

Infrastructure & Public Depository Task Force Final Report December 2017

Background

The Infrastructure & Public Depository Task Force was formed as a proviso in the FY 2018 Budget within the budget of the Office of the State Treasurer and tasked with reporting to the Legislature by December 1, 2017.

At the Task Force's final meeting on November 30, 2017 there was a consensus that many Washington governments need access to low cost financing for infrastructure projects. There was not consensus on if a depository institution is part of the answer to lower cost financing.

There are some short-term steps on infrastructure financing that the legislature and/or existing programs can address now. The longer term issue of whether to pursue a depository institution did not have consensus.

Short term steps

The Treasurer's office and OFM proposed several short term suggestions for infrastructure financing. After a robust discussion, the proposal was modified to include:

- **Lend Washington.**
 - Revitalize the Public Works Trust Program. Potentially rebrand it as Lend Washington. Add the Treasurer to the board and the board members should be appointed according to skill sets rather than interest-groups represented in order to improve program oversight and expertise. The skill sets are identified in the vetoed section of HB 1677. Draw on expertise of other agency staff as appropriate.
 - Work to increase financing (and safeguard it for the future) for what has been a very successful revolving loan fund program.
 - Review with local government stakeholders the need for additional infrastructure lending options which also includes what types of infrastructure they can finance with state assistance. If needs can't be met from existing lending programs look at establishing something further – perhaps similar to conduit bond programs offered by the California Infrastructure Bank (HB 1324/SB5088). Expand LOCAL program, an existing program for local government lease financing.
- **Clearinghouse.** There are already many infrastructure funding programs available to Washington governments. The Infrastructure Assistance Coordinating Council (IACC), a voluntary organization which has been working for years to act as an information clearinghouse for many of these programs. Work can be done with IACC to raise their profile as an effective clearinghouse for government infrastructure funding requests as a first stop for those entities not familiar with the roughly 85 existing infrastructure funding programs offered through the State. Evaluate if a change in IACC's current 501(C)3 status should change to a program in a state agency.

Long term steps

Task Force members had many opinions regarding the helpfulness of establishing a depository institution for infrastructure funding. Some members thought that numerous studies have already been conducted in other states – and the variety of issues raised in these studies has resulted in no state depository institutions being established since the Bank of North Dakota a century ago.

Some other Task Force members are supportive of doing additional study about establishing a state-owned depository institution but acknowledge that this study would need professional experts to be hired.

If the Legislature does want to further consider the issues surrounding the establishment of a state depository institution, much more work needs to be done. Topics that would need to be addressed include the legality/constitutionality, capitalization, governance, business plan, structure, and level of interest/need for such an institution from local governments.

Due to the variety of opinions regarding depository institutions, members were welcomed to send in their own personal thoughts on the matter and those opinions are included as attachments to this study.

The Task Force has fulfilled its task and will not have further meetings.

Attachments –

- i. Budget Proviso
- ii. Appointment process & meetings
- iii. Task Force Members
- iv. Opinions of individual members

Proviso

NEW SECTION. Sec. 123. FOR THE STATE TREASURER
State Treasurer's Service Account—State
Appropriation. . . \$18,918,000

The appropriation in this section is subject to the following conditions and limitations: \$75,000 of the state treasurer's service account—state appropriation is provided solely to establish a task force on public infrastructure and a publicly-owned depository. The task force must examine the scope of financial needs for local governments for constructing public infrastructure; the feasibility of creating a publicly-owned depository to facilitate investment in, and financing of, public infrastructure systems that will increase public health and safety, and leverage the financial capital and resources of Washington state by working in partnership with financial institutions that benefit local communities, or with community-based organizations, economic development organizations, local governments, guaranty agencies, and other stakeholder groups to create jobs and economic opportunities within our state for public benefit.

(1) The task force will consist of one member from each of the two largest caucuses of the senate appointed by the president of the senate; one member from each of the two largest caucuses of the house of representatives appointed by the speaker of the house of representatives; members representing a small sized state-chartered bank, a medium sized

state-chartered bank, a federally chartered bank, local governments, and four citizens with a background in financial issues or public infrastructure selected by the president of the senate and the speaker of the house of representatives; and the attorney general, the state auditor, the treasurer, and the governor, or their designees. The task force will ensure that ample *opportunity* for input from interested stakeholders is provided. The department of commerce, the department of financial institutions, and the treasurer must cooperate with the task force and provide information and assistance at the request of the task force.

(2) The task force will report any recommendations identified by the task force that involve statutory changes, funding recommendations, or administrative action to the legislature as draft legislation by December 1, 2017.

Appointments & Meetings

With the Legislature's late adjournment and the complicated nature of who/how the task force appointments were made, there wasn't a final list of appointees until late September. The Task Force had its first meeting on October 12th and had five subsequent meetings on October 20th and 31st and November 9th, 21st and 30th.

Detailed minutes along with copies of presentations made to the Task Force can be found here:

<https://www.tre.wa.gov/about-us/infrastructure-public-depository-task-force/>

Task Force Members

TRE: [Brad Hendrickson](#) (Policy & Legislative Dir.) – **Chair**
GOV: [Scott Merriman](#) (OFM Legislative Liaison) – **Vice Chair**
AUD: [Scott Nelson](#) (Dir. Legislative/Policy Affairs)
ATG: [Darwin Roberts](#) (Deputy AG)
SDC: [Patty Kuderer](#) (Senator – 48th District)
SRC: [Jan Angel](#) (Senator – 26th District)
HDC: [Steve Kirby](#) (Representative – 29th District)
HRC: [Mike Volz](#) (Representative – 6th District)
BKL: Jennifer Lawson (US Bank)
BKM: Alan Crain (Kitsap Bank)
BKS: Denise Portmann (Bank of the Pacific)
LGV: Kate Dean (Jefferson County Commissioner)
CIT1: John Comerford (Pension Consultant)
CIT2: Bill Longbrake (SIB / Robert Smith School of Bus.)
CIT3: Yona Makowski (SIB / HDC – retired)
CIT4: [Becky Thompson](#) (WSAC Financial Assistance Dir.)

For the final meeting, Brad Hendrickson was replaced by Shawn Myers, Assistant State Treasurer, and Scott Merriman assumed the role of Chair.



DUANE A. DAVIDSON
State Treasurer

State of Washington
Office of the State Treasurer

State Treasurer's Office

Statement on Final Task Force Recommendations

The State Treasurer is open to any valid idea that can help provide better financial services to Washington's citizens and taxpayers. After examining existing studies that other jurisdictions have undertaken about establishing state banks, it is clear why no other state has chosen to establish a state bank in the century since North Dakota did so in 1919.

There are substantial regulatory and legal hurdles and operating risks that come with establishing a state bank today. Washington in 2018 is fundamentally different than North Dakota in 1919. Washington already has dozens of programs to provide infrastructure financing to public and non-profit entities. Washington also is home to a robust and competitive private lending sector. Enhancing existing programs is a much more likely way to provide better financing options than trying to create another entity that will face enormous challenges.

For these reasons the State Treasurer is not in favor of spending even more state resources towards creating a state bank.

Interested parties are encouraged to read studies that already exist on this issue. The Commonwealth of Massachusetts conducted the most exhaustive and professional of the recent state (or municipal) bank studies. That study, and several others, can be found on the Washington State Treasurer's website. The Massachusetts study is here: <http://tre.wa.gov/wp-content/uploads/MA-Study-on-Feasibility-of-State-Owned-Bank.pdf>

Our state's constitution will not allow for accepting deposits from public entities and loaning out to private citizens for mortgages, agriculture, business or student loans. This is the purpose behind the State Bank of North Dakota. North Dakota changed its constitution to allow the loaning public funds to private citizens. While proponents of establishing state banks point to their high profit potential, the State Bank of North Dakota paid no financial dividends to their state in the first 26 years. More recently, according to the Bank's President, they also didn't pay dividends to the State from 2009-2015.

Proponents insist that the state bank would be a way to make low cost loans to fund infrastructure and turn a profit back to the state. You can't loan money at below market rates and expect to make a substantial profit. Proponents have suggested that we use state employee pension funds or our Local Government Investment Pool to capitalize the state bank but those dollars belong to current and future state retirees and overnight investments from mostly local governments. Using "other people's money" in either of these examples is a non-starter.

We heard throughout our recent task force meetings that there is a need for low cost financing for government infrastructure. We also heard that dozens of programs are already available through eleven state agencies. Until recently, one of the most successful was the Public Works Assistance Account. Their funding resources have been ravaged in recent years. Instead of using state resources to study an unlikely-to-succeed state bank idea or even



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try to capitalize a bank, we think revitalizing the Public Works Assistance Account is a much more likely way to actually successfully address infrastructure needs.

We believe that the short-term solutions that we proposed at the last meeting can help get real results. One of those important roles is working with the IACC and other interested parties to ensure a centralized resource exists where the various governmental entities can present their project and funding needs and then be directed to the right program that can serve them with affordable terms.

The Treasurer's Office encourages the Legislature to take concrete steps to help with infrastructure finance. Starting yet another study about establishing a state bank, when other professional studies have continually shown that it isn't feasible, is not a prudent use of state resources at this time.

Task Force - Final Recommendations

Sen. Patty Kuderer, representative of the Senate Democratic Caucus

Proposed Legislation - Appendix A

Infrastructure Financing Improvements. Members support short-term solutions to improve infrastructure-financing costs for local governments but have some concerns with the current proposal.

a. Clearinghouse. While this may provide some help to local governments searching for project funding, this seems like a small part of the problem of providing more funding through the State Capital Budget.

b. Lend Washington. Given the success we have seen with the Public Works Trust Program, members agree an increase of funds to this program is critical. The funds should be safeguarded specifically for the revolving fund program and maintained with oversight from the legislature and the local governments that manage these projects. The legislature should review needs for additional infrastructure financing and lending, but not rely solely on additional bonding capacity or new bonding programs.

Publicly Owned Depository Business Plan. The Task Force was directed to examine the feasibility of creating a publicly owned depository to facilitate investment in, and financing of, public infrastructure systems. A publicly owned depository will keep taxpayer money in Washington state and provide new options that do not rely on Wall Street. The below named Task Force members support continued progress in the development of a state bank and have endorsed the following language for inclusion in proposed legislation:

The state shall continue working to establish and implement a publicly owned depository to strengthen our fiscal footing, grow revenue for the state, and develop a wider range of financing options for the state and local governments.

The Department of Commerce, Financial Institutions, Office of Financial Management or other appropriate agency shall contract with an entity or entities with expertise in public finance and commercial and public banking to develop an organizational structure, governance structure appropriate for public banking, and business plan to establish a publicly owned depository for infrastructure development and local government funding assistance. The agency or department shall provide a final report to the House Business and Financial Services Committee and the Senate Financial Institutions and Insurance committee by December 1, 2018 for consideration and action upon by the 2019 legislative session.

The state bank report shall analyze and provide recommendations on:

(a) A start-up business plan for the bank that includes plans and timelines for functions that are new and functions transitioning to the bank that were previously performed by another entity;

(b) Initial capital requirements of the bank;

(c) Options for capitalizing the bank including but are not limited to: state revenues, federal funds, funds from local government or political subdivisions, private donations, crowd funding, and other core capital reserves not needed for liquidity;

(d) Options for financing existing infrastructure revolving funds or grant programs;

- (e) Obtaining a federal master account and joining the Federal Reserve;
- (f) Partnering with state chartered financial institutions and credit unions; and
- (g) Other such items necessary to establish a state bank or a state cooperative bank.



December 15, 2017

As a representative of the Infrastructure & Public Depository Task Force, I support the Office of the State Treasurer's proposal to address infrastructure needs. However, based on the information presented to the task force over the last two months, I do not recommend continued taxpayer expense to explore the creation of a public depository at this time.

The creation of a complex risk-based publicly-owned bank would create a substantially higher risk of loss of public funds and require significant expenditures for operations. The presentation by the Public Banking Institute did not fully capture the deposits needed to fund a bank and suggested that a public bank of significant scale could be created with little to no operating expenses. This is contradicted even by the experience of the Bank of North Dakota, the only state owned bank in the nation and an entity that is constantly held up by advocates for state-owned banks as an exemplary model.

By concentrating public deposits needed in the short term for municipal operations in a state owned depository, and loaning against those deposits for long-term infrastructure financing or high-risk ventures such as student loans, we would create significant risk to taxpayer dollars that does not exist in the current system today. Additionally, concerns were raised by members of the taskforce regarding the source of capital and deposits, the liquidity mismatch between short-term deposits and long-term infrastructure financing, regulatory oversight and risk of political influence.

It is clear that proponents of a state-owned bank envision large profits from such a public depository, which would then be available for use by the Legislature to appropriate for ongoing government programs. Banks, like any private enterprise, can and do fail, and rates of return on investments in the financial sector are hardly guaranteed. At this time, I see no net benefit to taxpayers becoming equity shareholders in a private enterprise of this nature, and therefore recommend that the Legislature seek to enhance and protect existing trust accounts such as the Public Works Assistance Account and the Centennial Clean Water Account that have been established for the purpose of infrastructure financing.

Should investments be identified where the private market is insufficient and no public program exists, it appears most prudent to follow the current model of creating a trust fund dedicated to financing. Therefore, in conclusion, I do not recommend further taxpayer expenditures for the investigation of, or planning for, a state-owned public depository.

Sincerely,

Denise Portmann
President and CEO