Washington State Senate

Business, Financial Services & Trade Committee

Public Hearing Re: SB 5188 – Concerning the creation of the Washington state public bank

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Fact Sheet

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Highlights of "A State-Chartered, Public Cooperative Bank for Washington State: Design Framework, Business Plan, and Draft Legislation," a study conducted by faculty at the Daniel J. Evans School of Public Policy and Governance, University of Washington

- **This study was funded by the Legislature and published in two parts**
- **The first part of the study was published in December 2018 and reached three principal conclusions:**
  1. Washington State could create a public cooperative bank but would need to first enact an authorizing statute and amend various other statutes. **SB 5188 fully addresses this finding**
  2. Based upon a "User Needs Survey" of state governments and political subdivisions, 32% indicated interest in public cooperative banking, 22% indicated no interest, and 46% were uncertain whether they would benefit. Interest was greatest among smaller and rural local political subdivisions.
  3. Small jurisdictions and public utilities expressed considerable interest in specific products and services the Bank might offer. However, many of those services are available, entirely or in part, through existing state government programs or through private financial institutions.

- **The second part of the study was published in May 2020 and encompassed three parts:**
  - **I. *Design Framework* – six issues were identified that must be addressed in drafting legislation to create a state bank:**
    1. Which types of entities and projects should be eligible to participate in the Bank?
       - Bank be structured as a member-owned cooperative – members restricted to the state, state agencies, local and tribal governments
       - Membership should be voluntary
       - Members contribute funds to capitalize the Bank and share in profits earned by the Bank
       - **Services offered to members:**
         - Primary service: access to capital at competitive rates to be used in building public infrastructure; the Bank would accept funds from members and issue debt, either taxable or nontaxable, to the public and provide various types of

loans to individual members to finance infrastructure projects and manage timing of cash flows
    - Accept deposits from members
    - Manage investment of funds for members
    - Provide professional technical assistance services to member governments and to non-member governments
    - Provide financial advisory services to members and to non-member governments
    - The Bank will not provide transactional depository services to members, such as check clearing, automatic clearing house transactions, and remittance processing

SB 5188 incorporates these recommendations

2. Where would the Bank reside within state government? **Three options were described: a new standalone agency; a new agency housed in an existing state agency; and the expansion of the mandate and responsibilities of an existing state agency – SB 5188 adopted the second option and stipulates that employees of the Washington State Housing Finance Commission provide the primary administration and operation of the Bank**

- WSHFC has capital markets expertise
- WSHFC reputation and credit rating should help the Bank achieve a high rating on bonds it issues
- Relying on the resources and expertise of the WSHFC would shorten the time required for the bank to become fully operational and could reduce administrative expenses compared to a standalone option

3. Who would regulate the Bank? **Various options were presented; SB 5188 elected the State Finance Commission option**

- In addition the Bank would be subject to oversight by the State Auditor and would establish an Audit Committee reporting to the Bank's board of directors

4. Who should exercise oversight of the Bank's programs and operations?

- The study recommended a board of directors provide oversight; directors would be a mix of members and public-interest directors with relevant expertise – **SB 5188 incorporates this recommendation**

5. How could the Bank optimize its credit rating? **Several layers of credit protection were recommended all of which are provided for in SB 5188 – these layers should be sufficient to obtain one of the top three ratings on securities issued by the Bank**

- Detailed systems and procedures for underwriting, maintaining documentation, and conducting on-going compliance and credit reviews of individual member borrowers

- Debt service reserve fund and replenishment mechanisms
- Member contributed loss reserve funds and replenishment mechanisms
- Member loss recovery mechanisms in the event the member defaults on a loan
- Voluntary contributions from the state – the **state would have no obligation** to make contributions, an essential requirement to avoid impacting the state's credit rating and debt limit
- Potential to issue loss-absorbing securities to the public
- Access to other Bank funds, specifically retained earnings
- Regulatory power of the board to require members to meet specified standards and conditions

6. What staffing resources and administrative expenses would the Bank require? **The Business Plan and financial proformas included estimates of human resource needs and administrative expenses**

II. ***Business Plan*** **– financial proformas were prepared for 10 years** – three scenarios were presented based upon membership assumptions; the Bank would be financially viable in all scenarios but profitability would be achieved sooner if more governments become members and if human resources requirements and administrative expenses are managed by an established state agency (WSHFC)

III. ***Draft Legislation*** **– to effectuate the business plan – SB 5188 closely follows the key elements included in the draft legislation**