. Most public bank advocates today, including those in the District, do not call for a retail function, but it could make loans to small businesses and individuals. With this model, the bank would receive appropriations from the general revenue fund to cover startup costs and initial capitalization.²⁵ It would then take ongoing deposits of government funds, a portion of which the bank could then lend out. This lending may generate revenue, which would be used to operate the public bank and provide banking services to the District. Any excess revenue would be used to reduce fees charged by the public bank, increase the interest paid on deposits, or be returned to the general fund as revenue once bank operation costs are met.

The second model would be a special purpose bank that focuses on the lending needs identified in the District, such as small and minority business lending or loans to unbanked communities. The special purpose bank would function like a "master" revolving loan fund. It would make loans in line with District lending priorities, typically in conjunction with or to support existing District government programs.

The following analysis of legal requirements and operational costs applies to these two scenarios: a District bank – similar to that of BND – and a special purpose lending bank. Two pro formas are included in this analysis, one for each scenario.

4.1 GOVERNANCE ISSUES

The governance of a public bank must focus on the composition of a board of directors, the hiring and roles of executive staff, determining the by-laws, and developing the mission and lending criteria. Existing feasibility reports and our public engagement discussions have explored possible structures of governance for public banks. For example, nearly all of the public bank state legislation proposes that public banks be overseen by a board of directors who would be appointed by the government, as well as advisory boards comprised of various community members and banking experts. The board of directors

²⁵ The options for financing the startup costs and initial capitalization of a public bank are discussed in Section 4.3.

would represent the public and would have ultimate control over management, including hiring and operations of the public bank.

Some models situate the public bank within existing government departments; others would establish the public bank as an entirely new and independent entity of the government. However, almost all proposed governance structures would be under the authority of each government's executive branch. This means the composition of the governing boards could be subject to politics, especially if the by-laws call for various groups or interests to have board seats. A few feasibility reports and one piece of legislation explored the possibility of establishing a public bank as a non-profit entity. Proposed governance structures for non-profit public banks would still require boards of directors and advisory boards, but the composition of the boards would not necessarily need to be decided exclusively by elected officials.

DEVELOPING THE GOVERNANCE STRUCTURE

The governance structure of a public bank is a critical component to fulfilling the common ideological purpose of a public bank, which is to ensure that lending and investment decisions related to the use of deposited public funds be made “in the public interest” rather than within a profit-maximizing framework. This raises the question: how is the “public interest” determined, and who determines it? “Public interest” is a nebulous phrase that refers to the plurality of beliefs, values, and needs of the District's diverse population. While certain market failures in the District can be identified, it is likely that the actual range of social needs is expansive and dynamic. Current government programs have specific criteria that are established by legislation designed to have social and public interest objectives, but ultimately, spending decisions have to be made by individuals within the constraints of the programs' parameters. It would be necessary for a public bank's governance structure to attend to the variable nature of the “public interest” and the District's budget accordingly.

The following are the three required steps in establishing a governance structure for a public bank:

1. Develop the appropriate legislative language for the purpose and mission of the bank.
2. Translating legislation into specific bank by-laws, determining what banking services to provide to the District, and ultimately, establishing written criteria for actual underwriting and business line allocation decisions.
3. Implementing the criteria in actual lending decision-making by the public bank's lending team(s).

This last step – the actual lending decisions – ultimately determine whether the public bank can sustain operations and generate social benefits over time. This suggests that a public bank could operate somewhere between government loan programs and traditional commercial bank activity, but by its very nature would be closer to the government programs.

It is important to create a governance structure that will insulate a District public bank against political interests. Examples of political pressure may include, but are not limited to, approving loans for borrowers who are not creditworthy, delaying foreclosure or providing forbearance for borrowers who are

delinquent, appointing board members or hiring officers and other key employees based on political considerations rather than qualifications. A feasibility study from Los Angeles cites poor governance structure as a reason for the failure of Puerto Rico's public bank, which incurred more than \$5 billion in debt.²⁶ Another report from Santa Fe suggests staggering board membership to avoid influence from election cycles and highlights the importance of having a defined governance structure to guide the public bank.²⁷ A legal analysis of this feasibility study noted the potential of boards of directors to usurp decision-making power from the Council and raised concern over the feasibility report's disregard for this troublesome possibility.²⁸

These reports express concern about equitable representation in governance structures and mention the importance of including both banking experts and community members in advisory boards. In envisioning the establishment of a public bank, one should consider how structural changes will affect the District's control over its own funds. If one of the goals of the public bank is to ensure localized control over District funds, the District must ensure that a governance structure works towards that end. As previously mentioned, it is possible that the board of directors could make decisions about bank operations that contradict the District's goals. A board of directors must be both responsive to the District's intentions while remaining insulated from any political influence, which will require transparency and careful delegation.

4.2 DISTRICT LEGAL AND REGULATORY REVIEW

Perhaps the fundamental question to be addressed by any government when considering a public bank-type government intervention is whether the jurisdiction can legally create and operate one. Public bank advocates in the District and elsewhere, as well as government law departments, have examined the legal requirements and constraints that would come into play to legally establish such a bank under federal, state, and local laws.

Analyses by both advocates and government lawyers tend to argue that public banking could be established and operated, either under the existing banking laws and regulations or with certain specific changes to existing laws and/or banking regulations. Since the BND is the only comparable example of a public bank, existing arguments of any kind are essentially untested in the court system. However, we

²⁶ "Public Bank Framework and Existing Housing and Economic Development Funding Programs." Chief Legislative Analyst for Los Angeles City Council, February 26, 2018. http://clkrep.lacity.org/onlinedocs/2017/17-0831_rpt_CLA_02-26-2018.pdf

²⁷ Updike, Katherine L. and Christopher Erickson. "Public Banking Feasibility Study Final Report for the City of Santa Fe." Santa Fe: Building Solutions and New Mexico State University, 2016.

²⁸ "Legal Issues and Matters for Further Research and Examination Regarding Proposed Public Bank of Santa Fe." New Mexico Regulation and Licensing Department, August 24, 2017.

find it likely that the District could, if it decided, establish a public bank into which some portion of the District's funds could be deposited.²⁹

LEGAL ISSUES

Legal requirements for establishing and/or operating a public bank and controlling the deposits of public funds are found across all cities, states and federal level. The District of Columbia Official Code has specific banking laws that regulate financial institutions handling public funds as well as the District government's own financial management practices. These laws provide both obstacles and pathways to alternative financial management practices for the District government. General laws regulating deposits and lending of public funds include:

- Collateralization: District funds deposited in any financial institution must be collateralized at 102 percent, if not fully federally insured.³⁰
- Competition for banking business: The Mayor or CFO must select financial institutions through a competitive bidding process. Financial institutions receive scores, 80 percent of which is based upon the institution's financial score, and 20 percent of which is based upon a community development score. However, the Mayor or CFO may waive this process in order to place deposits at an insured financial institution that provides banking services in low-to-moderate income areas of the District.³¹
- District funds reserved for certain insured institutions: The Mayor or the CFO may reserve up to 10 percent of District funds available for deposit or investment in order to make an investment or a deposit with one or more insured financial institutions located in the District that have less than \$550 million in assets.³²
- Deposit and Investment Act: The District is prohibited from making deposits in a single financial institution that exceed 25 percent of the total assets of that financial institution, or more than 25 percent of total District funds. This law would need to be changed in order to allow deposits of more than 25 percent of total public funds in a public bank.³³

²⁹ This analysis is a management and economic consultants review of local and federal laws and a thorough legal analysis would be required if steps are taken to establish a public bank.

³⁰ D.C. Code § 47-351.08

³¹ D.C. Code § 47-351.10

³² D.C. Code § 47-351.11

³³ D.C. Code §47-351.03

- The District cannot insure deposits, and therefore will not provide a financial backstop in the event of losses. In contrast, the state of North Dakota ultimately pledges state taxes to cover losses.³⁴ Research did not uncover any District laws that require banks to become insured; however, it was noted by DISB officials that the District’s anti-deficiency law would prohibit the District from pledging public funds to cover losses. Further analysis into the legality of operating a potentially uninsured private bank is recommended.³⁵
- The lending of public credit is prohibited for private undertakings. Generally, the District may not use public money for private lending. There is, however, a public purpose exception to this prohibition, as well as supportive case law, which may allow District funds to be used to establish a public bank, and further to establish certain lending criteria for the bank.³⁶
- Custody of Public Funds: the CFO has custody of the District’s public funds. The Council has the authority to instruct the CFO on where to deposit those funds but does not have the power to deposit those funds directly. Without a change in law, the Council could not make the executive and autonomous decision to deposit public funds in a public bank, which would require communication and buy-in from all parties to avoid conflict.³⁷ If a public bank were to be established, we assume that the appropriate laws imposing this CFO restriction would be amended.

According to the District’s Banking Code, a public bank would be defined as a depository institution, regardless of whether or not the public bank accepted private deposits. The Banking Code defines a deposit as “any demand, time, or savings deposit, savings share account, withdrawable or repurchasable share, investment certificate, or other savings account or savings deposit account made by an individual, corporation, partnership, state or federal governmental unit, or any other organization, without regard to the location of the depositor.” Therefore, a public bank would be subject to all existing laws that regulate depository institutions, such as those listed above, unless these laws are amended.

Collateralization requirements pose a significant financial obstacle to the establishment of a public bank. The collateralization requirements ensure that public funds are protected in place of and beyond the requirements of the FDIC. One pathway around meeting current collateralization requirements is to repeal or scale back collateralization requirements; however, this option comes with obvious and significant risks. Another option would be to apply for a letter of credit from the Federal Home Loan Bank, which

³⁴ DeWitt, Jeffrey. “Public Banking Discussion: Department of Insurance, Securities and Banking (DISB) Public Meeting.” July 25, 2018.

³⁵ *Ibid.*

³⁶ D.C. Code § 47–138

³⁷ D.C. Code § 1–204.24d

would satisfy District collateralization requirements and is permitted by the collateral and reporting requirements listed in Title 47 of the District's Code.

There are a number of other legal changes the District would have to make to its existing banking laws in order to establish and operate a public bank that would accept public funds. The District would have to repeal or amend its competitive bidding process law in order to place its funds exclusively in a public bank unless the District decided to have the public bank compete with private banks each year. An alternative solution would be to waive the competitive process, but this would require the public bank to: 1) provide banking services in low-to-moderate income areas of the City, and 2) be insured.

The Council may have to repeal the law that allows the Mayor or CFO to deposit certain amounts of public funds in small banks. As stated in the Code, this is intended to incentivize deposits in minority and women-owned banks. Currently, the District may deposit up to 10 percent of District funds in these smaller banks if they are insured, and if the deposits do not exceed collateral requirements. This law could pose challenges to the role of a public bank being the exclusive depository institution for public funds. However, a public bank could utilize this existing law to partner with minority- and women-owned banks to meet its funding and social impact goals.

If the public bank were to become a lending agency, it would need to comply with existing lending regulations, or else those regulations would need to be repealed or amended. The Council is limited by the Charter in its ability to "lend the public credit for support of any private undertaking." While this does not explicitly prohibit the District from appropriating funds to a public bank, it does present possible legal challenges to potential lending practices of a public bank, which may be a violation of District law. Legal analyses of hypothetical public banks have raised concerns regarding similar laws in other jurisdictions, one, in particular, citing an "anti-donation" law in New Mexico, which states that "neither state nor any county, school district or municipality... shall directly or indirectly lend or pledge its credit or make any donation to or in aid of any person, association or public or private corporation." The legal analysis concludes the public bank may not be in direct violation of the Anti-Donation law, but the law could pose significant legal challenges.

The Council may have the authority to create a public bank under existing law, but the District may nevertheless face lawsuits challenging the Council's authority. Instead, the Council could attempt a Charter change, but this is an extensive political process.³⁸ Whether or not there is a Charter change, the Council will need to pass enabling legislation that describes the mission, governance, and operations of the public bank. As with all District legislation, the U.S. Congress will have the opportunity to review any public banking legislation before it can become law in the District.

³⁸ "Discussion Series: Public Bank of DC." University of District of Columbia, David A. Clarke School of Law. Page 13.

In summary, there are a number of legal challenges that will need to be addressed if the District established a public bank. We find it likely that the District could establish a public bank, but recommend a thorough legal analysis be undertaken.

4.3 BANK START UP COSTS AND INITIAL CAPITALIZATION

Establishing any bank requires a clear vision as to the underlying nature of the business. In the banking industry, the basic business proposition is taking in liquid assets from savers and lending them out to borrowers.

Business continuation is ultimately determined by whether the bank can generate revenues in excess of its expenses, while, in the case of a public bank, providing satisfactory banking services to the government each year. The interest rate “spread” between the rate (what the bank has to pay) for deposits and the rate it can charge borrowers (what the bank can earn) is a key determinant of whether the bank can stay in business. Non-interest operating expenses also come into play, as well as insurance costs and capital requirements, all of which are mandatory for banking institutions and would likely be so, in some form or another, for a public bank.

The size and cost of establishing a public bank is heavily dependent on what the bank intends to do. In the basic scenario, a limited depository public bank is created to provide depository and banking services to the District government. The public bank would hold some or all of the District’s deposits, handle the day-to-day banking needs of the government, and undertake certain programs to address the capital access issues identified in the Consensus document.

Because the single customer would be the District government, the District public bank would need to offer a diverse range of sophisticated products. Municipal governments can have hundreds of bank accounts spread across multiple financial institutions managing their cash deposits. The District would need the public bank to manage all depository and cash management services, such as ACH and wire transfers, cash, check, and ATM deposits, a cash vault, commercial card services, investment safekeeping, government banking services, merchant banking services, proprietary electronic platforms, overdraft services, sweep arrangements, and provision of short-term lines of credit. The balance of these accounts can fluctuate greatly and the District needs to have the liquidity and coverage to make regular, large payroll payments to District employees and creditors.

CAPITALIZATION

How to capitalize a public bank is another fundamental issue. Since businesses typically spend money before they sell their products to generate revenue, some upfront “capital” is required to pay the bills until up and running and generating revenue flows (referred to as initial capitalization). This comes from equity, investments from the owners who expect to earn a sufficient return on their investments, or from debt, borrowed from a lender.

Table 4.1 provides estimates of capitalization and operating costs gleaned from public bank feasibility studies prepared by other state and local governments.

Table 4.1 – Estimates of Potential Capitalization and Operating Costs from Public Bank Feasibility Studies³⁹

Location	Capitalization	Annual Operating Costs
Oakland, CA	\$50,000,000	\$1 million
Maine	\$100,000,000	\$25 million years 1-4
Massachusetts	\$3,600,000,000	Not estimated
North Dakota	\$325,000,000 ⁴⁰	\$30,886,000 ⁴¹
Hawaii	\$500,000,000	Not estimated-
Illinois	\$9,800,000,000	Not estimated
San Francisco, CA	n/a	\$3,700,000
Santa Fe, NM	\$10,000,000	\$270,000
Vermont	\$400,000,000	\$16,500,000
Washington (state)	\$100,000,000	n/a

Source: See Appendix C for Feasibility Studies

A District-owned bank has several potential sources for capitalization:

- *The initial deposit of certain government funds (typically “idle” or reserve/rainy day funds)*

In theory, the primary source of capitalization for public banks is an initial deposit of funds from the government owner of the public bank. Unless these funds are appropriated via the budget process (i.e. expended), they are still owned by the government and can be withdrawn as with deposits at any banking institution with sufficient bank reserves. Indeed, a significant part of the rationale for public banking is to redirect commercial bank fees paid by governments back to the local government and local economy. However, due to 102 percent collateralization requirements,

³⁹ Missing information not provided by published feasibility studies. Please see Appendix C for details on capitalization and operating cost estimates within each specific feasibility studies.

⁴⁰ BND was established in 1919 with \$2 million of capital. In order to estimate how much that is in today’s dollars, researchers at the Federal Reserve Bank of Boston scaled the initial capitalization of \$2 million by the growth in the economy since then. The authors assume a 13-fold growth in the national economy over approximately 70 years, resulting in a scaled capitalization of \$325 million. See: Kodrzycki, Yolanda K. and Tal Elmatad. “The Bank of North Dakota: A model for Massachusetts and other states?” *New England Public Policy Center*, Federal Reserve Bank of Boston, May 2011.

⁴¹ Annual operating costs come from BND’s 2017 Annual Report.

government deposits alone will not suffice as they need to be available for District use at any time.

- *Proceeds from issuance of General Obligation (GO) bonds (debt) by the government*

GO bonds are often mentioned as a source of startup and/or ongoing capital, but there are questions about who issues, who guarantees, and how debt service payments would be made.

- *Direct start-up appropriation from the government's general fund.*

Advocates generally recognize that city and state budgets are tight, but argue that an upfront budget allocation to help establish the public bank should be seen as an investment that will pay dividends as opposed to simply current year expenditures. If the District were to establish a public bank, we would expect the non-capitalization startup costs such as employee compensation, rent, equipment, and other basic operating expenses, to be funded via a District budget appropriation.

- *Allow all of the non-financial assets of the District to be counted as bank capital*

The District, like every municipality, has significant non-financial assets on its balance sheet. However, these non-liquid assets have minimal use as a source of initial capital.

- *Accept capital contributions from private equity investors or philanthropic organizations searching for a social return (sale of bank stock)*

A public bank could sell stock, much like a private bank, to raise capital funds. While the District would remain the majority shareholder, this model could attract investment from philanthropic organizations or equity investors interested in the social mission of the public bank.

While this source of funds has been discussed, to solicit private sources of capital seeking some type of pecuniary or non-pecuniary (social) return creates uncertainty as to how this source would be consistent with the notion of a bank operating “in the public interest.”

For the District, we envision initial capitalization via an upfront appropriation from the General Fund or via the proceeds of a GO bond issue, with debt service provided for by the General Fund.

4.4 ANNUAL ONGOING BANKING OPERATIONS

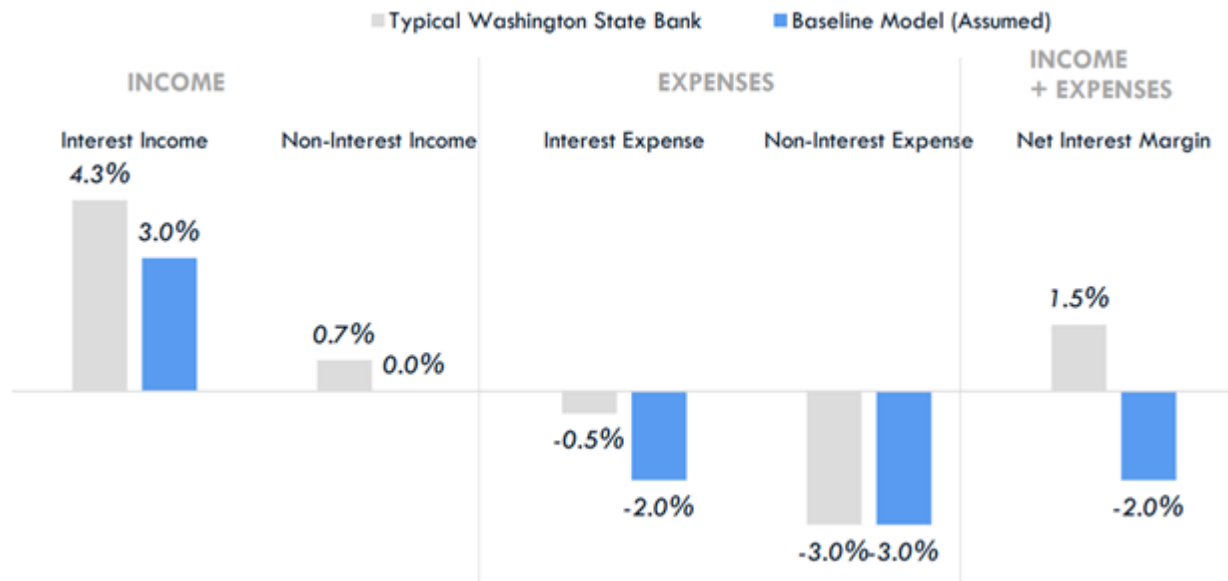
Crucial to the feasibility of a public bank is developing a sustainable business model. This will allow the bank to operate efficiently and earn profits that are reinvested to further the bank's civic mission or returned to the District government as general fund revenues. Without earning competitive interest on District deposits and providing service at a competitive cost, the public bank risks being a drain on District resources by costing the District more than obtaining comparable services at a traditional bank, rather than creating opportunity and funding to expand financial services.

To estimate an annual operating cost of a public bank, we examined the financial reports of several small (defined as less than \$10 billion in assets) commercial banks. Operating costs at the small banks we examined range from 3 percent to 5 percent of total assets/liabilities. However, the cost structure of a public bank would differ from a commercial institution. For instance, a public bank solely serving the District government would have no or lower marketing expenses than commercial banks, but these savings could be offset by higher than average salaries, and dividends to owners/depositors. Traditional banks benefit significantly from economies of scale, and even with fewer functions, we would likely expect the public bank's effective expense ratios to be higher than large commercial banks without those efficiencies. Depending on the form of the public bank, certain banking services required would still have to be contracted out to larger commercial banks.

The most important factor for the public bank is the ability to consistently generate positive net revenues (i.e. profit). The primary source of bank revenues are Interest Income (from loans and investment), and Non-Interest (Fee) income. These are used to pay both interest expenses (on deposits) and non-interest (operating) expenses. The excess of interest income over interest expense is called Net Income Margin, or NIM. The nature of a public bank leads to a smaller NIM than a typical commercial bank. The public bank would have to at least replicate the interest payments currently on government deposits, which are higher than typical retail interest rates. In addition, interest income will be lower for the public bank for two reasons:

1. A significant portion of the public bank's assets must be held in government securities to collateralize the District government deposits, and
2. Lending to riskier borrowers to fulfill the public interest mandate leads to lower lending interest income, as well as greater loan-loss provisions.

See Figure 4.1 for a sample comparison of the net interest margin of a public bank and traditional commercial banks.

Figure 4.1 – Comparison of Interest and Expenses as Percentage of Average Assets

Source: Commissioned for Seattle Public Bank Feasibility Study by HR&A Advisors, FFIEC (2019)

ILLUSTRATIVE FINANCIAL PRO FORMA

It is difficult to forecast banking operations for a type of bank that essentially does not exist anywhere. Furthermore, there are many different public bank models, with no single “representative” example. Hence, illustrating how a public bank might operate can be crucial to examining the potential for public banks to be feasible, sustainable, and effective. Based on our research and public outreach, we created two illustrative models of possible public bank structures: 1) a bank that accepts only District deposits and provides the District with cash management and investment services and 2) a special purpose bank to provide loans for specific unmet needs such as to support small businesses or affordable housing. Both would be designed to more effectively utilize District funds than currently via deposits in commercial banks.

In the first scenario, the District establishes a limited depository institution that provides financial services for the District. The limited service public bank would accept the District’s deposits and provide cash management services, overdraft services, sweep arrangements, and provide short-term lines of credit. The limited service public bank also could make loans in accordance with District priorities, through the same means as the special purpose bank.

Establishing even a limited depository bank introduces significant complexity of regulatory requirements and necessary banking infrastructure. In addition to the legal framework needed to deposit District funds in the public bank, starting the bank will require startup funding to set up office space, information technology systems, and security to protect deposits. We conservatively estimate that startup costs would be \$10 million, which are not included in the pro forma as it is intended to show annual operations.

In order to begin accepting deposits, the public bank will need a source of collateralization for District funds. Current District law requires District deposits to be collateralized at 102 percent. While it is common for governments to require this over-collateralization of public funds, many also allow deposits to be collateralized through a letter of credit from the Federal Home Loan Bank (FHLB). In this scenario, we assume that District law is amended to allow deposits collateralized by the FHLB. If the public bank is required to collateralize District deposits at 102 percent, it would need to invest all public funds, as well as a risk premium, in low yield federally backed investments, which would greatly reduce the public bank's ability to pursue District banking goals.

FHLB letters of credit secure public deposits in excess of FDIC-insured amounts. FDIC insurance could be available for the first \$500,000 of deposits for each District sub fund.⁴² FHLB would then provide a letter of credit for no more than 15 percent of the bank's total assets. To construct the pro forma for the limited depository public bank, we assume that the bank receives both FDIC insurance and a letter of credit from FHLB. The District would then deposit its cash and cash equivalents, currently held at a variety of private banks, into the public bank. As of December 31, 2017, the District's primary government fund had approximately \$3.5 billion in cash and cash equivalents. Note however that fund balances fluctuate considerably throughout the year, as taxes and fees are collected and payroll and vendor payments are made. Short term liquidity, which allows the government to meet fluctuating obligations, is a top priority for finance directors, and the District would need to be fully confident that funds will be available on demand.

Note also that since 2000, the District has been accumulating reserves in two "rainy day" funds, and added a third, the fiscal stabilization reserve, in 2010.⁴³ These funds are held to help the District manage a future fiscal crisis, and are available to access quickly in specific situations. While these funds are invested in interest-bearing accounts, they need to be highly liquid and, if used as collateral for public bank loans, could destabilize the bank.

LIMITED DEPOSITORY PUBLIC BANK

To generate sufficient liquidity for the government, we examine the feasibility of a limited depository public bank with \$300 million in assets.

With \$300 million in District deposits and start-up equity, the public bank would (conservatively) be able to make loans up to \$70 million. For purposes of this illustration, we conservatively assume the bank will earn one percent interest on invested reserves, that it will net 4.5 percent from loans, and that it will pay

⁴² "Deposit Insurance for Accounts Held by Government Depositors." FDIC. <https://www.fdic.gov/deposit/deposits/factsheet.html>

⁴³ "A Resident's Guide to the DC Budget." DC Fiscal Policy Institute, February 28, 2018. <https://www.dcfpi.org/all/a-residents-guide-to-the-dc-budget/>

two percent interest on District deposits.⁴⁴ Operating expenses and assumptions are based on actuals reported by the Bank of North Dakota and projected data for Washington state bank (see Table 4.2).⁴⁵

⁴⁴ The actual levels may vary, but key here is the difference between what the public bank would pay for District Fund deposits and what it is likely to earn. If District deposits earn less than they would otherwise, then the difference would constitute an implicit subsidy from the respective District Funds.

⁴⁵ See: "Public Bank Feasibility Study for the City of Seattle." HR&A Advisors, October 2018.

Table 4.2 – Example Pro Forma Model of Limited Depository Public Bank: \$300 million Assets

	Assumptions	\$ millions Annual	Notes
Assets			
Loans		\$70	
Reserves		\$230	
Total		\$300	
Liabilities & Equity			
District Deposits (~80%)		\$240	District Deposit
Equity (~20%)		\$60	Initial District Appropriation
Total		\$300	
Annual Interest Income			
Investment Interest Income	1.0%	\$2.3	(Required Reserves x Interest Earned)
Loan Interest Income	4.5%	\$3.2	(Net Loans x Interest Charged)
Interest Income		\$5.4	
Interest Expense	2.0%	(\$4.8)	(Deposits x Interest Paid to District)
Net Interest Income	0.7%	\$0.6	
Non-Interest Expenses (including fees)⁴⁶	3.0% assets	(\$9.0)	
Total expenses		(\$9.0)	
Profit / (Loss)		(\$8.4)	
District Interest Earnings		\$4.8	
Net Revenue/Profit / (Loss)		(\$3.6)	

SPECIAL PURPOSE PUBLIC BANK

In the second scenario, the special purpose bank would be similar to a revolving loan fund for the government. Depending on the targeted need, there are various ways in which the special purpose bank could structure loans. For example, it could work with the District of Columbia Housing Finance Agency

⁴⁶ Non-interest expenses include employee compensation, rent and facilities costs, and other basic operating expenses.

and the Housing Production Trust Fund to invest in affordable housing developments. To extend services to small businesses it could partner with local credit unions and CDFIs with participation loans and loan buy-downs.

There are several benefits to a special purpose bank. The creation of a special purpose bank would face significantly lower startup costs, as it would not provide cash management services to the District government. By making intra-government loans and partnering with CDFIs, it would avoid costly overhead and startup expenses. Importantly, to fund social-impacting projects that could not otherwise attract private capital market financing, the special purpose bank would ultimately need to provide a subsidy – including offering easier terms and lower interest rates.

In this model, the special purpose bank is capitalized with \$150 million. The bank lends \$110 million at 3.5 percent interest (see Table 4.3).

Table 4.3 – Pro Forma Model of District Special Purpose Bank: \$150 million Assets

	Assumptions	\$ millions Annual	Notes
Assets			
Loans (~70%)		\$110	Maintain 70% of assets as loans
Reserves (~30%)		\$40	Based on FDIC insurance, FHLB credit
Total		\$150	
Liabilities			
District Deposits		\$100	District Deposit
Initial Capital/Equity		\$50	Initial District Appropriation
Total		\$150	
Annual Interest Income			
Investment Interest Income	1.5%	\$0.6	(Required Reserves x Interest Earned)
Loan Interest Income	3.5%	\$3.9	(Net Loans x Interest Charged)
Income		\$4.5	
Interest Expense	2.0%	(\$2.0)	(Deposits x Interest Paid to District)
Net Interest Income		\$2.5	
Non-Interest Expenses (including fees)⁴⁷	1.5% assets	(\$2.3)	
Total expenses		(\$2.3)	
Profit / (Loss)		\$0.2	
District Interest Earnings		\$2.0	
Net Revenue/Profit / (Loss)		\$2.2	

⁴⁷ Note that in the case of the special purpose bank the lower overhead costs associated with the bank's limited services result in lower non-interest expenses than in the limited depository model.

POSSIBLE PHASING ALTERNATIVES

To estimate the annual operating costs of a public bank, it is also imperative to identify the scope of the institution. Public bank advocates acknowledge the exceptional effort (i.e. costs and institutional reorganization) it will take to establish and operate a public bank. As a result, they often recommend a phase-in approach, whereby the limited scope of the public bank grows over time to meet the needs of the jurisdiction. According to the Roosevelt Institute, a progressive think tank, a phase-in option could start with a non-depository Municipal Financial Corporation that makes long-term investments, then morph into a special-purpose entity that provides cash management services for a municipality. The third phase would be a full-fledged depository.⁴⁸

Notably, the Santa Fe feasibility study also recommended a phase-in option. It suggests starting with a separate entity focused on the city's basic cash management functions that would not require a charter change. Then apply for a state banking charter and pursue a conventional equity or mutual bank model. The third phase recommended for Santa Fe is to broaden the lending functions to include public interest loans underwritten by community banks.⁴⁹

Phase in options were discussed during the public engagement sessions and in conversations with District government officials. The first option would be a special purpose bank that focuses on the lending needs identified in the District, such as small and minority business lending or loans to unbanked communities. While a special purpose bank would have District deposits providing the bank with funds to support the revolving loan fund, the special purpose bank would provide limited banking services, and consequently have lower operating expenses than a limited depository bank. Phasing in a limited depository bank would involve expanding the services provided and accepting more government deposits however, which services, which deposits, and timing issues would all have to be carefully considered.

4.5 UNMET NEEDS: ANALYZING THE MARKET FAILURES AND INTERVENTIONS

The preceding sections analyze the governance, legal issues, and potential costs to determine if a public bank would be legal and feasible in the District. The next level of analysis is to understand if it is a solution that is more effective than other public or private sector alternatives.

⁴⁸ "The Municipal Bank: An Overview." Roosevelt Institute, April 12, 2016. <http://rooseveltinstitute.org/municipal-banking-overview/>

⁴⁹ "Legal Issues and Matters for Further Research and Examination Regarding Proposed Public Bank of Santa Fe." New Mexico Regulation and Licensing Department, August 24, 2017.

THEORETICAL FRAMEWORK FOR OUR ANALYSIS

Assessing the feasibility of a public bank requires a clear and direct understanding of the exact problems for which a public bank could be considered an efficient, effective, and equitable solution. Consequently, the next step was to identify and analyze what people consider shortcomings (inefficiencies and inequities - i.e., market failures) of the existing private commercial banking industry *in conjunction with* existing private non-commercial bank activity and public interventions. We reviewed existing public banking advocacy literature, specific efforts and studies undertaken in other cities and states, public outreach via public hearings, focus group discussions, direct business and consumer surveys, and recent press coverage. Using this information, our team then analyzed each case within the framework of standard economic theory on market failure and public interventions.

SPECIFIC UNMET NEEDS

The unmet needs identified in the Consensus Document include:

- Access to small and minority business lending
- Sufficient investment in affordable housing
- Access to banking and credit opportunities for low-income individuals
- Affordable options for financing higher education
- Sufficient investment in green infrastructure
- Sufficient financial services provided to the cannabis industry

Utilizing our framework, we detail the nature and causes of the market failure along with existing private and public interventions for each. We then address three fundamental questions:

- Could a public bank effectively address the problem?
- Could a public bank be more effective and efficient than alternative government interventions?
- If yes, what form would the public bank need to be?

In analyzing the identified market failures and the roles both public and private sectors currently play in mitigating them, we keep in mind the vision public banking advocates have for an ideal banking solution: a government-owned bank for and by the public that (1) provides necessary capital financing to otherwise underfunded needs, (2) operates efficiently and transparently, (3) generates profit that is reinvested locally and sustainably, and (4) operates for the public good.

Assuming a public bank could be established and operated in a sustainable fashion, the following subsections describe an identified market failure, the current private and public interventions used to address the market failure, along with the limits of those interventions. Each subsection concludes with how a potential public bank could complement current interventions.

4.5.1 INSUFFICIENT SMALL/MINORITY BUSINESS BANKING AND LENDING

Underlying Market Failure

Lack of capital access is a significant problem for small businesses in the United States. Commercial banks are the primary source of credit and financial services for the 28 million small businesses across the country, 90 percent of which are owned by sole proprietors. However, small business owners typically have a difficult time securing credit as many banks have more stringent risk assessment measures for small businesses than large corporations. Since 2015, big banks have approved only 21 percent of small business requests for loans.⁵⁰ Independent surveys of small business owners report that 43 percent of applications for credit result in most of or the entire request for capital being rejected, and our own survey conducted for this study found access to both start-up and expansion capital to be an important issue.⁵¹

The 2008 recession had a major impact on small business lending and small businesses in general. During the recession, small businesses lost 40 percent more jobs than larger firms.⁵² Studies on the localized effects of the housing crisis found that banks operating in counties severely affected by declines in housing prices reduced or ceased small-business lending even in counties unaffected by the housing crisis.⁵³ Nationally, between 2008 and 2011, lending decreased by 18 percent from \$659 billion to \$543 billion. Since 2008, loans provided to small businesses have increased only by 3.5 percent each year, compared to 5.8 percent growth in lending for all businesses.

Small business lending practices in the District reflect the national trends. In 2017, 15,200 loans were disbursed to small businesses in the District. 5,000 of those loans were made to small businesses in minority census tracts, and 4,500 loans were made to small businesses located in low- or moderate-income census tracts.⁵⁴

⁵⁰ “Small Business Lending Index.” Biz2Credit, June, 2018. <https://www.biz2credit.com/small-business-lending-index/june-2018>

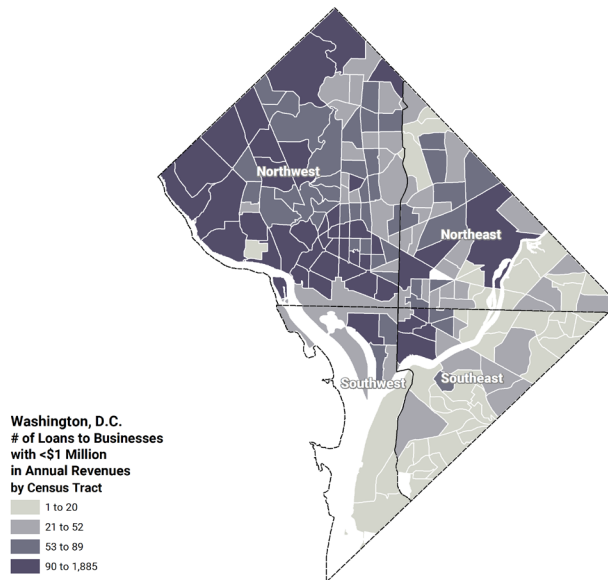
⁵¹ Mills, Karen. “State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game.” Harvard Business School, 2014.

⁵² *Ibid.*

⁵³ Bord et al. (2015)

⁵⁴ FFIEC CRA (2017), FFIEC Census Median Household Income Estimates, 2017.

Figure 4.2 – Loans to D.C. Businesses with less than \$1 Million in Annual Revenue, By Census Tract



Source: Federal Financial Institutions Examination Council (2017)

Table 4.4 – Count of Small Business Loans in Minority and Non-minority Census Tracts

D.C. Quadrant	Loans to Majority Census Tracts	Loans to Minority Census Tracts
NW	8,703	2,524
SW	78	235
SE	664	650
NE	632	1,751
Total	10,077	5,160

Source: FFIEC CRA (2017), FFIEC Census Population Estimates (2017)

Private Sector Interventions

Small businesses depend on big banks for their lending needs. Large commercial banks (with assets of \$10 billion or more) provide 83 percent of all small business loans in the United States. However, small

bank loans were 6.5 times larger in actual financial lending than those disbursed by large banks.⁵⁵ Additionally, small bank lending to small businesses has grown at a faster rate than large bank lending over the last twenty years, with small bank lending increasing by 12 percent compared to a 5.6 percent increase in lending by large banks.⁵⁶

CDFIs contribute substantial financial support to small businesses as well, providing an average of \$73,000 per loan to 12,000 small businesses across the country. In the District, several CDFIs provide important financial services to residents and small businesses. City First Enterprises, a CDFI in the District, reports that its investments in small businesses have helped retain 15,000 jobs.⁵⁷ Another CDFI, Washington Area Community Investment Fund (WACIF), has helped create more than 1,500 jobs and has supported many women and minority-owned businesses, which receive 79 percent of their small-business financing from CDFIs.⁵⁸

Credit unions also are a valuable resource for small business lending in the District. Credit unions are ideal loan providers for sole proprietorship small businesses since they typically provide lower interest rate loans and have less stringent criteria than commercial institutions when determining loan eligibility. In 2015, credit unions approved 43 percent of all loans, double the amount approved by large banks.⁵⁹ The financial services credit unions provide can be tailored to local small business needs and reflect a profit-sharing model similar to the model of proposed public banks.⁶⁰ In addition to traditional financial institutions, there are a number of other private sector interventions to support small businesses. These include online lenders, crowdfunding, peer-to-peer lending, as well as angel investing and venture capital.

Additionally, a number of non-profits in the District assist small businesses in accessing important financial services. These organizations include: Anacostia Economic Development Corporation, Development Corporation of Columbia Heights, The Ethiopian Community Development Council, H Street Community Development Corporation, Latino Economic Development Corporation, North Capitol Neighborhood Development, Inc., and Operation HOPE.

⁵⁵ “Small Business Lending in the United States, 2014-2015.” US Small Business Administration, June 2017. <https://www.sba.gov/advocacy/small-business-lending-united-states-2014-2015>

⁵⁶ “How Did Bank Lending to Small Business in the United States Fare After the Financial Crisis?” US Small Business Administration, January 2018. <https://www.sba.gov/advocacy/how-did-bank-lending-small-business-united-states-fare-after-financial-crisis>

⁵⁷ “Trump Administration Budget to Dismantle \$233 Million Community Development Finance /CDFI Program.” City First Bank and Community Development Bankers Association, March 21, 2017. https://www.cityfirstbank.com/sites/default/files/CDBA%20and%20CFB%20FINAL%203.21.17_0.pdf

⁵⁸ Wacif. <http://wacif.org/impact/small-business-loans-for-women-and-minorities/>

⁵⁹ “Small Business Lending Index.” Biz2Credit, June, 2018. <https://www.biz2credit.com/small-business-lending-index/june-2018>

⁶⁰ Carbajo, Marco. “Credit Unions vs. Banks: How to Determine Which One Is Best for You.” US Small Business Administration, 2016. <https://www.sba.gov/blogs/credit-unions-vs-banks-how-determine-which-one-best-you>

Public Sector Interventions

The District has shown dedicated support for small businesses by providing financing to small businesses. The DISB administers the DC Business Capital Program (DC BizCAP), a federally funded initiative that helps small business owners who were negatively impacted by the 2008 recession. DC BizCAP offers Cash Collateral Support and Loan Participation Programs which provide loans to small business owners who have had difficulty securing loans from commercial banks. CDFIs, community banks, and credit unions in the District participate in this program and work to connect small business owners with available public financing. Additionally, DISB's Innovation Finance Program offers capital investment to start-ups by co-investing in those emerging businesses with private investors. Overall, the BizCAP has allocated \$13.2 million for small business lending in the District and since its implementation has disbursed more than \$8 million to District small businesses, leveraging \$17.8 million in private capital to support commercial loans for these businesses.⁶¹

The District also manages and funds a variety of programs that support small business owners. The Office of the Deputy Mayor for Planning and Economic Development oversees workforce and business development programs as well as community development projects. For example, the Great Streets program offers up to \$3.5 million in grants to small businesses in the District. The Great Streets recently added the Neighborhood Prosperity Fund (NPF) to reduce unemployment across wards, races, and educational attainment levels. Additionally, the Department of Small and Local Business Development (DSLBD) works with various nonprofits to carry out several programs that help support local small business owners, including lending for entrepreneurs and emerging businesses, neighborhood revitalization, and technical assistance.⁶² In 2018, DSLBD dispersed \$1.9 million in loans and grants to small business owners throughout the District, with more than half dedicated to business development in low-income neighborhoods.⁶³

Could a Public Bank Help Address Capital Access Needs

Using a public bank to expand access to credit for small and minority businesses in the District could be an effective solution to address the problem of disparate access to capital. A public bank designed to provide small business loans has:

- Potential for expanding and working with other lending institutions and public and private small businesses;

⁶¹ "FY 2019-2020 Performance Oversight Hearing Responses Before the Committee on Business and Economic Development." Department of Insurance, Securities and Banking, 2020.

⁶² "Request for Applications (RFA) FY2019 Great Streets Retail Small Business Grant." Office of the Deputy Mayor for Planning and Economic Development, 2016. <https://dmped.dc.gov/page/request-applications-rfa-fy2019-great-streets-retail-small-business-grant>

⁶³ "\$1.9 Million in Small Business Access to Capital Released in FY 2018." Department of Small and Local Business Development, October 4, 2018. <https://dslbd.dc.gov/release/19-million-small-business-access-capital-released-fy-2018>

- Potential to provide enhanced financial support for organizations to reduce overall due diligence and mitigate risks associated with dealing with riskier business lending;
- Potential for concentrating on businesses requiring relatively small loan sizes, which in turn could allow for more businesses to be assisted;
- Potential to coordinate with related, non-financial public and private business support providers, thereby helping small businesses access these other support services.

In addition to these potential benefits, a public bank could appear more accessible to small and minority businesses that may feel intimidated (or have already been turned down) by larger private commercial banks.

For context, it is important to remember how much small business lending is originating within the commercial banking industry. Private commercial banks provide over 80 percent of small business loans in the United States. The addition of small business loans via a public bank would likely provide only a marginal increment to the supply of loans, but those could be crucial for certain small and minority businesses. Furthermore, these loans will have a ripple effect in the local economy leading to job creation and wealth building.

We believe that a public bank could coordinate with or support existing small business lending programs currently managed by the District government, by providing additional support and coordinating amongst agencies and other business support providers. It could have a positive impact, but only when coordinated in such a way that does not burden or weaken existing private and small business lending infrastructure.

4.5.2 AFFORDABLE HOUSING

Underlying Market Failure: Lack of Affordable Housing

The District is experiencing significant economic and population growth. This growth has not been without problems: many low-to-middle income residents in the District currently face a shortage of affordable housing. Housing in the District is heavily concentrated and strictly zoned. Only eleven neighborhoods have buildings with more than five units – the entire city averages approximately 2.5 units per residential building. Families making the area median income can only afford around 28 percent of these single-family homes. Sixty-four percent of low-income families spend more than half of their income on rent and many more cannot afford to become homeowners. In fact, only 40 percent of properties in the District are occupied by homeowners. Almost all of the low-cost (\$800 a month or less) housing in the District is subsidized by the government.⁶⁴ While there are various public and private sector initiatives to provide financing for affordable housing development, it is difficult for these efforts to keep pace with the demand for affordable housing.

Affordable housing advocates point to decades of aggressive and biased banking policies as the cause of the current affordable housing crisis in the District. Referred to as “modern-day redlining,” practices by large commercial banks such as subprime mortgage lending and the financing of luxury housing developments in gentrifying neighborhoods have whittled the District’s affordable housing inventory and contributed to increased rates of homelessness.⁶⁵

There is also the issue of profit-motive as a driver of luxury housing development, and consequently, the lack of affordable housing supply. Many private developers and the banks that finance their real estate projects have little to no motivation to produce affordable housing if luxury housing will create higher profit margins. This inequitable distribution of affordable housing is, therefore, a market failure that the government has sought to resolve by offering tax credits and other public financings to incentivize private development.

The District faces sizable challenges in its ability to fund subsidized housing. The estimated cost to construct enough subsidized housing in the District to meet demand would total \$2.6 billion over the next ten years.⁶⁶ This amount is similar to other major public expenditures such as public schooling and public safety. This enormous cost would require a reallocation of funds or a new funding stream.

⁶⁴ Taylor, Yesim. “Taking Stock of the District’s Housing Stock: Capacity, Affordability, and Pressures on Family Housing.” DC Policy Center, 2018. <https://www.dcpolicycenter.org/publications/taking-stock/>

⁶⁵ Lehmkuhl, Kim. “It’s Time for a Public Bank in DC.” *The DC Line*, July 23, 2018. <https://thedcline.org/2018/07/23/kim-lehmkuhl-its-time-for-a-public-bank-in-dc/>

⁶⁶ Rivers, Wes. “Going, Going, Gone: DC’s Vanishing Affordable Housing.” DC Fiscal Policy Institute, March 12 2015. <https://www.dcfpi.org/wp-content/uploads/2015/03/Going-Going-Gone-Rent-Burden-Final-3-6-15format-v2-3-10-15.pdf>

Private Sector Interventions

Nationally, private banks invest billions of dollars annually to affordable housing projects. In 2017, top affordable housing lenders lent more than \$30 billion to affordable housing projects, a sizeable increase from \$22.9 billion in loans in 2015.⁶⁷ Much of this development is incentivized and supported by Low Income Housing Tax Credits (LIHTC). However, it is speculated that LIHTCs will become devalued due to the new, lower corporate tax rate of 21 percent implemented by the Trump administration. This devaluation could result in a decrease in lending for affordable housing.⁶⁸

Despite this speculation about the future of LIHTCs, private banks and investors in the District provide millions of dollars of funding for affordable housing development every year. Large commercial banks offer low-interest rate financing for affordable housing construction as well as innovative programs, such as land trusts, that work to keep existing housing and property affordable. For example, Citibank recently implemented a program to expand community land trusts in the District to promote affordable housing and homeownership accessibility to low-income individuals.⁶⁹ Another large financial institution, JPMorgan Chase, recently announced it would increase its affordable housing financing to \$500 million by 2023.⁷⁰

Alternative affordable housing funding sources, such as community banks and non-profits, also act as significant sources of funding for affordable housing. City First Bank, a prominent community bank in the District, has financed over 5,000 units of affordable housing. Additionally, City First's CF Homes program operates as a Land Trust and works to keep housing prices affordable. Non-profits also play a significant role in raising capital and constructing affordable housing in the District. One non-profit, Enterprise Community Partners, has raised tens of millions in investment capital for affordable housing, which is leveraged with public funds to create greater impacts.⁷¹

Additionally, private developers in the District are finding innovative ways to construct affordable housing without depending on public subsidies. For example, the Washington Housing Conservancy

⁶⁷ Serlin, Christine. "Lenders Persevere Through Market Disruptions." *Housing Finance*, February 28, 2018. https://www.housingfinance.com/finance/lenders-persevere-through-market-disruptions_o

⁶⁸ Mattson-Teig. "LIHTC Market Faces "Mild Turbulence" Ahead." *National Real Estate Investor*, January 31, 2018. <https://www.nreionline.com/lending/lihtc-market-faces-mild-turbulence-ahead>

⁶⁹ "Citi Community Development and Grounded Solutions Network Announce the Creation of the National Community Land Trust Accelerator." *Business Wire*, April 27, 2018. <https://www.businesswire.com/news/home/20180427005122/en/Citi-Community-Development-Grounded-Solutions-Network-Announce>

⁷⁰ "JPMorgan Chase Announces First Major Branch Expansion in Greater Washington." JP Morgan Chase, April 29, 2018. <https://www.jpmorganchase.com/corporate/news/pr/chase-announces-major-branch-expansion-in-greater-washington.htm>

⁷¹ "Preserving Affordable Housing in the Washington Metropolitan Region." Enterprise Washington. <https://www.enterprisecommunity.org/sites/default/files/media-library/where-we-work/mid-atlantic/mid-atlantic-preservation-loan-fund.pdf>

recently announced a plan to redevelop and preserve affordable housing in the District by developing a for-profit fund that leverages lower-cost capital for slower, long-range return on investment.⁷²

Public Sector Interventions

The District of Columbia Housing Finance Agency (DCHFA) is a “uniquely created and organized financial institution and administrator of affordable housing programs and resources” funded by revenue from deed recordation and appropriations from the general fund. DCHFA offers low-cost financing options for developers to support the construction of affordable rental housing, as well as funding for mortgages and down payments for low- to mid-income home buyers.⁷³ Since 2001, the DCHFA has developed 9,000 affordable housing units. In 2017, DCFHA issued over \$140 million in bond financing for the development of 875 affordable housing units; the agency also underwrote over \$68 million in low-income housing tax credits. The U.S. Department of Housing and Urban Development (HUD) approved DCHFA to participate in its Risk-Share program, which gives the agency more access to capital for redevelopment and preservation projects. Additionally, a vital source for the affordable housing funding in the District is the Housing Production Trust Fund (HPTF). Since 2015, Mayor Bowser has pledged and delivered \$100 million annually to the Fund. This is three times higher than the next highest housing fund in America.⁷⁴ In her 2020 Budget, the Mayor increased this amount to \$130 million.

There are a number of other government and nonprofit agencies working to help build and maintain affordable housing in the District, including the Department of Housing and Community Development and DCHFA. The National Community Reinvestment Fund creates pathways to homeownership for low-income individuals and families by purchasing and renovating affordable housing through its financial literacy programs. Other programs working to develop or maintain affordable housing options are: Community Preservation and Development Corporation, DC Habitat for Humanity, Local Initiatives Support Corporation, Manna Community Development Corporation, Mi Casa, North Capitol Neighborhood Development, Inc., DCHousingSearch.org, Single Family Residential Rehabilitation Program, The Rental Accommodations Division, Roof Repair Program, Handicapped Accessibility Improvement Program, and Vacant to Vibrant DC.

Could a Public Bank Help Address the Unmet Affordable Housing Needs?

Supporting housing markets via various supply (production) or demand-side subsidies is a common state and governmental intervention into what are largely private housing markets. As the federal government

⁷² Hudson, Stephen. “DC’s largest developer is getting into affordable housing.” Greater Washington, August 22, 2018. <https://ggwash.org/view/68783/dcs-largest-developer-is-getting-into-affordable-housing>

⁷³ “DCHFA Fiscal Year 2017 Annual Report.” DCHFA. http://www.dchfa.org/wp-content/uploads/2018/06/2017-dchfa-annual_report.compressed.pdf

⁷⁴ “Department of Housing and Community Development, Housing Production Trust Fund. <https://dhcd.dc.gov/page/housing-production-trust-fund>

continues to reduce Community Development Block Grant (CDBG) funding (previously a primary source for local housing support programs), cities have increased the use of locally generated revenues to fund housing support programs, and the District is a leader in those efforts.⁷⁵ The District's programs, which operate directly in the housing markets and in conjunction with banks and other housing organizations, help generate significant housing opportunities for lower income populations.

This unmet housing market need requires more private and/or public capital and continued increases in strategically-directed public subsidies. **Assuming a public bank were to be established, its role in addressing the affordable housing shortage in the District is unlikely to enhance programs currently in place.**

⁷⁵ Theodos, Brett, et al. "Taking Stock of the Community Development Block Grant." Urban Institute, April 2017. https://www.urban.org/sites/default/files/publication/89551/cdbg_brief_finalized_0.pdf

4.5.3 UNBANKED AND UNDERBANKED COMMUNITIES

Underlying Market Failure

In 2017, the Federal Deposit Insurance Corporation (FDIC) found that 6.5 percent of U.S. households were unbanked and an additional nearly 20 percent were underbanked.⁷⁶ In unbanked households, as defined by the FDIC, no one in the household has a checking or savings account, while underbanked households had an account at an insured banking institution, but also obtained financial services outside of the banking system. Underbanked households' needs are not fully met by the banking system, causing them to use alternative financial services, like money orders, check cashing, or payday loans. Importantly, low-income and minority households are overrepresented among the unbanked and underbanked population. In the District, eight percent of households are unbanked, and over 21 percent are underbanked.⁷⁷

Consumers often have many reasons for not having a bank account, including a volatile income, mistrust of the banking system, high account fees, and the perception that banks have no interest in serving households like theirs. The most common primary reason cited in the FDIC survey for not having a bank account was “Do not have enough money to keep in an account” (about 38 percent), which, because of minimum balances, could itself exclude people from opening an account. Respondents to the DISB consumer survey who answered that they used alternative financial services in the past 12 months listed inconvenient bank locations, unpredictable fees, distrust of banks, and privacy concerns as reasons for using those services.

Commercial banks tend to open and operate branch locations disparately in urban areas, concentrating their locations primarily in affluent neighborhoods.⁷⁸ Providing services to and maintaining branch locations in low-income areas are not as profitable as other types of commercial banking, giving commercial banks little incentive to do business in these areas. Proximity to bank branch locations is an important factor of gaining access to capital for citizens' personal and professional lives. With fewer banks, residents have less access to the financial services and products and are less likely to build the credit history necessary to secure a mortgage or business loan. Many good businesses in low-income areas often go overlooked by commercial banks that have little financial incentive to make the extra effort to identify worthwhile business loan opportunities; therefore, good businesses get saddled with higher perceived risk. The resulting banking deserts further erode trust in the banking system.

In the District, bank branches are largely concentrated in a few central neighborhoods. According to data from the Federal Financial Institutions Examination Council, there are less than three bank locations per

⁷⁶ “2017 FDIC National Survey of Unbanked and Underbanked Households” Federal Deposit Insurance Corporation, 2017. <https://www.fdic.gov/householdsurvey/2017/2017report.pdf>

⁷⁷ Ibid.

⁷⁸ “Bank Branch Closures from 2008-2016: Unequal Impact in America’s Heartland.” National Community Reinvestment Coalition. <https://ncrc.org/>

10,000 households in minority census tracts in the District, and nearly five times that amount in non-minority census tracts (see Table 4.5).

Table 4.5 – Bank Branch Penetration in Minority and Non-minority Census Tracts

D.C. Quadrant	Majority Census Tracts	Minority Census Tracts	Ratio of Majority to Minority Census Tracts
NW	16.6	3.0	5.5
SW	0.0	1.4	0.0
SE	12.7	2.5	5.2
NE	4.8	2.9	1.7
Total	14.8	2.8	3.1

Source: FFIEC (2017), FFIEC Census Population Estimates (2017)

In addition to the disparity of bank locations across the District, there also is the issue of inequitable lending practices. In 2017, there were nearly 32,000 applications for home loans with a denial rate of approximately 14 percent. (see Table 4.6). On average, minority borrowers were twice as likely to be denied a home loan. Similarly, low-moderate income borrowers were more than twice as likely to be denied a home loan compared to their middle-upper income counterparts.

Table 4.6 – Number of Applications and Home Loans in Washington, D.C. in 2017

D.C. Quadrant	Applications	Loans Approved		Loans Denied	Denial Rate
		Prime	Subprime		
NW	16,543	8,772	120	1,941	12%
SW	1,146	587	16	150	13%
SE	5,747	2,424	104	1,103	19%
NE	8,455	3,872	100	1,275	15%
Total	31,891	15,655	340	4,469	14%

Source: Federal Financial Institutions Examination Council (2017)

Access to the housing market remains an important fundamental to the overall economy, as most people in the US hold most of their wealth in the value of their home. Nearly 67 percent of all households own a home, while only 50 and 16 percent of households have retirement savings or owned stock as a form of their net wealth, respectively. Limiting the ability to purchase a home, either through limiting the supply

of affordable housing or through limiting the number of easily payable loans to people looking to purchase a home, severely limits the ability of people to obtain wealth-building assets.⁷⁹

Private Sector Interventions

Commercial banks do offer some products targeted specifically to low-income households, such as low-fee checking accounts or prepaid cards that act as debit cards. Credit unions often direct their services to low-income and minority areas and offer additional education and support for members, but credit unions typically require some type of affiliation for membership, thereby limiting their reach into low-income groups. The federal government supports this work with the Low-Income Credit Union designation, which applies to a credit union if a majority of its members qualifies as low-income. With the designation, credit unions gain access to additional sources of funding and resources from the National Credit Union Administration.

The alternative interventions provided by the private sector have been generally viewed as deleterious to the financial health of low income and minority individuals and households. These operations typically provide credit and access to cash with steep interest rates and short payback periods that quickly increases debt to very high levels and ultimately continue the cycle of poverty.

Public Sector Interventions

The District's programs to serve households unserved and underserved by the banking system primarily provide financial education and connect residents to affordable bank services, directing vulnerable households away from expensive alternative financial services.

In 2009 the District started Bank on DC, a program of public-private partnerships to serve unbanked households through financial education and access to financial products and services. Bank on DC has partnered with banks and credit unions in the District to offer low or no minimum balance requirements on accounts and low monthly fees. Bank on DC also helps people improve their credit with "second chance accounts" for people with negative credit histories. In 2017 alone, Bank on DC connected approximately 800 people to traditional financial products like checking and savings accounts, saving nearly \$600,000 in fees from using alternative financial services.⁸⁰

⁷⁹ Lisa J. Dettling, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson with assistance from Elizabeth Llanes. "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances." *Board of Governors of the Federal Reserve System*, September 27, 2017.

⁸⁰ "Fiscal Year 2017 Performance Oversight Hearing Before the Committee on Business and Economic Development." DISB, August 14, 2017.
https://disb.dc.gov/sites/default/files/dc/sites/disb/release_content/attachments/DISB%20FYs%202017%20and%202018%20PERFORMANCE%20OVERSIGHT%20Testimony%20%28v.2.13.18%29%28FINAL%29.pdf

The Financially Fit DC Initiative, launched by Mayor Bowser, is a financial literacy program designed to empower residents to take control of their financial health. The initiative holds clinics several times a year throughout the District to provide financial literacy training and to connect residents to financial services and resources. Since starting the initiative in 2017, more than 3,700 District residents have created personal budgets, checked their credit, and started planning for retirement using Financially Fit DC's services.⁸¹

Could a Public Bank Help Address the Needs of the Underbanked Community?

A public bank could focus on providing retail financial services to the unbanked and underbanked communities. It would be beneficial to have an institution solely focused on the financial health of the unbanked and underbanked. However, it is important to consider whether a public bank would be more efficient than existing vehicles such as Bank on DC and Financially Fit DC. These programs have both been successful at moving unbanked and underbanked residents away from alternative financial services and into traditional bank accounts, as well as providing residents access to financial tools to help establish and achieve financial goals.

The scale is also important to analyze. The amount of financial services readily available to this community would be on the margin in comparison to capital access needed to support these households. Furthermore, while this option was explored during the public engagement phase, a retail bank was not in high demand among financial professionals or public bank advocates. Instead, multiple participants cited the need for a network of CDFIs and community banks to service the underbanked community - and the importance of the District convening and supporting the network with resources. **Therefore, considering the scale, effectiveness of other District programs, and lack of public support, a public bank would have a minor impact in this area in the District.**

⁸¹ *Ibid.*

4.5.4 STUDENT LENDING

Underlying Market Failure

Federal loans make up over 90 percent of the \$1.4 trillion student loan market. Seven percent of the market is held by private lenders, representing \$108 billion of outstanding student loans.⁸² Because of the lack of tangible collateral, lenders have limited recourse if the borrower defaults. Though private loans are generally more expensive than federal student loans, many students turn to private loans to supplement aid they already receive from the federal government and schools.⁸³

There are two related but distinct issues regarding student loans, and they are both important issues for District residents. The first is the ability to obtain affordable loans to pay for schooling; the second is the difficulty associated with not being able to pay loans back. Both problems are influenced by both the interest rates attached to student loans, as well as rising tuition costs. While the relationship between federal student loans and rising tuition costs is commonly debated, the issue remains that real, inflation-adjusted tuition costs have more than doubled over the last 30 years.⁸⁴

Private Sector Interventions

Private commercial banks provide higher education loans to students, with parents acting as cosigners, in order to help students ultimately achieve higher earnings after college. This lending allows students and parents to finance college without paying out of pocket for tuition, thus allowing students to access higher education opportunities they may not have been able to afford otherwise.

As an employee benefit, some employers offer some form of tuition reimbursement for employees who want to go back to school but cannot afford the full cost of returning. The amount reimbursed varies across different employers: most employers that offer this reimbursement set the cap around the total amount they are allowed to deduct from taxes (normally around \$5,000), while some employers pay the entire expense (including textbooks) for the benefit of having a better-educated workforce and improved employee retention.

Credit unions can offer lower interest rates and more favorable terms than private banks, but with \$4 billion in outstanding student loans, these financial institutions are a relatively small player in the market,

⁸² “Private Student Loan Report Q1 2017.” MeasureOne, December 13, 2016. <https://lending-times.com/2016/12/13/the-measureone-private-student-loan-report/>

⁸³ “Federal Student Aid.” U.S. Department of Education. <https://studentaid.ed.gov/sa/types/loans/federal-vs-private>

⁸⁴ “Tuition costs of colleges and universities.” National Center for Education Statistics. <https://nces.ed.gov/fastfacts/display.asp?id=76>

especially compared to federal loans.⁸⁵ Most credit unions also require people to become a member and not all credit unions provide student loans.

Nonprofits also can help students seeking affordable financing for college. The District of Columbia College Access Program (DC-CAP), a privately funded nonprofit, provides funds of \$2,000 per year for five years for the District's public high school or public charter high school graduates through its Last Dollar program. Since its inception, it has awarded 18,000 scholarship awards totaling \$37 million.⁸⁶

Public Sector Interventions

In addition to the large investment in student loans made by the federal government, state-based and affiliated organizations also help students pay for college. Notably, the Bank of North Dakota has a state-sponsored student loan program, where students attending college in the state are eligible for no-fee loans with decreased interest rates. The bank has a student loan portfolio of \$1.1 billion and currently serves more than 80,000 student loan customers.⁸⁷

The District of Columbia Tuition Assistance Grant (DCTAG) Program offers a maximum of \$10,000 per year (capped at \$50,000 for 5 years) to cover the difference between in-state and out-of-state tuition at public four-year institutions anywhere in the country. The grant also provides a maximum of \$2,500 per year (capped at \$10,000 overall) at public two-year schools and \$2,500 per year (capped at a \$12,500 lifetime limit) at historically black colleges or private schools in the District.⁸⁸

Could a Public Bank Help Address Student Lending Needs?

During the public engagement, District stakeholders suggested using a public bank to provide post-secondary educational loans to students in the District, greater access to financial resources, and potentially more advantageous loan terms and costs. While this could be a use of the bank to address the lending gap, the question remains whether it would be more effective than alternative interventions.

Once again, it is helpful to consider the scale of the intervention. Even if a public bank were to offer student loans to District residents, it is likely that those additional student loans originating from the public bank would supplement, not replace, the Federal student loans, which comprise nearly 90 percent

⁸⁵ "Filling the Student Lending Gap." *Credit Union Times*, August 11, 2017. <https://www.cutimes.com/2017/08/11/filling-the-student-lending-gap/?slreturn=20180806160410>

⁸⁶ "Bank of North Dakota announces sale of federal student loans." Bank of North Dakota, November 13, 2017. <https://bnd.nd.gov/bank-north-dakota-announces-sale-federal-student-loans/>

⁸⁷ "Bank of North Dakota announces sale of federal student loans." Bank of North Dakota, November 13, 2017. <https://bnd.nd.gov/bank-north-dakota-announces-sale-federal-student-loans/>

⁸⁸ "Office of the State Superintendent of Education. DC Tuition Assistance Grant (DCTAG)." District of Columbia, 2018. <https://osse.dc.gov/dctag>

of the student loan market. Therefore, a public bank would be a small enterprise making loans on the margins of the total student loans provided by the universe of financial institutions in the District.

Likewise, a District public bank would most likely provide student loans at similar interest rates to credit unions or the BND, which are offered at interest rates similar to private loans. Currently, a private bank like Citizens One offers student loans at a fixed rate between 5.25 percent to 12.09 percent and a variable rate between 4.19 percent to 12.06 percent. Other private banks such as College Avenue, SunTrust Bank, Sallie Mae, Discover, and Ascent all post similar interest rates, at fixed rates between 5.29 percent to 11.85 percent and variable rates between 3.69 percent to 10.94 percent.⁸⁹ Likewise, LendKey, a credit union student loan aggregator, lists its fixed rate as 5.36 percent and its variable rate at 4.8 percent.⁹⁰ For context, BND's current fixed student loan rate is 5.48 percent and its variable rate ranges from 3.8 percent up to 10.00 percent, not much more, if at all, competitive to some private student loans.⁹¹

Further, a student loan program differs significantly from offering business loans, and offering student loans would add complexity and expense to a public bank. At the end of 2017, the share of loan balances unpaid after three months reached 11 percent.⁹² The result of higher delinquency and default rates is that the loans are less profitable, and could even require a public subsidy to operate.

Considering a potential public bank would not necessarily offer more competitive student loan rates compared to private and credit union student loans, and that those loans would be largely supplemental to federal student loans, along with non-profit and the District's existing tuition grants, we believe a public bank would have a low impact in this area in the District.

⁸⁹ "6 Best Private Student Loan Options in 2018." Nerd Wallet, 2018. <https://www.nerdwallet.com/blog/loans/student-loans/private-student-loans/>

⁹⁰ LendKey data as of October 2018.

⁹¹ ">DEAL Student Loan." Bank of North Dakota, 2018. <https://bnd.nd.gov/studentloans/money-for-college/deal-student-loan-1/#1444312492652-5c87d5b0-0b14>

⁹² Sankar, Ashwini, "A rising mountain of student debt". Federal Reserve Bank of Minneapolis, April 4, 2019.

4.5.5 GREEN INFRASTRUCTURE

Underlying Market Failure

Advances in clean energy technology are generating interest in individuals, businesses, and governments for renewable energy, energy efficiency, and other clean energy and green infrastructure projects. However, adopting these new technologies would require large upfront capital investments that necessitate financing. The financing offered by banks and private lenders for green projects typically carries relatively high interest rates and short terms, which can undercut the economic attractiveness of the project.⁹³ Particularly in cases where green technology produces immediate costs savings, such as reduced electricity or water bill, the lack of financing for upfront costs creates a significant barrier to entry.

Private Sector Interventions

Credit unions and private lenders offer a variety of loans and financial products to homeowners interested in adopting clean energy technology, including solar panels, home energy efficiency retrofits, and net-zero energy homes. Since private sector funding for installing green technology is directed at small residential and commercial projects, larger civic projects that could make significant impact reducing emissions and meeting sustainability goals (like water management or improving the energy efficiency of municipal buildings) remains dependent on public financing.

Public Sector Interventions

There are numerous federal and state incentives for green infrastructure projects, including grants, rebates, and financing. While government agencies promote the adoption of energy efficient technology, the funding can be insufficient to overcome the high upfront costs. Increasingly, governments are looking for ways to attract more private investment in green infrastructure by reducing costs and risk.

The District's Green Bank was recently established to attract private investment in mature clean energy projects. Green banks can use funds to offer loans, credit enhancements, and other financing services to attract private investors. The District's involvement helps by reducing risk, absorbing closing costs, and providing opportunities to investors. Importantly, because the District's Green Bank will be providing loans and financing, taxpayer funds will be preserved if loans are paid off, allowing them to be redeployed for new projects.

⁹³ "District of Columbia Green Bank Report." Coalition for Green Capital, April 3, 2017. https://doee.dc.gov/sites/default/files/dc/sites/ddoe/service_content/attachments/20170403_Green%20Bank%20Technical%20Report%20for%20DOEE_FINAL.pdf

Could a Public Bank Help Address the District's Green Infrastructure Needs?

Stakeholders in the District have raised the idea of using a public bank to support green infrastructure projects. Specifically, this could include loans to support the construction and rehabilitation of existing infrastructure to meet evolving, environmentally-friendly or green standards. During public outreach, there was considerable discussion on this topic. There is clearly strong political will and leadership around green infrastructure, as evidenced by the creation of the Green Bank, which is a vehicle to attract private investments for this issue. Advocates and industry professionals suggested that a public bank could come alongside the Green Bank and provide public dollars to support these projects.

While the BND does not directly give loans out for green infrastructure, it does provide interest buy-downs to reduce the interest rates on loans to specific types of industrial green infrastructure relating to the production of environmentally conscious fuel production and agricultural practices through its Biofuel PACE program. The program helps fund biodiesel, ethanol, or green diesel production facilities; the interest buy-downs help with purchasing property, expanding current facilities, and purchasing or installing equipment.

In order to evaluate whether it would improve the status quo, it is important to remember that a public bank would not exist in isolation. The District already has a robust capital planning process, along with AAA bond rating, whereby it plans and budgets for "green" or "gray" projects, such as sewer and stormwater maintenance. With its strong bond rating, the District is able to access capital at very low rates, which already increases the attractiveness of investing in green projects. Given the strong government leadership, robust capital planning process, and the investment vehicles through Green Bank, we believe that a public bank could play some role in the green infrastructure needs of the District, but it would be important to coordinate any activity in this space with the established capital planning efforts.

4.5.6 CANNABIS MARKET

Underlying Market Failure

Due to federal restrictions on banks dealing with commercial activity involving illegal products, the cannabis industry faces major obstacles to obtaining financial services robust enough to serve its banking needs. In 2014, the District passed Initiative 71, which permits individuals 21 years of age and older to possess up to 2 ounces of marijuana and to use and grow marijuana on private property. However, the law still criminalizes the purchasing of marijuana. This presents a unique obstacle to the local cannabis market: cannabis product cannot be exchanged for money, goods, or services, but may be “gifted” to consumers.⁹⁴ Additionally, medical marijuana was legalized for purchase by eligible patients in 2010, which welcomed the establishment of dispensaries in the District.⁹⁵ These dispensaries either have to rely on cash for their operations or bank with smaller financial institutions that may charge high fees.⁹⁶

Nationally, the industry has grown significantly since its legalization in a few states; sales of marijuana are projected to reach over \$20 billion by 2021. Because marijuana is still federally regulated as a Schedule I drug, most banks are hesitant to do business with marijuana growers and dispensaries. This means that most marijuana-related businesses must pay their employees, rent, taxes, and other expenses in cash. Handling large amounts of cash in-house makes these businesses vulnerable to theft and internal financial mismanagement. Paying taxes in cash also burdens local government workers with a lengthier accounting process.

Private Sector Interventions

Cannabis retailers in the District have struggled to work around the criminalization of the sale of cannabis. Distributors have resorted to gifting cannabis along with sales of other products, such as apparel, art, or food. Because there are no legal storefronts for recreational marijuana distribution, retailers sell products online or at pop-up markets in the District. However, recent news articles report that local law enforcement has been cracking down on these pop-up markets, arresting retailers who gift cannabis alongside products purchased with cash.⁹⁷

Nationally, participants in legalized cannabis markets have also found alternative solutions to working around obstacles posed by restrictive federal policies. In states with legalized cannabis industries, some small credit unions have taken on the challenge of attempting to provide banking services to marijuana-

⁹⁴ D.C. Law 4-29; D.C. Official Code § 48-904.01(a)

⁹⁵ § 7-1671.03. Restrictions on use of medical marijuana.

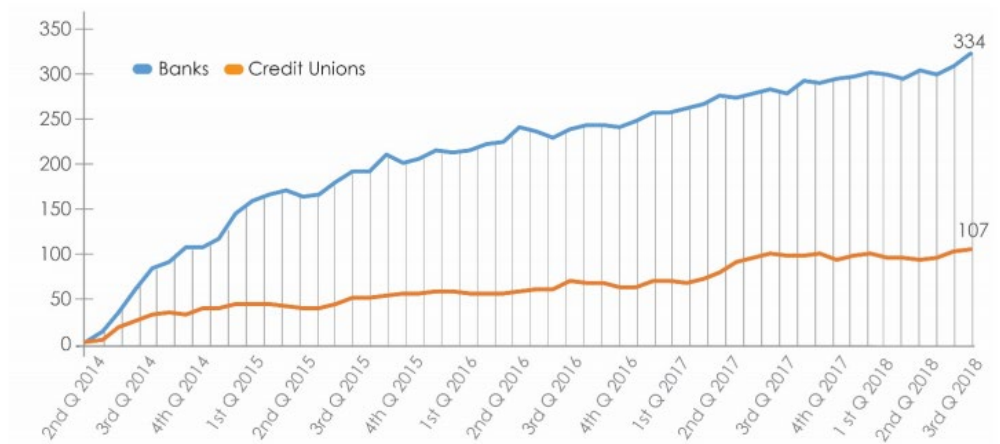
⁹⁶ Basnister, Jon. “Budding Marijuana Businesses Discuss Real Estate, Banking Challenges.” Biznow Washington DC, April 27, 2018. <https://www.biznow.com/washington-dc/news/economic-development/marijuana-businesses-face-real-estate-banking-challenges-in-dc-market-87842>

⁹⁷ Cutler, Anne. “DC police cracking down on illegal marijuana pop-up parties”. *Fox 5 D.C.*, September 7, 2018.

related businesses despite the risk of federal intervention. The Partner Colorado Credit Union offers the Safe Harbor Banking Program specifically for businesses selling cannabis in legal states. Safe Harbor streamlines the cannabis-industry banking process by assessing marijuana-related businesses before linking them with a participating financial institution that can meet their banking needs. Safe Harbor can serve out of state marijuana-related businesses through participating banks.⁹⁸

While private banks face the risk of federal intervention for providing financial services to the cannabis industry, the number of those banks doing so has increased over the last few years. According to the Financial Crimes Enforcement Network (FinCEN), the number of banks accepting deposits from marijuana-related businesses has increased by 20 percent since 2016.

Figure 4.3 – Depository Institutions Providing Banking Services to Marijuana-Related Businesses, 2014-2018



Source: FinCEN (2018)

Public Sector Interventions

The private sector interventions mentioned above have required public sector support and coordination to get off the ground. State governments have issued feasibility studies in an effort to improve the taxation process and to create a better business environment for banks interested in working with marijuana-related businesses. Federal law enforcement has maintained a laissez-fair approach to state-level marijuana legalization, but the risks involved with working with an industry still criminalized in many

⁹⁸ “How the Safe Harbor Program works for financial institutions.” Safe Harbor. <https://safeharborforbusiness.com/financial-institutions/how-it-works/>

states deter banks from working with marijuana-related **businesses**. Additionally, the state and federal-level regulations regarding cannabis make it difficult for both banks and business owners to operate efficiently.

Despite the challenges, some governments have created policies aimed at helping marijuana-related businesses better manage their finances. In 2018, California set up an online portal that allows marijuana-related business owners to file tax returns electronically. This is an effort to minimize the time and effort spent on handling cash-payments of taxes, which is a burden on both business owners and government employees handling the taxation process.⁹⁹

Could a Public Bank Help Address the Needs of the Burgeoning Cannabis Market?

A public bank has been raised as an option to manage the funds of the cannabis industry. In fact, California, Hawaii, and Colorado have explored this option in order to continue the industry's growth and allow it to be more accessible to emerging businesses. Meanwhile, the federal government is grappling with its fundamental views and stance on the cannabis industry.

This was not raised as a major issue by local public banking advocates or financial industry professionals in our outreach meetings but has been a consistent area of focus in other public bank feasibility studies due to the increase of marijuana legalization across the country and the resulting growth of related businesses. However, it may not be feasible given the prohibition on the District pursuant to the H.R. 3547.¹⁰⁰

⁹⁹ California Department of Tax and Fee Administration, 2018.

¹⁰⁰ H.R. 3547 – Consolidated Appropriations Act, passed by Congress in 2014, prohibited federal and local funds from being used to implement a referendum passed by District voters legalizing the recreational use of cannabis.

5.0 FINDINGS AND RECOMMENDATIONS

In the aftermath of the financial crisis and subsequent evidence of predatory lending practices and bank consolidations, many engaged citizens have become concerned with the apparent concentration of power in the commercial banking industry. This has led to calls for local and state governments to shift from using the commercial banking sector to establishing and utilizing their own public bank. This chapter presents our findings with regard to the feasibility of a public bank for the District. It first summarizes the results and recommendations from other feasibility studies around the country. This is followed by our assessment of the feasibility of a public bank for the District to address some of its own financial needs and those needs that affect its residents. Finally, the chapter concludes with District specific recommendations.

5.1 FINDINGS AND ACTIONS FROM OTHER GOVERNMENT FEASIBILITY STUDIES

We inventoried all of the published public banking feasibility studies from around the country. **While findings differed depending on the specific jurisdiction, the studies largely came to one of four conclusions.**

First, while states and cities have different legal restrictions, several studies have concluded that some type of public banking entity could be established, subject to a number of requirements and safeguards. This has been a major finding in the States of Maine, New Jersey, Washington, as well as the cities of San Francisco, Oakland, and Santa Fe, New Mexico. This finding often comes with the recommendation to further study the public bank option, either by developing a draft business plan or by hiring a consultant with expertise in bank formation. In these jurisdictions, the feasibility study is just a first step towards further exploration of a public bank. Some of the states and cities that decided not to establish a public bank have instead looked at expanding or increasing certain government subsidy programs to address the financial access issues brought up in this discussion.¹⁰¹

Secondly, startup costs and initial capitalization are significant barriers. Specifically, the ability to sustain banking operations over time is a major impediment to forming a public bank due to the significant initial outlay of public funds required for a solvent institution and the public interest nature of loan portfolios. For example, a feasibility study from Massachusetts found that establishing a public bank would be too risky as the initial capitalization cost would be high, risking the potential to move funds away from existing state programs with higher ROIs. Additionally, Los Angeles found their capitalization needs for a public bank to be “exorbitant” and thus too risky to justify as a means of generating public benefit.

¹⁰¹ See Appendix B, Table 1.

Thirdly, some feasibility studies recommended using existing institutions to address identified needs instead of starting a new public bank. The Massachusetts report recommended that instead of establishing a new institution, the Massachusetts government should focus funds towards existing development agencies, infrastructure investment programs, and small business lending programs to stimulate the economy. A feasibility study from Vermont concluded that the state’s existing Economic Development Authority was better positioned to meet the state’s lending needs as it already had the authority to disburse loans. Additional legislation has since expanded the agency’s lending powers, and the program has funded renewable energy and subsidized child care programs. Furthermore, the authors of a feasibility report for Los Angeles recommended that the city determine how to better fund its housing, economic development, and infrastructure programs through existing public finance options in lieu of creating a public bank, which would be both costly and time-consuming due to the significant legislative changes required.

Finally, another common conclusion is that more jurisdiction-specific research is required because the Bank of North Dakota is the only public bank operating in the continental US. The Bank of North Dakota is unique in both its original formation and the conditions that have led to its success: namely, the state’s successful oil and natural gas industry. Many governments, particularly those in large cities or coastal states, have fundamentally different economic environments and needs than North Dakota. It makes sense, then, that a popular conclusion of many studies is not an answer, but rather a call for additional study, especially with regard to the type or function of a public bank.

While the results of feasibility studies have had a mix of positive and negative conclusions about the feasibility of public banking, governments and voters have largely rejected the recommendations to establish public banks. Recently, criticism has been launched against feasibility studies conducted in Santa Fe and Oakland, which resulted in both cities reconsidering their public banking efforts. Seattle enacted legislation to shift out of Wells Fargo and is examining different public bank alternatives. Los Angeles also attempted to pass a ballot measure that would allow the City to establish a public bank; the measure was heavily criticized by the Los Angeles Times for “asking voters to approve a vague concept and put their trust and – their money – in City Hall to figure it all out.”¹⁰² Voters ultimately rejected the measure.

A 2016 feasibility study for Santa Fe, New Mexico recommended the establishment of a public bank, concluding that a public bank would improve local lending, net interest rate margins, and general fiscal management. The study suggested that further legal analysis be performed; however, its authors concluded that “no over-arching legal obstacles have been identified or raised by others”. A recent legal analysis performed on this feasibility study revealed several significant legal obstacles to establishing a public bank in Santa Fe. Some challenges presenting at the state level include regulations on investments and deposits of public funds, as well as capitalization cost concerns. The analysis also mentions that case

¹⁰² The Times Editorial Board. “Charter Amendment B is one of the most ill-conceived, half-baked ballot measures in years. Vote no.” Los Angeles Times, September 20, 2018. <http://www.latimes.com/opinion/editorials/la-ed-endorsement-city-bank-20180920-story.html>

law at the state and federal levels indicate that successful legal action could very well be taken against municipal financing of a public bank.¹⁰³

A feasibility study for Oakland, California was released in August 2018. In September of 2018, employees of Oakland’s Finance Department concluded in an informal report that the feasibility study did not have adequate evidence to support its recommendations to establish a public bank, and stated that the study raised more questions about public banking than it answered. The report also recommended that Oakland should stop financing feasibility reports and instead wait to garner more information from ongoing feasibility studies in other cities.¹⁰⁴ However, despite internal government findings, the City Council voted to move forward with a business plan in October of 2018.¹⁰⁵

In the 2018 midterm elections, the City of Los Angeles gave voters a chance to amend the City Charter and initiate the first step of establishing a public bank. Measure B: Public Bank Charter Amendment would have authorized the City to amend City Charter Section § 104(g) to allow for the potential establishment of “a municipal financial institution or bank,” releasing the main legislative restriction preventing Los Angeles from establishing a public bank.¹⁰⁶ Despite strong support from City Council President, an endorsement from the mayor, and a small grassroots campaign, residents were not convinced and they rejected the ballot measure with nearly 58 percent of the vote.¹⁰⁷

The positive and negative responses to establishing a public bank are instructive for the District as they consider the benefits and challenges of a public bank.

5.2 SUMMARY OF FINDINGS FOR THE DISTRICT

The project team examined the District’s legal and regulatory issues, initial capitalization needs, potential operational ongoing costs needed to provide a sufficient level and quality of banking services in the District, as well as governance issues. This was supplemented by comments and ideas offered and concerns identified during the public engagement phase. In particular, government officials (including the District’s CFO) and financial industry experts discussed in detail multiple constraints associated with starting and operating a public bank in the District.

¹⁰⁴ Trent, Sarah. “Contention over new feasibility study leaves prospects for a government-owned bank uncertain.” Oakland North, September 17, 2018. <https://oaklandnorth.net/2018/09/17/contention-over-new-feasibility-study-leaves-prospects-for-a-government-owned-bank-uncertain/>

¹⁰⁵ “The East Bay Needs a Public Bank.” Public Bank East Bay. <https://publicbankeastbay.org/>

¹⁰⁶ “Los Angeles, California, Measure B, Public Bank Charter Amendment.” Ballotpedia, November 6, 2018. [https://ballotpedia.org/Los_Angeles,_California,_Measure_B,_Public_Bank_Charter_Amendment_\(November_2018\)](https://ballotpedia.org/Los_Angeles,_California,_Measure_B,_Public_Bank_Charter_Amendment_(November_2018))

¹⁰⁷ Barragan, Bianca. “California, Los Angeles 2018 election results.” Curbed Los Angeles, November 7, 2018. <https://la.curbed.com/2018/11/6/18070270/california-los-angeles-2018-elections-results>

While the District would face a number of legal and regulatory obstacles if the District were to attempt to establish a public bank, we found no reason to suggest that a public bank could not legally be established by the District.

If the District charters a public bank that could take in public funds from the District government and engage in lending activity to support public objectives, we anticipate the following challenges:

- Establishing a public bank would require new legislation as well as changes to existing legislation regarding public fund management;
- While the public bank would not necessarily have to be FDIC insured, public funds are required to be collateralized against lending;
- High capitalization costs (at various hypothetical levels) would divert public funds away from existing government programs and may not be recouped; and
- As demonstrated by the limited depository pro forma, it may be difficult to maintain sustainable operations of the public bank without running net losses and requiring subsidies from the District government.

A number of unmet needs, specific to the District, were identified during the public outreach phase. Over the course of the study, we engaged with subject matter experts, such as financial industry leaders and government officials, as well as recognized public banking advocates represented by both industry professionals and concerned citizens. The team analyzed the top six most commonly stated needs, using our framework for evaluating whether a public bank could be an effective solution to the apparent market failure/need. We assessed the relative impact that a public bank could have in each area to determine the overall benefit.

We find that a public bank would have a low impact on the majority of “unmet needs” including lack of affordable housing, unbanked and underbanked communities, student lending, and banking for the cannabis industry. A public bank could have a moderate impact on small business lending and green infrastructure. These areas are worth further exploration of how a public bank can support and complement existing efforts.

5.3 RECOMMENDATIONS FOR THE DISTRICT: NEXT STEPS

This exercise has yielded insights as to where the commercial banking system does not adequately address the District government and its economy’s needs and ways in which the identified market failures might be resolved through private or public sector intervention. The process of examining national and local banking trends, city and state feasibility studies and legislation, along with our extensive public outreach in the District has culminated in four encompassing recommendations.

Recommendation #1: We recommend the District continue to explore certain potential roles for a public bank, in conjunction with our other three recommendations detailed herein.

Based on our analysis, we find that at least two public bank models could be technically feasible, and should be studied further. These models contemplate limited, though complementary and supportive, roles to augment existing public and private efforts to deal with the financial market failures that negatively impact so many District citizens and businesses.

Recommendation #2: Use existing private or public infrastructure to further support public policy goals.

There were a number of ancillary needs for which advocates and professionals identified a public bank as an option. For each, we considered both the commercial banking market failure and possible private and public sector interventions, before identifying the relative impact a public bank would have in certain areas, as described in Chapter 3. Building upon the potential impact, we do not recommend a public bank be established as an independent lender to deal with the following unmet financial needs:

- Affordable housing, especially given the effective institutions already in place such as the Housing Production Trust Fund, the largest of its kind in the nation;
- Unbanked and underbanked communities, due to the ability to build upon the existing programs targeted at this vulnerable population;
- Student lending, given the marginal scale of lending that would occur; and
- The Cannabis industry, given the lack of political will and uncertainty at the federal level.

If the District decides to pursue further exploration of a public bank, we recommend doing so in conjunction with the following areas:

- Small and minority business lending, due to the potential for coordination with existing government programs and the fact that additional small business lending on the margins may have an outsized positive ripple effect on the community; and
- Green infrastructure, due to the strong government leadership, and potential for coordination with the Green Bank.

The lending/financial gaps identified above are some of the more complex public policy issues in urban cities today. In order to have transformative progress in these areas, it is imperative that the government build successful public and private partnerships. While the government can and has moved the needle through public interventions such as grants, programs, subsidies, and revolving loans, further progress will be building public-private partnerships that exist to solve these complex issues.

We recommend that any lending activity undertaken by either of the public bank models be coordinated with the various existing agencies and not-for-profit entities already engaged in supporting and subsidizing these underbanked sectors.

Recommendation #3: Consider creating a District Banking Consortium to support the underbanked community and small/minority business lending needs.

One way to leverage private partnerships is through a District Banking Consortium (DBC). This could be initiated before the establishment of any form of a public bank and could be a primary objective of any such bank upon its creation. We recommend the District explore various efforts to promote and encourage the community banking system and use of credit unions. It should do so in conjunction with reviewing or adding District programs that help reach the unbanked and underbanked communities, as well as using new technology to reach the underserved. This includes efforts to build a coalition of small CDFIs and community banks to address lending gaps in the community. The DBC would help strengthen lending on the margin and lower the risk profile of small commercial lenders – to the ultimate goal of increasing access for vulnerable populations and businesses.

Specifically, a DBC would enable two or more local banks to invest in loan pools and participate in loans to CDFIs for a larger amount than either bank may have been willing or able to make independently. A DBC also would be an effective network of community-based banks, regional banks, and the District Government as a participant. The DBC would provide a lower cost of funds and shared risk for loans which local community development entities make to local businesses. The District's role would be to facilitate the network by identifying the stakeholders, convening the meetings, and framing the importance of action. In addition, the District could explore the availability of seed money or a partial loan guarantee program. This type of support would help encourage community lenders to extend financing to underserved borrowers.

Recommendation #4: Monitoring Authorized Depositories

Monitoring authorized depositories is an important effort, and governments around the country have begun to pass responsible banking ordinances (See Appendix F for a full list of ordinances). This is not an effort to place additional regulations on commercial banks or to stigmatize their lending practices. Rather, it reflects the sentiment that it is important for the government to be a responsible consumer and understand how the banks the District does business with measure up on their Community Reinvestment Act (CRA) requirements.

Therefore, we recommend that all authorized depositories doing business with the District should be monitored in an annual report to track their activity and commitment to reaching underserved populations. Such a report should track prime and subprime home lending, denial rates, small business lending, and bank branch locations in minority and low-income populations. This annual report should be made available to the public and should include an executive summary and interactive maps so engaged citizens can track bank progress in particular areas.

In addition, some jurisdictions have included opportunities for public hearings and annual statements from banks on how they promote equitable access to capital. This could include educational resources, homeownership counseling, special products and services for the unbanked and underbanked, economic development loans and grants, support of community development corporations, and other non-profits. Other jurisdictions have included Community Advisory Boards to oversee the process of reports and hearings, which has the added benefit of including broad participation from community stakeholders.

Whatever the level of monitoring (report, annual statement, hearings, advisory board), it is important to remember banks are a partner to work with and not an adversary. Together, government and commercial banks can work towards the ultimate goal of fair lending practices and financial health for all.

TABLE OF CONTENTS

Appendix A – Summary of Public Outreach in the District of Columbia	2
1.1 Public Meetings.....	5
1.2 Focus Groups	7
1.3 Interviews.....	14
1.4 Analysis of Survey Results	19
Appendix B – Feasibility Studies at a Glance.....	27
Appendix C – Feasibility Studies in Detail.....	34
Appendix D – Summary of Public Bank State Legislation.....	53
Appendix E – Key Players in Public Banking	55
Appendix F – Summary of Responsible Banking Ordinance by City as of 2015.....	55
Appendix G – Bibliography.....	62

APPENDIX A – SUMMARY OF PUBLIC OUTREACH IN THE DISTRICT OF COLUMBIA¹

Research for the Public Banking Study consisted of public meetings, key stakeholder interviews and focus groups. Input from the general public and key stakeholders was garnered using the following topics to frame feedback in the context of needs and areas of interest. The topics were as follows:

- Public Banking in general
- District Government fiscal policy
- Banking, Investment Community and Support of Community Banks and Credit Unions
- Public Banking Mission and Governance
- Affordable Housing
- Legal Requirements
- Public Infrastructure, Financing
- Banking Cash Management and Investment Functions
- Student Loan Financing and Refinancing
- Small Businesses
- Non-Profits
- Environmental and Sustainability Financing
- Business and Economic Development
- Banking Capitalization and Costs (Startup Costs)
- Consumer Issues

The Community’s Banking and Finance Needs

In addition to the research we conducted on banking and lending trends in the District, we solicited input from experts, advocates, and government officials that could address the needs of consumers, small businesses, and non-profits. Feedback has been consolidated in the following narrative.

Citizens and Consumers

The District is a national leader in the area of economic policies that are directed at reducing poverty. With respect to low-income health care access, the District has the second-lowest uninsured rate of any state. For example, in 2015, just 5 percent of District residents were uninsured, compared to 10 percent nationally. Worker protection bills (DCFMLA, Minimum Wage Fairness Act, Renewable Portfolio Expansion Act), robust workforce development programs and other initiatives have all been derived to reduce poverty and close income gaps.

¹ This section is an amalgamation of all public engagement sessions and is therefore a reflection of the opinions of experts on different fields,. Some of the statistics mentioned throughout the summary are meant to help illustrate the problems a public bank could address and are not necessarily exact.

Amidst these examples of progressive policies and initiatives, there are still income and employment gaps. Around 12 percent of District residents are unbanked and about 25 percent are underbanked. These percentages disproportionately represent of the District's Black and Hispanic population. These issues cascade into issues which include equal access to banking services and loans. There was significant interest in how the District Government could continue to address the needs of the unbanked and citizens in low-moderate income census tracks. More specifically, there is interest as to what role existing banking partners should play in addressing the following:

- Banking deserts in Wards 7 and 8
- Student Loans and Loan Consolidation
- Predatory Lending
- Financial Literacy

Small Businesses

A Community Development Financial Institution (CDFI) provides credit and financial services to underserved markets and populations. In the District, CDFIs like the Washington Area Community Investment Fund (WACIF) and City First Enterprises provide a variety of financial services and invest in community-oriented development in underserved neighborhoods. To address a greater set of business needs for startups and existing small businesses, District CDFIs are seeking more banking partnerships which share in the risk for providing broader lending programs. A public bank would duplicate many of the same functions that they are currently providing. In short, more investment dollars are needed and not more banking services.

Student Loans

There are existing resources that are available to address some of the needs that a public bank is intended to address. For example, the District's Student Loan Ombudsman is an unbiased and confidential resource created to assist residents with issues related to student loans. The Ombudsman evaluates the concerns of both District borrowers and student loan servicers to promote collaborative solutions. The Student Loan Ombudsman provides information and guidance on many issues related to student debt including:

- Student loan repayment programs
- Resolving complaints with student loan servicers
- Student loan consolidation

Individuals employed by a government or not-for-profit organization may be able to receive loan forgiveness under the Public Service Loan Forgiveness Program.

Housing Affordability

The District, compared to many other major cities, does a great deal for its low-income residents, however only 40 percent of low-income families have access to affordable housing.

To satisfy all affordable housing needs in the District by 2020 would cost in the range of a few billion dollars. It is impossible to address the District's affordable housing demand without the participation of traditional banking and investment partners.

- There is a population outside of the Area Median Income (AMI) band that also are concerned about the limited supply of affordable housing. "Affordability" is a term that may need to be reconstructed. By only focusing on those under 30 percent AMI, there are segments of the population that need affordable housing that are unserved. Emphasizing the growing number of people in the workforce that have incomes at or slightly above the AMI could be used to attract investors to affordable housing projects.
- The District's Department of Housing and Community Development's (DHCD) Inclusionary Zoning (IZ) Program requires 8-10 percent of the residential floor area be set aside for affordable rental or for-sale units in new residential development projects of 10 or more units and rehabilitation projects that are expanding an existing building by 50 percent or more and adding 10 or more units.
- DCHD's activities are not entirely funded by the District government and rely on other public and private partners to help fund projects.

Environmental and Sustainability Investments

The District also has taken a leadership role in providing programs which advance economic development via projects that are linked to clean energy and resiliency. In 2018, the DC Green Bank was established to provide low-interest, quick-to-close loans and financing options for residential and commercial development projects. Similar to the Housing Production Trust, the Green Bank leverages public purpose funds to attract private investments for loan portfolio. To increase its capacity to lend for these projects, the Green Bank's strategy is to attract private investment to the District. DCHD and Green Bank should look at the viability of federating their funds for housing and sustainability projects to bring a unified management structure via a central entity.

Fiscal Policies

- The District's Chief Financial Officer should conduct an analysis on the effectiveness of tax increment financing (TIF) districts and tax abatements. The findings could suggest alternative uses of these financing methods.
- Using a TIF district, the District helped fund the parking garage for DC USA, a mall located in the Columbia Heights neighborhood. Around a third of the project was financed through local public vouchers. Tax increment financing has been shown not to be an effective economic development policy but the creation of a public bank would not prevent the District from establishing further TIF districts in the future.
- The District also should pursue policy changes to make doing business in the District more attractive. For example, the process for obtaining a liquor license is difficult and might incentivize businesses and restaurants to locate outside of the District.

1.1 PUBLIC MEETINGS

Topic: Public Bank Overview
 Where: Old Council Chambers
 Date: May 30, 2018
 Panelists: Cory Barnett, (Advanced Network)
 Steve Mullin, (Econsult Solutions, Inc.)
 Steve Seuser (DC Banking Center)

Main Takeaways:

- A public bank must define precisely the problem it is attempting to solve; having too many objectives will hurt capitalization.
- DISB has the authority to charter a bank, but a potential public bank would have to grow significantly before it could manage the District's finances.
- Public banks should support underserved sectors in the economy like the cannabis industry, affordable housing, and green projects.

Topic: Public Banking and Small Business Lending
 Where: Gallaudet University
 Date: June 6, 2018
 Panelists: Art Stephens, (Deloitte)
 Lee Huang, (Econsult Solutions, Inc.)
 Steve Mullin, (Econsult Solutions, Inc.)
 Eric Jones (US. Small Business Administration)

Main Takeaways:

- A public bank can mitigate inherent small business risk through partnership with educational institutions (such as UDC) and small business advocacy organizations (like DSLBD).
- The feasibility of transferring all of the District's deposits to a public bank and handling the associated volume of transactions appear untenable.
- Identifying service gaps and partnering with other organizations to fill the gaps is critical. A public bank can be a helpful way to get additional bonding capacity because they know the money is coming from the government.

Topic: Public Banking with a Focus on District Budgeting and Finance

Where: R.I.S.E Demonstration Center

Date: July 25, 2018

Panelists: Steve Mullin, (Econsult Solutions, Inc.)

Harold Pettigrew, (Washington Area Community Investment Fund)

Steve Seuser, (DC Public Banking Center)

Jeff DeWitt (DC Office of the Chief Financial Officer)

Jeff Barnette (DC Office of the Chief Financial Officer)

Main Takeaways:

- The District has an \$8.1 billion Capital Budget. DDOT, Metro and Schools represent the largest allocation of capital spending.
- The District is at its debt limit for borrowing.
- District infrastructure will be in a state of good repair by 2028.
- The District has a strong AAA Bond rating.
- Outstanding debt could increase by 50 percent over the next several years to handle infrastructure.
- There is a \$4.2 billion shortfall to addressing all of the District's needs.
- \$1.192 billion of cash/liquidity is used to float operational cost/expenditures instead of short-term borrowing.

Topic: Public Banking and Public Projects

Where: George Washington University Marvin Center

Date: June 27, 2018

Panelists: Lee Huang, (Econsult Solutions, Inc)

Art Stephens, (Deloitte)

Steve Seuser, (DC Public Banking Center)

Main Takeaways:

- There is a significant need for homeless housing alternatives.
- A public bank could support the development of affordable housing co-ops.
- A public bank or some other organization could serve as an intermediary between the underserved, unbanked and existing local lending institutions.
- The public needs of affordable housing outweigh the District's financial capacity for addressing them.
- There is a need for a strategy to engage with the unbanked.
- The Bank of North Dakota's banking model is not a full-service retail bank.
- A public bank could be capitalized via the sale of bonds.

1.2 FOCUS GROUPS

Main Takeaways:

Topic: Banking and Investment and Support of Community Banks & Credit Unions
 Where: UDC Community College, Bertie Backus Campus (Ward 5) – June 6, 2018
 Where: 1050 1st Street NE, Washington DC – August 28, 2018
 Attendees: Rory Murray, (MD|DC Credit Union Association)
 John Bratsakis, (MD|DC Credit Union Association)
 Brian Williams, (DC Department of Insurance, Securities and Banking)
 Cynthia Newell (City First Bank of DC)

Main Takeaways:

- There are existing CDFIs and local banks that have deployed over \$1 billion in capital (Citifirst and Industrial Bank). They would like to have the financial capacity to serve more local and small businesses.
- There is a need for a depository bank which serves CDFIs, local banks and local credit unions.
- Banking system alone cannot address wealth gaps with minority low-to-moderate income (LMI) business owners.

Topic: Capitalization and Costs (Start-up and Operational)
 Where: 1050 1st Street NE, Washington DC
 Date: August 27, 2018
 Attendees: Jerome Paige, (tdpartner Consulting)
 Doyle Mitchell, (Industrial Bank)
 Collin Sollitt, (DC Office of the City Administrator)
 Emily Sladek (Transform Finance)

Main Takeaways:

- A documented business plan with a focused mission is necessary for refining the capitalization and start-up costs for a public bank.
- There are no dormant funds available in the District budget today for capitalizing a public bank.
- Startup cost at a minimum will include establishing an independent commission, a collateralization of funds amount to be determined, systems, and personnel.
- District law requires that all cash and other deposits maintained in any financial institution be collateralized, including bank deposits and certificates of deposit.
- All deposits of District monies in excess of the amount protected by federal deposit insurance will be collateralized with any combination of U.S. Treasury and federal agency obligations.
- In order to accommodate market changes and provide a level of security for all monies, the collateralization level shall be at least 102 percent of the market value of principal, plus accrued interest, or as required by the terms of bond issues, municipal bond insurance policies, and/or other financing agreements which may pertain to the District's monies.
- Capitalization is a difficult issue for the public bank model.

- The public shareholders would be required to raise funds to capitalize the public bank at an acceptable level. The capital will be needed to fund operating expenses until the bank obtains profitability and to absorb losses from loans that are not repaid. The amount of capital necessary would depend on the anticipated size of the balance sheet and business plan of the public bank.

Topic: Public Banking

Where: 1101 Connecticut Avenue, NW, Washington DC Suite 800

Date: August 28, 2018

Attendees: John Gloster (Howard University)

Renee Bowser, (United Food and Commercial Workers International Union)

David Schwartzman, (Howard University)

Ruth Kaplan (Syracuse University)

Main Takeaways:

- The District must incrementally move its deposits to other banks with better Community Reinvestment Act (CRA) ratings.
- In the same manner the District issues tax credits and bonds for funding commercial redevelopment such Gallery Place and Nationals Stadium, it can find the funds to capitalize a public bank.
- The mission and priorities of a public bank must be defined.
- The District government would not operate the public bank. This would be done by banking professionals. Implementation depends on developing and carrying out a robust business plan which includes professional staffing needs and how best to phase in the District's deposits. The bank must be insulated from political influences by the Council and the Administration so that loans are based on proper due diligence while meeting the unmet banking needs in the District.

Topic: Public Banking Mission and Governance

Where: 1101 Connecticut Avenue, NW, Washington DC Suite 800

Date: August 28, 2018

Attendees: Gerard Comizio (Fried Frank)

Nathan Brownback, (Seward & Kissel LLP)

Brian Williams (DC Department of Insurance, Securities and Banking)

Main Takeaways:

- A determination would need to be made as to whether District law precludes the District government from chartering its own bank.
- There is a possibility of putting together a consortium of local banks and credit unions to invest in affordable housing projects.
- The Tax Cuts and Jobs Act of 2017 included a new federal incentive called Opportunity Zones.
- There is a need for financing projects that would not historically be a part of CRA.
- In lieu of a public bank, a local banking consortia made up of small, community banks, credit unions and CDFIs, could address many of the needs that are underpinning the interest in public banking.

Topic: Legal Requirements and Constraints
 Where: 1050 1st Street, NE, Washington DC
 Date: August 29, 2018
 Attendees: Renee Bowser, (United Food and Commercial Workers International Union)

Main Takeaways:

- The Home Rule Act has an anti-deficiency clause stating that the District cannot insure money being placed in bank so a public bank would have to apply to the FDIC.
- Stipulations associated with the District of Columbia Financial Responsibility and Management Assistance Act of 1995, approved April 17, 1995 (Pub. L. No. 104-8) require the District to maintain credit rating, meet payroll, service debt payments in a timely manner.

Topic: Environmental / Sustainability Financing
 Where: 1050 1st Street, NE, Washington DC
 Date: August 29, 2018
 Attendees: Ruth Kaplan, (Syracuse University)
 Jay Wilson, (DC Department of Energy & Environment)
 Ann Lane Mlandv, (Affiliation Unknown)
 Larry Martin, (Affiliation Unknown)
 John Qua (350 Action)
 Steve Seuser (DC Public Banking Center)

Main Takeaways:

- The DC Green Bank's leadership structure is made up of 4 ex-officio members and 7 private sector members who hire an executive director. A public bank should follow a similar structure but more democratic (no appointments, citizens vote for their board members).
- Public banking could fill the gap for green investment since many green projects are seen as too risky for private banks, helping to funnel more private investment into renewable energy.
- A public bank could act as a central financier for small green loans for residential and small business projects that include things like solar, storm water management, micro grids, and mandate that a certain percentage of loans go to low-income communities.

Topic: Public Infrastructure Financing
 Where: 1050 1st Street, NE, Washington DC
 Date: August 29, 2018
 Attendees: Chime Nwankwo, (Rise, LLC)
 Rick Rybeck, (Just Economics)
 Ruth Kaplan (Syracuse University)

Main Takeaways:

- A public bank could be beneficial because it would allow for long-term planning beyond 5 years without the threat of budget allocations being repurposed. Reallocation of DGS funds for the purpose of addressing “emergencies” is a big issue.
- Issuance of bonds could be one way of generating operating capital.
- Public private partnerships do not always bring money to the District. They allocate the risk and rewards differently than just a commercial or government endeavor.
- A public bank could have a more objective approach to providing infrastructure financing and lending; mom and pop businesses could be subsidized.
- Examples of capital projects in need of funding include the new hospital to be built in the Southeast.

Topic: Affordable Housing

Where: 1050 1st Street, NE, Washington DC

Date: August 30, 2018

Attendees: Polly Donaldson, (DC Department of Housing and Community Development)

Danilo Pelletiere, (DC Department of Housing and Community Development)

Awesta Sarkash, (Small Business Majority)

Ruth Kaplan (Syracuse University)

Main Takeaways:

- The District allocates more money for affordable housing per capita than any other major city (\$106 million in 2016, \$138 million 2017 and \$140 million in 2018).
- 60 percent of the monies for the Housing Production Trust Fund come from the Deed and Recordation tax.
- Inclusionary zoning is one factor that drives the creation of affordable housing units
- Attracting private investment in affordable housing development projects is essential for keeping pace with demand.
- A public bank could potentially compete with conventional banks who are seeking innovative ways to participate in affordable housing lending and development.

Topic: Student Loan Financing and Refinancing

Where: 1101 Connecticut Avenue, NW, Washington DC, Suite 800

Date: August 30, 2018

Attendees: Kim Barnette, (Logistics Management Institute)

Steve Mullin, (Econsult Solutions, Inc.)

Charles Burt (DC Department of Insurance, Securities and Banking)

Main Takeaways:

- The average student borrower in the District has \$50,000 in outstanding student loans.
- Many District residents are not aware of programs which provide student loan debt consolidation. Additionally, many are not aware of ways in which the DISB Student Loan Ombudsman can assist with loan forgiveness and reduction in payments.
- 10 percent of District borrowers owe more than \$100,000 in student loans.

Topic: Small Business

Where: 1101 Connecticut Avenue, NW, Washington DC, Suite 800

Date: August 30, 2018

Attendees: Michael Bing, (DC Department of Small and Local Business Development)

Erika Wadlington (DC Chamber of Commerce)

Main Takeaways:

- Many small businesses require technical assistance with selecting the right type of banking partner at various phases of their business' maturity.
- There is a great need for lines of credit to fund operations post contract awards.
- The average small business must raise 10 percent of a contract's value to mobilize (personnel, equipment rentals and other cost prior to getting their first invoice paid).
- Chamber of Commerce wanted to go on record and state the notion of a public bank is concerning. Moreover the DC Chamber of Commerce believes that a public bank would bring unwanted competition to existing banks in the District (large and small).
- DSLBD believes that the banking partner that is used to handle the District's municipal deposits should be held accountable for providing loans and resources to local small, underserved businesses.

Topic: Business and Economic Development

Where: 1050 1st Street, NE, Washington DC

Date: September 6, 2018

Attendees: William Jordan, (Bank-Fund Staff Federal Credit Union)

Corey Griffith, (Affiliation Unknown)

Jim Schurman, (Affiliation Unknown)

Ericka Simmons, (EDSI)

Kim Barnette (Logistics Management Institute)

Main Takeaways:

- The District needs to develop a stronger identity within the DC-MD-VA metropolitan area to compete in the strong regional economy.
- The current business environment is struggling to support small business development due to real estate subsidies giving larger businesses a competitive edge and incentivizes higher-income housing developments. Addressing this problem seems more urgent than public banking.
- The group expressed skepticism in the District's continuing use of tax abatements or tax increment financing for economic development. The public bank could be a viable alternative if the institution is set up in a manner that allows it to be independent of the rest of the District's politics.

Topic: District Fiscal Policy
 Where: 1050 1st Street, NE, Washington DC
 Date: October 25, 2018
 Attendees: Bernard Kluger, (Federal Executive Institute)
 Steve Mullin, (Econsult Solutions, Inc.)
 Britany Forman (Econsult Solutions, Inc.)

Main Takeaways:

- The potential public bank would probably operate more smoothly and have a better chance of succeeding if it was somehow disconnected or “half-removed” from to the District’s political system.
- There should exist a specific policy goal for the public bank to address before the public bank goes through the District’s legislative process.
- The savings from fees by divesting from private commercial banks may not be as significant as initially assumed, as the fees the District pays to these banks are already fairly low.

Topic: Consumer Issues
 Where: 1050 1st Street, NE, Washington DC
 Date: October 26, 2018
 Attendees: Howard Jean, (The Port Authority of New York & New Jersey)
 Cedric Thompson (Deloitte)

Main Takeaways:

- Often times millennials, especially minority and low-income millennials, do not understand how to build a relationship with a bank or the broader finance world.
- While current financial literacy programs exist and have adequate funding, they do not address the problem effectively as these programs are weak on innovation or do not have the capacity to help all of the District’s constituents.
- The District should continue to focus on helping Black and other minority residents with achieving financial literacy as they are still lagging behind economically, in part, due to discriminatory credit and banking practices.

Topic: Cash Management
 Where: Conference Call
 Date: November 9, 2018
 Attendees: Atif Bostic, (Uplift Solutions)
 Carlos A. Cato (Merrill Edge)

Main Takeaways:

- Effectively managing liquidity will be essential in the maintenance and survival of a public bank.
- The public bank should use common cash flow best practices to mitigate risk; the bank will need prudent investments like short term, lower investments, overnight sweeps, etc.
- Standing up one public bank does not necessarily solve the problems; instead it is important to build a network of CDFIs and community banks to meet public policy goals.

- The District can be a facilitator of the network by identifying stakeholders, providing some seed money, convening the meeting, identifying the problems to solve, and framing the importance of action in terms of return on investment (i.e., banks meeting their CRA rating).

Topic: Non-Profits

Where: Conference Call

Date: November 19, 2018

Attendees: Howard Jean, (The Port Authority of New York & New Jersey)

Courtney Jones, (The Urban Institute)

Torrance Reed, (Affiliation Unknown)

Amber Morse (Google)

Main Takeaways:

- Non-profits who attended reported having good relationships with both large commercial banks and smaller local and minority-owned banks.
- Several of the non-profits mentioned that while they enjoy working with more community-oriented banks, those banks are not keeping up with technology and are often resistant to change, providing an incentive to work with larger commercial banks.
- Generally, small banks need to be able to provide more of the services larger banks provide to survive and stay relevant; many people have accounts to support these smaller banks but do not use their lending services in favor of larger banks.

1.3 INTERVIEWS

Name: Steve Seuser
 Organization/ Position: Green Advocate
 Date Interviewed: June 4, 2018
 Interviewed By: Terrell Richmond

Main Takeaways:

- The study should consider public banks which are successful abroad such as in Germany.
- Bonds could be used to raise startup capital.
- The public bank should focus on affordable housing projects such as mixed-income co-ops.

Name: Milton Goodman
 Organization/ Position: Director of DC PTAC
 Date Interviewed: June 6, 2018
 Interviewed By: Terrell Richmond

Main Takeaways:

- District agencies such as DSLBD have experienced challenges issuing micro loans to small business. The main reason is that the government does not have the lending and risk management expertise in house.
- CDFIs have played an instrumental role in providing loans to small businesses.
- Many small businesses are not adept in determining the type of financing that is best for them at their given stage of growth.

Name: Will Holmes
 Organization/ Position: Goldman Sachs 10K-Businesses
 Date Interviewed: May 17, 2018
 Interviewed By: Terrell Richmond

Main Takeaways:

- Large financial institutions such as Goldman Sachs are investing millions in the development and viability of small business throughout the country.
- When lending to small businesses you must have framework for determining readiness beyond credit score and collateral.
- There is still a large need for coaching small businesses.

Name: Ed Crawley
 Organization/ Position: Harbor Bank (Retired)
 Date Interviewed: May 10, 2018
 Interviewed By: Terrell Richmond

Main Takeaways:

- As a former executive of Harbor Bank, he asserts that the banking business has become extremely competitive because of mergers and increased competition.
- For those who are underserved by traditional banks, there are typically increased levels of risks. He did not know how the risk could mitigate in a fashion that would lead to sustainable profitability.

Name: Diane Battle
 Organization/ Position: Wells Fargo
 Date Interviewed: August 13, 2018
 Interviewed By: Terrell Richmond

Main Takeaways:

- The banking services required by the District government are complex and require a bank that meets the stress test and resiliency requirements to handle deposits, disbursements and investments.
- The District's bank must be insured by the FDIC.
- In addition to standard banking operations, the District requires banks to serve in the role of a trustee of District Trust accounts.

Name: Harold Pettigrew
 Organization/ Position: WACIF
 Date Interviewed: July 27, 2018
 Interviewed By: Terrell Richmond

Main Takeaways:

- The District should assess the needs of existing CDFIs before launching a public bank. It could unknowingly create a competitor and negatively impact CDFIs.
- There is a need to increase the funding capacity of CDFIs.
- The government should explore ways to partner or share in the risks associated with lending to small disadvantaged businesses.

Name: Jerome Paige, PhD
 Organization/ Position: Economist and Senior Researcher for Urban Policy
 Date Interviewed: August 5, 2018
 Interviewed By: Terrell Richmond

Main Takeaways:

- DOEE needs to change its perspective on how the Green Bank works. It appears they view it a project development activity, when they should be viewing it as finance activity.
- Solar may be a path for business creation and economic development, upfront capital requirements are high. The District needs to figure out if there is a way to assist small businesses with funds.

Name: Jenelle Schwartz
 Organization/ Position: Bank of North Dakota
 Date Interviewed: August 7, 2018
 Interviewed By: Terrell Richmond

Main Takeaways:

- BND viability over the last 100 years is tied to their working relationship with community and small banks in North Dakota.
- One other factor that has sustained the BND is general community consensus regarding the direction and strategic focus of the bank.
- “The Bank of North Dakota: An Experiment of State Ownership” authored by Rozanne Junker is an excellent resource for understanding the history of the formation.
- BND has \$7 billion of assets under management.

Name: Jeff DeWitt
 Organization/ Position: OCFO
 Date Interviewed: July 27, 2018
 Interviewed By: Terrell Richmond & Steve Mullin

Main Takeaways:

- It is illegal for the District to have a banking partner that does not have federal insurance.
- Rainy day fund is not available to be used as capital for starting a bank.
- Wells Fargo is the bank of choice for many other cities of the size of the District. Seattle tried to divest and had to reevaluate mid-stream.
- The District makes approximately 1 million payroll transactions annually.
- 5,100 different banking reconciliations,
- District banking partners must handle benefits program disbursements, such as WIC, Energy Assistance, Unemployment Benefits and SNAP.

- The District banking partner must have adequate resiliency numbers.
- The taxpayers of North Dakota are responsible for insuring the funds of a Bank of North Dakota.

Name: Jeff Barnette
 Organization/ Position: OCFO
 Date Interviewed: July 27, 2018
 Interviewed By: Terrell Richmond & Steve Mullin

Main Takeaways:

- A TIF is public financing method that is used as a subsidy for redevelopment, infrastructure, and other community-improvement projects. TIF subsidies are not appropriated directly from the District's budget, but the District incurs loss through foregone tax revenue.
 - TIFs allow the District to sell bonds backed by a development's future taxes, with the bond money helping to pay the developer's construction costs.
 - The District has used Retail TIF bonds in the Downtown Retail Priority Area to incentivize the location of several apparel shops and entertainment destinations in the District's downtown core. Subsidies of up to \$5 million have been provided to defray the cost of tenant improvements. Additionally, the District has designated Retail Priority Areas along several "Great Streets" corridors as well as in the Fort Lincoln area.
 - PILOT bonds finance development projects in the District, including the development, redevelopment, and expansion of business, commerce, housing, or tourism, or the provision of necessary or desirable public infrastructure improvements.

Name: Deborah Freis
 Organization/ Position: OCFO
 Date Interviewed: July 27, 2018
 Interviewed By: Terrell Richmond & Steve Mullin

Main Takeaways:

- Cost impact analysis and estimation must be done if the Council decides to proceed with a public bank.
- The cost of capitalization, collateralization, etc. is estimated to be in the hundreds of millions of dollars.

Name: Antwanye Ford
 Organization/ Position: US Black Chamber of Commerce
 Date Interviewed: June 13, 2018
 Interviewed By: Terrell Richmond

Main Takeaways:

- The average annual revenue of a black small business is approximately \$60,000.

- One of the major things that impacts small businesses that work with the District Government are aging receivables due to delays in payment.
- There is a need for more mentor-protégé programs that leverage the expertise and borrowing capacity of larger small businesses to benefit smaller businesses and startups.

Name: Mellissa Bradley
Organization/ Position: Project 500
Date Interviewed: May 11, 2018
Interviewed By: Terrell Richmond

Main Takeaways:

- There is a need to find solutions for the unbanked and innovators who are seeking angel capital.
- Questions if the District has the expertise required to oversee and operate a bank.

1.4 ANALYSIS OF SURVEY RESULTS

In addition to public meetings, focus groups, and interviews, DISB conducted two surveys between September 5, 2018 and September 12, 2018 to identify the current gaps in services a public bank could provide to consumers and businesses; the surveys provided an understanding of how those two groups felt about public banking.

The first survey targeted consumers living in or who had bank accounts located in Washington, DC and received 37 responses. A plurality of responders were between the ages of 25 to 35 (46 percent), had incomes of over \$100,000 (41 percent), and over 95 percent had at least a Bachelor's degree. Over three quarters of the respondents had accounts with commercial banks; nearly 80 percent of respondents said they were either very or somewhat satisfied with the current level of service provided by their bank. The most commonly used services were checking accounts, debit cards, savings accounts, and ATM and cash withdrawal services. Most (91 percent) of respondents answered that they had not used alternative financial services like payday loans, check cashing stores, or pawn shops. Those who did cited inconvenient bank locations, unpredictable fees, a distrust of banks, and privacy concerns as reasons for using those services.

The second survey targeted small businesses with accounts in the District and received 22 responses. A majority (64 percent) of the businesses that responded were Limited Liability Companies, another 32 percent were C and S corporations, and about 4 percent were sole proprietorships. All of the respondents reported that their business had a dedicated bank account. Sixty eight percent responded that they had their accounts with large banks, 23 percent with community banks, and 9 percent were with credit unions. A majority, 59 percent, of responders agreed that the District government has the capacity to build and operate a bank that it owns; another 36 percent had no opinion. Likewise, 68 percent of respondents had moderate or high confidence in the District's ability to provide business-banking services like handling deposits, withdrawals, and providing loans.

Consumer Survey Questions

1. Age group
 - a. Under 18 years
 - b. 18 – 24
 - c. 25 – 34
 - d. 35 – 44
 - e. 45 – 54
 - f. 55 – 64
 - g. Above 65 years

2. Income range
 - a. Below \$10k
 - b. \$10,000 - \$14,999
 - c. \$15,000 - \$24,999
 - d. \$25,000 - \$34,999
 - e. \$35,000 - \$49,999
 - f. \$50,000 – \$74,999

- g. \$75,000 - \$99,000
 - h. Above \$100k
3. Racial identity
- a. White
 - b. Black or African American
 - c. Native American or American Indian
 - d. Asian / Pacific Islander
 - e. Hispanic or Latino
 - f. Other
4. Employment status
- a. Unemployed and currently not looking for work
 - b. Unemployed and currently looking for work
 - c. Self-employed
 - d. Employed part-time
 - e. Employed full-time
 - f. Retired
5. Educational attainment
- a. Some high school, no diploma
 - b. High school diploma
 - c. Some college / Associate's degree
 - d. Bachelor's degree
 - e. Postgraduate or professional degrees
6. I live in the District of Columbia
- a. Yes
 - b. No
7. Do you currently have a personal bank account (checking, savings, or CD) with a financial institution (bank, community bank, or credit union)?
- a. Yes
 - b. No
8. What type of financial institution serves your banking needs?
- a. Commercial Bank
 - b. Credit Union
 - c. Community Bank
 - d. Other _____
9. What is your level of satisfaction with the services provided by your current financial institution?
- a. Very satisfied
 - b. Somewhat satisfied

- c. Somewhat dissatisfied
 - d. Very dissatisfied
10. What is the most common way you access your bank account or bank services?
- a. Bank teller
 - b. ATM or bank kiosk
 - c. Telephone banking
 - d. Online banking
 - e. Mobile banking
 - f. Other _____
11. What type of services do you use at your bank? Select all that apply.
- a. Checking account
 - b. Savings account
 - c. Safety deposit box
 - d. ATM or cash withdrawal
 - e. Debit or credit card
 - f. Direct deposit
 - g. Home or auto loans
 - h. Automatic bill pay
 - i. Other _____
12. Which best describes your household's income over the past 12 months?
- a. Income is about the same each month
 - b. Income varies somewhat from month to month
 - c. Income varies a lot from month to month
13. What alternative financial services have you used in the past 12 months? Select all that apply.
- a. Payday loan
 - b. Check cashing store
 - c. Nonbank money order
 - d. Pawn shop loans
 - e. I have not used alternative financial services
 - f. Other _____
14. What are the main reasons that you use alternative financial services? Select all that apply.
- a. Bank hours are inconvenient
 - b. Bank locations are inconvenient
 - c. Bank account fees are too high/unpredictable
 - d. Banks do not offer products/services you need
 - e. Don't trust banks
 - f. Cannot open an account due to personal identification, credit, or former bank problems
 - g. Avoiding a bank gives more privacy
 - h. Other _____

15. My level of understanding of the concept of public banking is:
- High
 - Moderate
 - Low
 - None
16. In your opinion, does the District Government have the capacity to build and operate a bank that it owns?
- Yes
 - No
 - Unsure
17. My confidence level in the District Government to provide my personal banking services (such as handling deposits, withdraws, and providing loans) is :
- High
 - Moderate
 - Low
 - None
18. What is most important to you about a financial institution?
- Reliability/trust
 - Ease of use
 - Service
 - Financial incentive (e.g. offers competitive rates)
 - Prestige
 - Other _____
19. If you do not have a traditional bank account, how likely are you to switch to a public bank for some or all of your banking needs?
- Very likely
 - Likely
 - Unlikely
 - Very unlikely
 - Unsure

Business Survey Questions

1. I own and operate a business in the District of Columbia.
 - a. Yes
 - b. No

2. My business is a:
 - a. Limited Liability Corporation
 - b. Sole Proprietorship
 - c. Partnership
 - d. 501 c 3
 - e. Corporation (C and S)

3. My business is in the following industry:
 - a. Service
 - b. Manufacture
 - c. Retail
 - d. Wholesale
 - e. Other_____

4. I have a formal business plan, inclusive of forecasted revenue, profit and loss.
 - a. Yes
 - b. No

5. My business has been operating for:
 - a. Less than 2 years
 - b. Between 2 and 5 years
 - c. Between 5 and 9 years
 - d. Over 10 years

6. My business startup costs were funded by: (Check all the apply)
 - a. Personal savings
 - b. Small business loan
 - c. Family and friends
 - d. Angel investor
 - e. Equity line of credit
 - f. Credit cards
 - g. Government grants

7. I work a full-time job outside of my business.
 - a. Yes
 - b. No

8. My business has a dedicated bank account.
 - a. Yes
 - b. No

9. My business bank account is with a:
 - a. Large Bank
 - b. Community Bank
 - c. Credit Union
 - d. Other _____

10. I have been denied a small business loan within the last 24 months because of:
 - a. Personal credit score
 - b. Business financial projections
 - c. Time in business
 - d. Business credit history
 - e. Other _____

11. My awareness level of District programs for assisting small businesses with access to capital and financing is:
 - a. High
 - b. Moderate
 - c. Low
 - d. None

12. As a business owner, my relationship with my bank is:
 - a. Excellent
 - b. Good
 - c. Fair
 - d. Poor

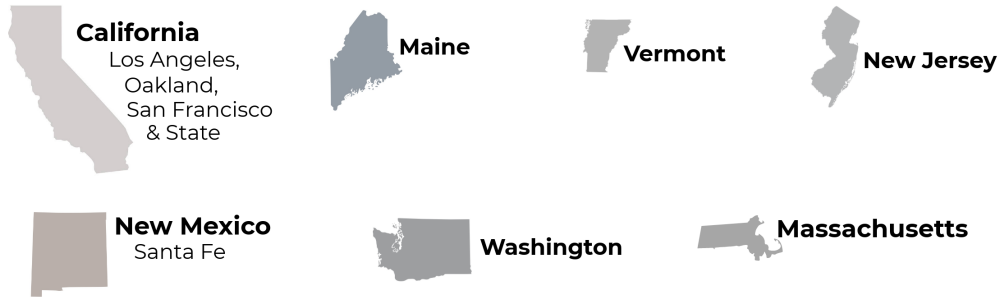
13. My business' bank could improve in the following areas: (Check all that apply)
 - a. Hidden fees
 - b. Credit policy
 - c. Customer service
 - d. Minimum balance requirements
 - e. Online banking services

- f. Other _____
14. My level of understanding related to the concept of public banking is:
- High
 - Moderate
 - Low
 - None
15. In my opinion, the District Government has the capacity to build and operate a bank that it owns:
- Agree
 - Disagree
 - Unsure
16. My confidence level in the District Government to provide my business banking services, such as handling deposits, withdrawals and providing loans is:
- High
 - Moderate
 - Low
 - None
17. The greatest financial challenge my business is presently facing is:
- Obtaining operating capital
 - Managing cash flow
 - Access to credit
 - Debt management
18. My business provides products and services for: (Check all that apply)
- Federal agencies
 - Local governments
 - Retail consumers
 - Non-profits
 - Other commercial businesses
19. My business is a District Certified Business Enterprise (CBE):
- Yes
 - No
20. I am a member of a local chamber of commerce:

- a. Yes
 - b. No
21. In 2017, my business generated _____ in revenue.
- a. \$0 to \$100,000
 - b. Between \$100,000 and \$500,000
 - c. Between \$500,000 and \$1M
 - d. Between \$1M and \$5M
 - e. Over \$5M
22. Describe the criteria you used when you selected your bank(s).
23. How could your current banking relationships better serve your small business?
24. Would you like to learn more about small business banking and finance? If so, please provide the areas of interest. (i.e. lines of credit, loans, credit cards, financial planning, etc.)
25. Do you think a DC government owned public bank could be helpful in addressing capital access problems in the District?

APPENDIX B – FEASIBILITY STUDIES AT A GLANCE

Feasibility studies



Identified funding gaps		Financial motivations	
<ul style="list-style-type: none"> • Cannabis industry financing • Servicing unbanked/underbanked • Green infrastructure • Gray infrastructure 	<ul style="list-style-type: none"> • Affordable housing • Small business lending • Student lending • Venture capital 	<ul style="list-style-type: none"> • Divest from big banks • Keep investment local • Response to 2008 Financial Crisis 	<ul style="list-style-type: none"> • Response to Occupy Wall Street • Low loan-to-deposit ratios • Maximize public funds

Findings	Unsupportive	Supportive
<p>Feasibility Studies examined:</p> <ul style="list-style-type: none"> • Funding gaps • Banking legal requirements • Capitalization costs • Existing public finance structure • Alternative solutions to funding issues 	<ul style="list-style-type: none"> • Too costly • High risk • Better existing alternatives • Potential impact unclear 	<ul style="list-style-type: none"> • Assumptions point to positive impact • Legally feasible

TABLE 1. FEASIBILITY STUDIES: STATE LEVEL

Geography	Year	Title and Author	Type	Context	Support / Concerns	Recommendations
Massachusetts	2010	<i>Report of the Commission to Study the Feasibility of Establishing a Bank Owned by the Commonwealth</i> , State Legislature	Enabling Legislation	2008 Financial Crisis Four main goals: <ul style="list-style-type: none"> · Stabilize the state economy · Provide local businesses with greater access to credit · Augmenting private bank lending · Contribute to the state government revenue 	Concerns: <ul style="list-style-type: none"> · Initial capitalization · Bank of ND required federal assistance during the recession and that funding is not guaranteed · Potential risk to public funds · Reduced rate of return · Lack of successful models (aside from BND) 	Use existing development agencies, infrastructure investment programs, and small business lending programs
Washington	2010	Washington State Bank Analysis, Center for State Innovation	N/A	The 2008 Financial Crisis lead to a reduction in Small Business Loans which hurt state employment levels	Support: A public bank would spur employment by providing Small Business Loans to	Washington should start a public bank with the main function of providing small business loans
Maine	2011	<i>Maine State Bank Analysis</i> , Center for State Innovation	N/A	2008 Financial Crisis	Support: <ul style="list-style-type: none"> · Public bank would create jobs by retaining more money in the state · Creation of new lending, new revenue and return on equity 	Maine should create a state bank
Vermont	2013	<i>Exploring a Public Bank for Vermont</i> , Vermonters for a New Economy	N/A	Occupy Wall Street/2008 Financial Crisis Main issues: <ul style="list-style-type: none"> · Disinvestment from traditional Wall Street banks · Address state's unmet capital needs 	Support: <ul style="list-style-type: none"> · Public bank offers lower costs and more options for liquidity · A public bank could save \$100 million in interest costs if used for capital expenditures Concerns: <ul style="list-style-type: none"> · Initial capitalization (\$30 - \$60 million) · Downgrading of state's bond rating · Lost tax revenue 	VT Economic Development Agency, which has the collateral and capital, operate a bank pilot program

Geography	Year	Title and Author	Type	Context	Support / Concerns	Recommendations
California	2017	<i>Banking Access Strategies for Cannabis-Related Businesses</i> , State Treasurer's Cannabis Banking Working Group	Resolution	Access to banking for the cannabis industry	Further analysis needed, including a full feasibility study, to evaluate support for or concerns about a public bank	<ol style="list-style-type: none"> 1. Contract with an armored courier service to collect state tax + licensing payments 2. Create online portal to aggregate cannabis data 3. State feasibility study for public bank 4. State lobby DC to legalize cannabis or create a legal safe harbor for financial institutions serving the industry
New Jersey	2018	<i>Exploring a Public Bank for New Jersey: Economic Impact and Implementation Issues</i> , Deborah M. Figart, Stockton University Public Policy Center	N/A	Context: Gov. Murphy supported a state-owned bank in his 2017 campaign and Senate Bill No. 885 introduced in Jan. 2018 Both concerned with access to capital, economic development initiatives, and better partnerships with other financial institutions.	Support: State would save money from lower interest costs	<ol style="list-style-type: none"> 5. Gov. task State Treasurer and NJ Commissioner of Banking and Insurance to work with independent experts to develop a draft business plan for a state bank

TABLE 2. FEASIBILITY STUDIES: MUNICIPAL LEVEL

Geography	Year	Title and Author	Status	Why	Support / Concerns	Recommendations
San Francisco	2011/ 2017 updated	<i>City and County of San Francisco Board of Supervisors, San Francisco Budget and Legislative Analyst's Office</i>	Resolution	Context: Broader review of banking options that could better support the community, including private banks, credit unions, and public banks.	Support: Undertake further study to take steps towards establishing a bank and better meeting the City's community development goals :	<ol style="list-style-type: none"> 1. Invest more City funds in local credit unions and CDFIs 2. Support more funding to community development programs 3. Take steps to establish a municipal bank 4. Assess legal risk of a public bank serving the cannabis industry
Santa Fe	2016	<i>Public Banking Feasibility Study: Final Report, City of Santa Fe</i>	Resolution	Concerns with "banking sector," including: <ul style="list-style-type: none"> • Consolidation in the industry • Low loan-to-deposit ratios in Santa Fe • Businesses' in ability to get loans over \$500k 	Support: <ul style="list-style-type: none"> • Save the city \$2.4 - \$3.0 million / year by the seventh year of operation • Achieve objects re: business loans, improve loan-to-deposit ratios Note: Need for a deliberate and phased approach to avoid issues with capitalization, allow for legal changes.	Phased Approach: <p>Phase I: Create a separate city entity to assume basic cash management functions, would not require charter</p> <p>Phase II: Apply for state banking charter and pursue a conventional equity model or a mutual bank model</p> <p>Phase III: Broaden lending functions to include public interest loans underwritten by community banks</p>
Los Angeles	2018	<i>Public Bank Framework and Existing Housing and Economic Development Funding Programs, Los Chief Legislative Analyst for Los Angeles City Council</i>	Resolution	Context: Disinvestment from Wells Fargo	Concerns: <ul style="list-style-type: none"> • Procurement • The Prudent Investor Rule • Collateralizing government deposits • Initial capitalization • Deposit insurance • Would not likely qualify to receive city business 	<ul style="list-style-type: none"> • Review and enhance existing housing and economic development programs • Implement new investment programs • Hire a consultant with specialized expertise in bank formation and operation for detailed study + cost/benefit analysis
Oakland	2018	<i>Multi-Jurisdictional Public Bank Feasibility Study, Global Investment Company</i>	Resolution	Context: The City of Oakland council passed Resolution No. 86905 in response to citizens' expressing interest in establishing a public to divest from banks like Wells Fargo	Support: <ul style="list-style-type: none"> • Holding company structure limits risk for participating jurisdictions • The bank would not require many regulatory changes • The bank would better support social concerns brought up by citizens 	<ul style="list-style-type: none"> • Establish a holding company to hold funds and act as a public bank • Initiate an RFP for a business plan to further flesh out the objectives of the bank

TABLE 3.LEGAL REVIEWS OF PUBLIC BANKS

Geography	Year	Title and Author	Status	Context	Support / Concerns	Recommendations
San Francisco	2012/ 2017 updated	<i>Municipal Bank Formation</i> , City Attorney's Office	N/A	2008 Financial Crisis: Review of whether a public bank would be legal or would require approval from the state legislature	City may own stock in a municipal bank and spend money to support the bank's operation, as long as it has a municipal purpose	Does not take a pro- or anti- public bank, just a legal review
California	2017	<i>Bank Regulatory Considerations Related to Establishing a Public Bank in the State of California</i> , Davis Polk and Wardwell LLP for the Lawyers Committee for Civil Rates of the San	N/A	Banking restrictions on the cannabis industry	Concerns: <ul style="list-style-type: none"> • Federal cannabis restrictions • Initial capitalization costs • FDIC insurance – California law requires all chartered commercial banks to obtain FDIC • Municipal deposits collateralization • CA state law 	Significant change in federal law is needed to serve cannabis industry

	Francisco Bar Association			requirements	
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APPENDIX C – FEASIBILITY STUDIES IN DETAIL

Note that this review of public bank feasibility studies is current through December 2018.

Los Angeles, CA

Main points:

- The Information in the report suggests that formation of MBLA under existing law and regulation would be a very difficult process, would be very costly, and would result in an institution that would not likely qualify to receive City business
- The creation of MBLA presents risk to the City and the taxpayer funds and that risk assessment should be a high priority in the analysis to ensure that protection of the City’s funds are not compromised
- The objective to expand banking services to the cannabis industry could be achieved by other means, so the main objectives of MBLA are to decrease dependence on private banks and ensure equitable access to all City residents and businesses

Objectives of proposed Public Bank:

- Decrease City dependence on commercial banking services, perform City banking functions without the use of a third-party bank
- Reduce costs associated with commercial banking services
- Ensure equitable access to banking services for all City residents and businesses
- Generate new revenues for the City General Fund
- Provide small business loans, job training loans, and student loans
- Reduce costs associated with City banking and bond issuances
- Ensure that City funds support the development of economic and housing opportunity in the City
- Invest in local infrastructure and housing projects
- Provide retail banking services for underserved businesses, like the cannabis industry
- Provide banking services to “unbanked communities”

Governance structure of proposed Public Bank

- Currently, the Office of Finance manages a \$40 billion transactional cash flow and contracts with Wells Fargo Bank
- Currently, the City requires banking services similar to those of a multi-national corporation with an \$11 billion portfolio and the City has developed a system that ensures careful management of its financial resources and spread risk among its banking partnerships. Consolidation and transfer of these banking services into a MBLA could increase the risk to the City’s financial health

Proposed size:

- The City maintains an average balance of approximately \$100 million in the bank on any given day in liquid assets as collateral to ensure the protection of the City’s funds. MBLA would be required to maintain similar collateral levels to protect City funds on deposit under current law

Initial capitalization:

- No source of funds to capitalize the bank is available according to the report
- City funds could not be deposited in MBLA for a least three years
- Startup costs for MBLA are exorbitant and no source of funds is available to cover these costs
- According to the Office of Finance, the City Treasurer maintains and manages approximately \$11 billion in assets, with a \$40 billion transactional cash flow. The Office of Finance also supports City departments in the collection of approximately \$360 million in cash vault deposits, processing \$18 million in debit and credit card transactions worth over one billion in revenue, and over \$1 million in payroll transactions

Role of municipal government financial service needs:

- Not mentioned

Relationship with other municipal programs or non-profits

- The California Infrastructure and Economic Development Bank (IBank) was developed to finance public infrastructure and private development that promotes economic opportunity. The IBank is not actually a bank, but rather a pass-through finance agency and it is not chartered or insured
- The Los Angeles Community Development Bank is a non-bank, nonprofit that makes loans to businesses located within the federally designated Empowerment Zone. It is a finance agency that provided loans in conjunction with commercial banks and CDFIs. Economic Development and Infrastructure grants were used to provide capital for loans

Regulatory framework:

- Changes to federal and state law are required to form MBLA

Legislative status:

- The SAFE Act, introduced in 2017, would prohibit federal banking regulators from penalizing depository institutions that serve state legal cannabis business and immunize banks and their employees from prosecutions solely for providing financial services to state legal cannabis businesses
- SB 930, introduced in 2018, offers one potential avenue for cannabis banking. This would allow for a state-chartered financial institution to work with licensed cannabis businesses to operate within the banking system
- The City Charter Section 104(g) prohibits the City from entering into a purely commercial venture, unless it is approved by the voters. Voters would be required to approve the MBLA before the bank can be formed
 - A charter amendment would need to be presented to the voters to allow for the formation of MBLA that would earn a profit
- Any change to the City Treasurer's fiduciary authority would require a charter amendment
- Designating the MBLA as the City's depository for its moneys would require a charter amendment
- Any change to the City Treasurer's fiduciary authority would also require a change to state law

- Any change that would designate MBLA as the depository or change the independence and fiduciary responsibility of the Department of Airports, Harbor Department, and Department of Water and Power would require a charter amendment
- An amendment to the charter may need to be added regarding the competitive bidding process required for selecting MBLA as the provider of the City's banking services. This would make MBLA exempt from the competitive bidding requirement for the selection of banking services
- The Board and administrators of MBLA would be required to comply with the Prudent Investor Rule. This means that decisions concerning loans and investments must ensure that deposits made with the bank are secure and provide a rate of return that is competitive in the market
- State law requires that the City deposit funds into a chartered and federally rated financial institution that meets certain criteria, including that the institution has been in operation for at least 3 years
- MBLA will either need to meet all of the regulatory requirements of the FDIC or provide a form of alternative insurance

Any other Public Banks mentioned?

- Germany – Savings Bank Finance Group
 - The SBFSG operates under a public mandate and is a network of 580 separate Financial Institutions across the country
 - It operates as a Municipal Trusteeship in solely its own region, to encourage local financial investment into the local jurisdiction
 - Supervision is formed by one-third SBFSG employees, one-third citizens, and one-third local Parliament representatives
- Japan – Finance Organization for Municipalities
 - The objective is to provide long-term and low-interest rate loans exclusively to Japanese local governments; this is different than the proposed MBLA
- China – Industrial and Commercial Bank of China
- Indonesia – Bank DKI
 - China and Indonesia were formed as public banks but then both recently converted into independent commercial banks
- US States with Proposed Banks
 - Arizona, California, Hawaii, Illinois, Maine, Massachusetts, (North Dakota)
- US Local Governments with Proposed Banks
 - Oakland CA, San Francisco CA, Santa Fe

Relationship to private banks:

- The commercial bank and credit union models require compliance with state and federal regulations that would constrain formation and operation of a public bank
 - This is because the current regulatory framework precludes municipalities from obtaining commercial bank or credit union charters

Maine

Maine State Bank Analysis prepared by Center for State Innovation, May 2011

Main points:

- Job creation/retention
 - 3,500 additional small business jobs
 - 600-800 jobs
- New lending activity
 - Generate around 8 percent or about \$1.1 billion in total new lending activity, \$220 million in small business loans due to bank participation
- New revenue and return on equity
 - Dividends could be generated for the state starting in year 3
 - If capitalized at \$100 million and run conservatively, could accumulate dividends to the state's General Fund or Rainy Day Fund of \$39 million after 10 years, \$126 million after 20 years, \$346 million after 30 years, \$708 million after 40 years
 - Positive return on equity within 4 years with prudent banking practices

Objectives of proposed Public Bank:

- To provide access to capital lending to small businesses
 - 2007-2009: Maine's largest in-state SBA loan provider, TD Bank, reduced the number of SBA loans given by 40 percent and cut the amount lent by 59 percent
 - 2007-2009: Maine's largest out-of-state SBA loan provider, Bank of America, reduced the number of loans given by 82 percent and cut the amount lent by 60 percent

Governance structure of proposed Public Bank:

- Not mentioned

Proposed size:

- Not mentioned

Initial capitalization:

- Option 1: \$100 million bond in year 1
- Option 2: \$25 million bond each year for years 1-4

Role of state government financial service needs:

- Not mentioned

Relationship with other state programs or non-profits:

- Not mentioned

Regulatory framework:

- Not mentioned

Legislative statutes:

- L.D. 1078
<http://www.mainelegislature.org/legis/bills/getPDF.asp?paper=SP0360anditem=1andsnum=126>
 - This resolution establishes the Task Force on the Creation of a State of Maine Partnership Bank to develop a proposal to establish the State of Maine Partnership Bank, which must be specifically designed to partner with financial institutions that are headquartered in Maine or are Maine-owned, or both, in order to provide access to capital for local small businesses and family farmers, to enable state public funds to be retained within the state and to facilitate the investment of increased state resources in high-quality, in-state investments, such as loans to local businesses, family farmers and homeowners. The task force is directed to submit a report that includes its findings and recommendations with any necessary implementing legislation to the Joint Standing Committee on Labor, Commerce, Research and Economic Development and to the Joint Standing Committee on Insurance and Financial Institutions.
- L.D. 1508
<http://www.mainelegislature.org/legis/bills/getPDF.asp?paper=HP1078anditem=1andsnum=126>
 - This bill establishes the Maine Street Bank effective July 1, 2015 except that the bank may not make, purchase, guarantee, modify or hold loans until the bank has adequate capital of at least \$20,000,000. It specifies the purposes of the bank, establishes a board of directors and creates an advisory committee. It allows the bank to accept deposits of public funds, to make, purchase, guarantee, modify or hold certain loans and to serve as a custodian bank. It directs the state treasurer to deposit money into the bank. Excess income of the bank is deposited in the Maine Budget Stabilization Fund. The bill provides for a quarterly examination by the Department of Professional and Financial Regulation, Bureau of Financial Institutions and an audit by the state auditor every two years. The bill allows counties and municipalities to establish public banks. The bill directs the state treasurer, the commissioner of Administrative and Financial Services and the chief executive officer of the Finance Authority of Maine to consult with the attorney general and report to the Joint Standing Committee on Appropriations and Financial Affairs by Jan. 15, 2014 with recommendations to fully implement the bank, including recommendations regarding the merger of the Finance Authority of Maine into the bank. It authorizes the Joint Standing Committee on Appropriations and Financial Affairs to report out a bill to the second regular session of the 126th Legislature.

Any other Public Banks mentioned?

- Bank of North Dakota

Relationship to private banks:

- Made analysis comparison to small- and medium-sized banks in comparable states (based on geography, population size, density) of Montana, South Dakota, and Wyoming

Notes:

- The analysis seems to be simplified, drawing estimations and assumptions from the Bank of North Dakota and banks in Montana, South Dakota, Wyoming
- The report is divided into:

- Part I – Introduction
- Part II – Comparison of lending rates in North Dakota small and medium sized banks with the equivalent banks in Montana, South Dakota, Wyoming
- Part III – Rough measurement of the effects of this increase in lending rates on state job creation/retention
- Part IV – Returns to the bank
- Part V – Return to the state
- Findings from each part:
 - Part II – 18.22 percent overall increase in lending would result in about 7.92 percent new lending activity
 - Part III
 - 600-800 more small business jobs would be created or retained with the help of the additional lending generated by a state bank
 - At full loan capacity, 3,500 additional jobs would be created or retained due to loan participation activity
 - One job created or retained per \$31,801 in small business commercial and industrial (C&I) loans or \$121,374 in small business real estate loans
 - Part IV – with prudent banking practices, expected return on assets (ROA) of 1 percent until all start-up debt obligations are expired the ROA would be 1.7 percent
 - Part V – annual dividend expected after 3-5 years, actual net profit would be \$6.4 million per \$100M, net state return on equity (ROE) around 6.38 percent

New Jersey

Main points:

- The main objective of the State Bank of New Jersey is to raise funds for infrastructure projects and economic development
- Secondary objectives include aiding small business, students, homeowners, and the community
- The policy brief recommends that Governor Phil Murphy contract a team to conduct a feasibility study and draft a business plan for the State Bank of New Jersey

Objectives of proposed Public Bank:

- Estimated that every \$10 million in lending by the state bank would yield an additional \$16 million - \$21 million in state output, raise state earnings by \$3.8 - \$5.2 million, add 60 – 93 state jobs, and increase state value-added by roughly \$9 million - \$12 million
- First objective is to raise funds for infrastructure projects and other local economic development projects. This is the movement's key objective, the need for additional credit for state economic development
- Second objective is to provide for the unfulfilled demand for credit by small businesses
- The mission of the State Bank of New Jersey, as stated in the opening of the bill is to promote small business, fair educational lending, housing, infrastructure improvements, community development, economic development, commerce, and industry in New Jersey
- Government banks provide direct and indirect impacts to the state and a stabilizing influence in the economy
- The state would likely save money in lower interest costs

Governance structure of proposed Public Bank:

- Not mentioned

Proposed size:

- Not mentioned

Initial capitalization:

- Not mentioned

Role of municipal government financial service needs:

- The main objective of the State Bank would be to provide for the economic development needs of the state

Relationship with other municipal programs or non-profits:

- Non-profit advocacy group "Banking on New Jersey" www.bankingonnewjersey.org

Regulatory framework:

- Not mentioned

Legislative status:

- Legislature is considering the State Bank of New Jersey Act (Senate Bill No. 885)

- Supported by Governor Phil Murphy in his 2017 gubernatorial campaign

Any other Public Banks mentioned?

- Vermont
- Santa Fe, New Mexico
- Bank of North Dakota
- Puerto Rico Government Development Bank

Relationship to private banks:

- Wells Fargo held over 90 percent of State of New Jersey cash management funds at the beginning of 2017

Santa Fe, NM

Main points:

- Even if a government chooses not to organize a public bank, the process of examining the feasibility of a public bank forces the government to examine and critique its current lending, spending processes and determine where budgets can be improved, along with local banking regulation
- Generally, the infrastructure around making small loans (less than \$500,000) is lacking and a public bank could fill in the gap for this sort of lending
- Phasing the release of the different functions of a public bank would allow the bank to enter the lending market in a controlled manner
 - Phase 1: “clean-up” the city’s current fund balances and lending practices
 - Phase 2: apply for the necessary state banking charters, allowing the bank to make loans to public schools and other public entities
 - Phase 3: expand to private banking, underwritten by community banks
- Public banks will have to find a way to mitigate the negative cash flow if they focus on lending to projects that are socially beneficial but not profitable

Objectives of proposed Public Bank:

- Use the idea of a public bank as an exercise on improving and consolidating city finance
- Fund more city infrastructure projects with internal funds, using current bond underwriting to vet projects
 - This will help separate capital and operating accounts to allow the bank to make loans to public schools and other public entities

Governance structure of proposed Public Bank:

- Encourage crowdfunding with residents of Santa Fe to help source smaller loans
- Source up to 50 percent of loans by banks that meet the qualifications of a Local Economic Development Plan
- The bank would be independent from the rest of the government

Proposed size:

- Not mentioned

Initial capitalization:

- Not mentioned

Role of municipal government financial service needs:

- Not mentioned

Relationship with other municipal programs or non-profits:

- In general, broaden the scope of the Santa Fe municipal government to include the SD and other public entities

Regulatory framework:

- Not mentioned

Legislative status:

- The state requires that an independent board needs to be created to raise confidence in the idea of the public bank before the public bank can start rolling out

Any other Public Banks mentioned:

- Bank of North Dakota
 - Mentions how it is a member of the Federal Reserve system but does not participate in the FDIC
- Puerto Rico Government Development Bank
- 7 Indian tribes currently operate banks that could be described as public banks
- Mentions efforts to start public banks in California, Pennsylvania, Vermont, and Colorado
 - 20 different states have public banking advocacy groups

Relationship to private banks:

- Work closely with credit unions and banks local to Santa Fe/New Mexico in getting vulnerable populations accounts and fending off pay-day lenders

Oakland, CA

Main points:

- Few regulatory restrictions to establishing a public bank in California
- Using a public bank would be a more socially responsible alternative to having cities invest in private commercial banks
- The public bank would provide more accessible loans and help reduce wealth inequality

Objectives of proposed Public Bank:

- Make student loans, mortgages, and small business loans more accessible and affordable
- Provide a socially responsible source of deposit for participating governments
- Address the needs of the underbanked in Oakland
- Use the public bank as a policy tool to address growing wealth inequality in Oakland

Governance structure of proposed Public Bank:

- Establish a holding company made up of different community members or governance structure similar to a credit union

Proposed size:

- Not mentioned

Initial capitalization:

- \$500,000,000

Role of municipal government financial service needs:

- The bank would become the main depositor for municipal funds
 - The study estimates that it would take between 12 to 16 months to move all of the city's deposits out of its current accounts

Relationship with other municipal programs or non-profits:

- Does not mention

Regulatory framework:

- A public bank would be able to charter with the oversight of the Office of the Comptroller of the Currency or as a California State chartered entity under the jurisdiction of the Department of Business Oversight, Department of Financial Institutions Division
- The bank would be insured by the state government, not the FDIC

Legislative status:

- The staff at the City of Oakland government reviewing the study found the conclusions insufficient to apply next steps
 - Recommended that another study be produced before moving forward with new legislation

Any other Public Banks mentioned:

- Bank of North Dakota
- Mentions efforts to start public banks in Los Angeles, Pennsylvania, and Vermont

Vermont

Main points:

- Use already existing agencies (in Vermont's case, the Vermont Economic Development Authority (VEDA)) that behave similarly to banks (agencies that hold unrestricted net assets and securities for potential short and long term loans but do not offer banking services like deposit management, check processing, and cash management)
- Vermont is projected to exceed its peer group median debt rate sometime before 2021 and has a borrowing capacity less than its capital needs. The study suggests that a public bank would alleviate this problem for the state by borrowing from the Federal Reserve, which the treasury of Vermont cannot do, allowing the state to make up for the discrepancy in capital needs and the capital budget and also allowing the Treasurer to focus on local investment

Objectives of proposed Public Bank:

- Save on interest costs from commercial banks and use those savings to fund housing and development projects, etc.
- Use public banks to assist in raising funds for capital needs
- Use the public bank as a form of protection against systemic risks from the current financial system
- Have the public bank be a source of funding for the \$40 billion worth of unmet capital needs
 - These include improving roads, fixing bridges and dams, improving the quality of drinking water, and preparing for natural disasters
 - The bank also could help finance businesses like farms modernize or recover from floods

Governance structure of proposed Public Bank:

- Essentially add banking aspects to VEDA without or minimally changing the other aspects of the agency

Proposed size:

- Not mentioned

Initial capitalization:

- Around \$400 million to have a reasonable tier one capital ratio

Role of state government financial service needs:

- Not mentioned

Relationship with other state programs or non-profits:

- Essentially the public bank would be an extension of the current state economic development authority, VEDA, which already gives loans for smaller infrastructure and disaster relief projects

Regulatory framework:

- Not mentioned

Legislative status:

- Legislature has tried to pass bills on studying the feasibility of a public bank in 2011 and 2013, but both bills did not make it out of committee
 - The 2011 bill focused on creating an expert panel on starting a public bank
 - The 2013 bill focused on improving state government finance and lending procedures
- The Joint Fiscal Office has done brief reviews of public banking several times in the past

Any other Public Banks mentioned?

- Heavy focus on the Bank of North Dakota
 - The study makes a point that North Dakota and Vermont are similar states – similar climate, similar population size, similar demographics, and similar economies – to show that Vermont could experience some of the same benefits that North Dakota experiences due to its public bank

Relationship to private banks:

- The advantage to paying interest through a public bank is that interest payments on debt stay in the state as opposed to private banks

Washington

Washington State Analysis prepared by Center for State Innovation, December 2010

Main points:

- Job creation/retention
 - 7,400 – 10,700 additional small business jobs
 - 8,200 jobs supported due to increased loan activity through bank participation loans from a state bank at full lending capacity
- New lending activity
 - Generates 8.2 percent or \$2.6 billion in new lending activity due to bank participation loans
- New revenue and return on equity
 - Generate dividends for the state starting in year 3
 - With capitalization of \$100 million and run conservatively, accumulated dividends to the state's General Fund - \$71 million after 10 years, \$206 million after 20 years, \$382 million after 30 years, \$675 million after 40 years
 - Return on equity within 4 years with prudent banking practices

Objectives of proposed Public Bank:

- To consider a number of reforms designed to increase bank lending, particularly to small businesses which have been the hardest hit by tightening credit standards
 - 2007-2009: Bank of America SBA loans dropped from 555 to 19
 - 2007-2009: The SBA's flagship 7(a) program in Washington declined 35 percent

Governance structure:

- Not mentioned

Proposed size:

- Not mentioned

Initial capitalization

- Option 1: \$100 million bond in year 1
- Option 2: \$25 million bond each year for years 1-4

Role of state government financial service needs

- Not mentioned

Relationship with other state programs or non-profits

- Not mentioned

Regulatory framework

- Not mentioned

Legislative status:

- S.B. 5553 <http://lawfilesexternal.wa.gov/biennium/2015-16/Pdf/Bills/Senate%20Bills/5553.pdf>
 - Creates the Washington Investment Trust as a legacy institution that amasses sufficient capital reserves to address opportunities now and in the future. Creates the Washington Investment Trust Commission as the primary governing authority of the trust. Creates the trust transition board and the investment trust advisory board. The trust transition board expires July 1, 2016. Exempts the trust from payment of all fees and taxes levied by the state or any of its subdivisions.
- S.B. 5971 <http://lawfilesexternal.wa.gov/biennium/2015-16/Pdf/Bills/Senate%20Bills/5971.pdf>
 - Specifies that the legislature intends the state to engage in the business of banking under the name of the Washington publicly owned trust with the mission of the trust being able to act as the sole depository for in-state marijuana producers, processors, and retailers and to use taxable earnings from those deposits for the benefit of the people and economy of the state.

Any other public banks mentioned?

- Bank of North Dakota

Relationship to private banks:

- Made analysis comparison to small- and medium-sized banks in comparable states (based on geography, population size, density) of Montana, South Dakota, and Wyoming

Notes:

- The analysis seems to be simplified, drawing estimations and assumptions from the Bank of North Dakota and banks in Montana, South Dakota, Wyoming
- The report is divided into:
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 - Part III – Rough measurement of the effects of this increase in lending rates on state job creation/retention
 - Part IV – Returns to the bank
 - Part V – Return to the state
- Findings from each part:
 - Part II – 18.87 percent overall increase in lending would result in about 8.2 percent new lending activity
 - Part III
 - 7,400-10,700 more small business jobs would be created or retained with the help of the additional lending generated by a state bank
 - At full loan capacity, 8,200 additional jobs would be created or retained due to loan participation activity
 - One job created or retained per \$31,801 in small business commercial and industrial (C&I) loans or \$121,374 in small business real estate loans

- Part IV – with prudent banking practices, expected ROA of 1 percent until all start-up debt obligations are expired the ROA would be 1.7 percent
- Part V – annual dividend expected after 3-5 years, actual net profit would be \$6.6 million per \$100 million, net state ROE around 6.65 percent

Other Studies

Demas, *Main Street Partnership Banks* (2011)

Public Policy Research Organization White Paper

Proposes partnership banks modeled after BND to partner with in-state community banks and provide bank services to state governments

Goals:

- Generate revenue for states via bank dividend payments
- Lower debt costs for municipalities by providing access to low-cost funds, particularly for infrastructure investments

Swayze and Schiltz, *State-Owned Banks* (2013)

Summary article in *Delaware Banker*

Concludes that alternative loan and hybrid funding vehicles are preferable to public banks

Reviews the advantages of BND (support in fiscal crisis, low-interest loans), but notes that there are many disadvantages:

- Capitalization
- Political pressure impairing bank governance
- Potential competition with the private sector

Beitel, *Municipal Banking* (2016)

Theoretical framework for establishing public banks, including a potential incremental approach

Needs:

- Independence from the political process
- Strict underwriting criteria
- Start-up capital
- Independent review and auditing

Benefits:

- Save money by purchasing short-term municipal debt obligations
- Support affordable housing

Garcia and Williams, *A Public Bank For Philadelphia: A Summary of Evidence, Key Issues, and Recommended Actions* (2018)

Summarizes possible mission, functions, governance models, and potential benefits for Philadelphia

Provides preliminary first steps for establishing a public bank:

- Seek opinion from the City's Solicitor General about the legality of the establishing a public bank
- If the opinion is favorable, issue a request for proposals for a feasibility study
- The scope of the feasibility study should include an analysis of legal issues, cost benefit analysis, administrative changes, and community benefits

In the future, once established, recommends:

- The bank should start with a small portfolio for a proof of concept period
- The bank should start off managing a small portion of the City's budget while making safe investments

APPENDIX D – SUMMARY OF PUBLIC BANK STATE LEGISLATION

Public Banking State Legislation, 2013-2018

State	Year	Bill	Status	Capitalization	Purpose/Focus	Governance
Alaska	2016	HB 0364	Died in committee	Public funds, private deposits	Infrastructure, new businesses, universities, funding public projects	Department of Commerce, Community and Economic Development, Board of Directors, Advisory Board
Alaska	2018	HB 0376	In House finance committee	Public funds, private deposits, including from marijuana-related businesses	Infrastructure, new businesses, universities, cannabis industry	Department of Commerce, Community and Economic Development, Board of Directors, Advisory Board. Financial Crimes Enforcement Unit
Hawaii	2016	HB 2508	Died in committee	Public funds, private deposits	Loans for individuals denied by private banks	Board of Directors, Advisory Committee
Illinois	2017	HB 0454	Pending in House Rules committee	Public funds, private deposits	Agriculture, funding public projects	Department of Finance and Professional Regulation, Advisory Board
Michigan	2016	HB 5833	Died in committee	Public funds, private deposits	Agriculture/farmers, funding public projects, school districts	Department of Insurance and Financial Services, Board of Directors, Advisory Board
Minnesota	2017	HF0273	Died in committee	Public funds	Agriculture/farmers	Board of Directors
Montana	2013	HB 0474	Died in committee		New businesses	Would be nonprofit, independent public corporation; Board of Investments
New Hampshire	2017	HB 590 FN	In committee	Public funds	Clearinghouse for banks	Board of Directors, Advisory Committee
New Hampshire	2015	HB 672 FN	Died in chamber	Public funds	Clearinghouse for banks	Board of Directors, Advisory Committee
Rhode Island	2015	HB 6024	Died in committee	Public funds, private deposits	Infrastructure, new businesses, underserved individuals	Board of Directors
Washington	2015	SB 5553	Died in committee	Public funds	Infrastructure, public projects	Washington Investment Trust Commission, Trust Transition Board
West Virginia	2017	HB 4584	Died in committee	Public funds	Agriculture/farmers, public projects, emergency rebuilding projects, loans for individuals denied by private banks, education savings plan.	West Virginia Board of Banking and Financial Institutions, Advisory Board

Source: National Conference of State Legislatures (2017)

APPENDIX E – KEY PLAYERS IN PUBLIC BANKING

The Public Banking Institute (PBI) was founded in January 2011 as an educational non-profit organization by Ellen Brown, attorney and author of *Web of Debt* and *The Public Bank Solution*, following the aftermath of the Great Recession of 2007. PBI is dedicated to further the understanding, explore the possibilities, and facilitate the implementation of public banking. Since its establishment, PBI has worked with legislators, activists, and local leaders from California, New Jersey, Hawaii, and others to pursue public banking; organized national conferences; and formed significant allies across the political economic spectrum.

The DC Public Banking Center seeks to establish a bank that is publicly owned and publicly accountable, in partnership with local financial institutions, to provide the District of Columbia with sound financial services that will help create environmental sustainability; promote local jobs, local businesses and affordable housing; and enhance the financial health of the City’s general fund.

The Roosevelt Institute is a think tank founded in 1987 whose mission is “to carry forward the legacy and values of Franklin and Eleanor Roosevelt by developing progressive ideas and bold leadership in the service of restoring America’s promise of opportunity for all”. For years, the Roosevelt Institute has been a leading proponent of financial reform and economic justice and inclusion.

The Alliance for Democracy is a nonpartisan progressive populist movement aiming “to free all people from corporate domination of politics, economics, the environment culture and information; to establish true democracy; and to create a just society with a sustainable, equitable economy”. The Alliance is a sponsor of the DC Public Banking Center’s campaign to form a public bank in the District.

Commonomics USA envisions a world where a Commons-based economy creates economic and ecological security for all. Known for being on the forefront of economic justice organizing and thought leadership solutions, particularly those involving any kind of banking, the founders of Commonomics were also instrumental in starting the public banking movement in the United States. They have written dozens of articles and briefed dozens of public officials and advocates on the mechanics and benefits of public banks.

Friends of Public Banking is a new initiative to organize and focus the widespread general support found in the public banking movement. Using video-based social media to educate and advocate for public banks, they conduct outreach campaigns to broaden the public banking constituency and convey important information and calls to action regarding the privatization of public assets in the USA.

APPENDIX F – SUMMARY OF RESPONSIBLE BANKING ORDINANCE BY CITY AS OF 2015

The responsible banking ordinance requires banks doing business with a municipality to publicly disclose detailed data on a variety of categories from the maintenance of foreclosed properties, to investment in

affordable housing, and to product and service offerings. Based on this data, an assessment or evaluation is performed to determine which banks are qualified to receive the city's deposits. The ordinance aims to hold financial institutions publicly accountable and ensure responsible lending and investing behaviors.

City: **Boston**

Ordinance Title: Municipal Banking and Community Investment

Status: Enacted

Year Enacted/Passed: 2013

Type of Institution: Commercial

Requirements:

- Lending Performance evaluated by: residential and mortgage, small business, community reinvestment, personal lending and Boston resident lending and hiring.
- Additional points for compliance with state usury laws, confirmation that no steps were taken in the prior year to evict from residential property in the City and other factors determined by Commission.
- Each financial institution may be deducted points for unreasonable percentage of default in any of these categories: excessive charge of overdraft fees; unfair marketing practices targeted at financially vulnerable populations; discrimination; eviction from foreclosed, or otherwise distressed, residential property in the City.

City: **Minneapolis**

Ordinance Title: Responsible Banking

Status: Enacted

Year Enacted/Passed: Revised in 2013

Type of Institution: Commercial, investment, credit union

Requirements:

- Financial institutions must publicly share information by July 1st of every year on loan modifications and foreclosures on residential mortgages, number and amount of loans given to small businesses.
- Required to file a Community Reinvestment Plan every two years.

Recent activity:

- US Bank, Gilliard Capital Management Inc., Anvatus, The PFM group, RBC Global Asset Management, Vaughan Nelson and Wells Fargo Bank participated in the City of Minneapolis provision of banking services, and they disclosed information required by the Community Reinvestment Act.

City: **Philadelphia**

Ordinance Title: City Funds- Deposits, Investments, Disbursements

Status: Enacted

Year Enacted/Passed: Revised in 2002

Type of Institution: City Fund Depositories

Requirements:

- Provide the City with an annual statement of community reinvestment goals including the number of small business loans, home mortgages, home improvement loans, and community development investments to be made within low and moderate-income neighborhoods.

Recent activity:

- Bill No.150002. Amend in 2015, revised the list of City depositories.

City: **Pittsburgh**

Ordinance Title: Responsible Banking

Status: Enacted

Year Enacted/Passed: 2012

Type of Institution: Commercial

Requirements:

- Report financial and lending data (residential, small businesses, community development loans and investment, branches and deposits, consumer loan data, annual reports, most recent Community Reinvestment Act Performance Evaluation.
- All financial institutions participating in the bid process pledge to make the best efforts to develop responsible lending and financing opportunities to support residential and commercial development.
- Every two years, current city depositories and eligible financial institutions seeking to become a city depository shall submit a Community Reinvestment Plan.

Recent activity:

- In 2016, the City of Pittsburgh contracted with PCRG (Pittsburgh Community Reinvestment Group) to help streamline the implementation of the City's Responsible Banking Ordinance (RBO).

City: **San Diego**

Ordinance Title: Responsible Banking

Status: Enacted

Year Enacted/Passed: Revised in 2012

Type of Institution: Commercial

Requirements:

- Requires the City's financial staff to contract with banks that are responsive to the community's needs and do not engage in predatory lending.
- Banks are required to disclose data on local branches, jobs and lending practices as well as a City-approved two-year Community Reinvestment Plan (CPR).

City: **Seattle**

Ordinance Title: City Banking Contracts

Status: Enacted

Year Enacted/Passed: Revised in 2011

Type of Institutions: Not mentioned

Requirements:

- City must consider socially responsible banking practices when selecting vendors for depository services.
- In return for the privilege of investing the community's wealth and doing business with the City, financial institutions have an obligation to serve the financial needs of communities, including and especially minority and low- and moderate-income communities, and older adults.
- Accepts bids from financial institutions that have received a rating of "Outstanding" in their most recent Community Reinvestment Act review.
- Bank must provide information on Residential Lending, Small business lending, community development loans and investment, consumer loan data, checking, savings and loan products.

City: **Los Angeles**

Ordinance Title: Responsible Banking Investment Monitoring Program

Status: Enacted

Year Enacted/Passed: 2012

Type of Institution: Commercial, Investment

Requirements:

- Commercial banks: an annual statement of community reinvestment activities (number, size, and type of small business loans; home mortgages; home improvement loans; community development loans; and investments within the City) must be filed by July 1st of each year with the City Treasurer.
- Investment banks: a statement of corporate citizenship on participation in charitable programs/scholarships within the City, internal policies regarding utilization of subcontractors designated as "women owned," "minority owned," or "disabled" business enterprise; filed by July 1st of each year with the City Administrative Officer.
- A financial institution with both commercial and investment branches shall be subject to the type of disclosure associated with the kind of City business it pursues.

City: **Portland**

Ordinance Title: Adopt City of Portland Responsible Banking Policy

Status: Enacted

Year Enacted/Passed: 2012

Type of Institution: Commercial – financial institutions approved as qualified depositories

Requirements:

- The Treasurer will research national best practices and include as part of the selection criteria for banking services other aspects of a financial institution's operations, including but not limited to: commitments to local lending and other community investments, small business loan programs, workforce data, and mortgage and interest rates and terms.

City: **Cleveland**

Ordinance Title: Community Reinvestment Act

Status: Enacted

Year Enacted/Passed: 1991

Type of Institution: Commercial – eligible depositories

Requirements:

- Disclose residential and commercial lending information (the total number and dollar value of residential and commercial loans);
- Submit the most recent annual report or quarterly SEC 10-K report;
- Submit a statement with timelines describing current and proposed initiatives to address the credit needs of the City, its residents and businesses, including low and moderate income and minority residents;
- Submit the most recent "CRA Statement" and "CRA Evaluation";
- Submit a copy of branch closing policy;
- Submit a written initiative regarding community reinvestment within the City;
- Provide info regarding the number of minorities, females and City residents employed as lending officers, members of board of directors, and senior management staff"

City: **Chicago**

Ordinance Title: Vacant Property Ordinance

Status: Enacted

Year Enacted/Passed: 2011

Type of Institution: Commercial – mortgages

Requirements:

- Owners must file a registration statement for each vacant building within 30 days after it becomes vacant or within 30 days after assuming ownership of the building, whichever is later.
- Holds owners, including banks, responsible for maintaining foreclosed-upon properties in neighborhoods across Chicago. Routine maintenance on properties includes boarding entrances to a building, responding to complaints relating to the building, cutting grass, and shoveling snow.

Recent activity:

- In 2015, the municipal depositories' ordinance was passed. It requires all municipal depositories to provide further reports about their lending practices to small businesses, non-profits and entrepreneurs located in their communities.

City: **Kansas City**

Ordinance Title: Resolution No. 120113

Status: Resolution approved

Year Enacted/Passed: 2012

Type of Institution: Commercial – financial institutions

Requirements:

- Ensures the City selects banks that are responsive to community needs and do not engage in predatory lending.
- Criteria in future requests for proposals for banking services include: community investment (e.g., loan modifications), small business loans, affordable home loans, absence of payday lending and investments, and number and locations of branches and services provided at each branch.

City: **San Jose**

Ordinance Title: Resolution No. 75576

Status: Enacted

Year Enacted/Passed: Enacted, revised 2010

Type of Institution: Commercial

Requirements:

- Ties the level of City investment that a particular bank receives to its foreclosure prevention practices/ record of modifying loans to stop preventable foreclosure.

City: **Berkeley**

Ordinance Title: Banking Services Request for Proposal

Status: Resolution Approved

Year Enacted/Passed: 2012

Type of Institution: Commercial – community banks, membership-based credit unions, community development financial institutions

Requirements:

- Financial institutions report and address:
 - The number of and total value of home loans given to the citizens of Berkeley;
 - The number of and total value of small business loans within the City;
 - Information relating to the number of foreclosure prevention and home loan principal deduction programs within the City;
 - Community reinvestment activity within the City; the individual institution's reinvestment goals for the next 5 years within the City;
 - A description of any other leadership activities that the institution partakes in and its commitment to the Berkeley Community".

City: **Oakland**

Ordinance Title: Foreclosed and Defaulted Residential Property Registration and Abatement Program

Status: Enacted

Year Enacted/Passed: 2010, Expanded 2012

Type of Institution: Commercial – Responsible Party (the owner of the property, or the beneficiary and/or trustee pursuing foreclosure of a property secured by a mortgage, deed of trust or similar instrument - excluding the pre-foreclosure owner)

Requirements:

- Banks are required to register homes in a City blight database as soon as a notice of default is sent to homeowners;
- Banks are required to visit the homes once per month and check from the outside if they are occupied. If a house is vacant, banks must pay a \$568 annual registration fee, hire a property manager, secure the premises and maintain the home and yard.

City: **Monterey**

Ordinance Title: Responsible Banking Ordinance

Status: Enacted

Year Enacted/Passed: 2015

Type of Institution: Financial institutions that maintain at least \$3 million in City deposits annually

Requirements:

- Banks are required to disclose plans and progress to Monterey residents in areas such as lending, foreclosures and services. It applies only to banks that maintain at least \$3 million in city deposits on an annual basis.

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