

CALIFORNIA PUBLIC BANKING ALLIANCE

californiapublicbankingalliance.org

AB 310: California State Public Bank Act (Santiago)

Attachments: [AB 310 Bank on CA FAQ](#);

Background: California's local governments are projecting calamitous revenue shortfalls due to the COVID-19 pandemic. Local governments will be forced to cut critical services such as schools, food programs and public health, which will disproportionately harm communities of color. Small businesses, particularly those owned by disadvantaged and underrepresented people of color, that have been forced to close may never return. This is the time to invest directly in local governments and small businesses to aid the economic recovery. The bill would dramatically expand the IBank's capacity to provide direct lending to local governments, expand its bond issuance, placement and purchase program with local governments. The bill would also expand the IBank's ability to provide targeted financing, through partnerships with CDFIs and local financial institutions, to expand access to capital and credit for disadvantaged business owners in urban and rural settings.

Funding: The bill directs the Treasurer to invest 10% of the [Pooled Money Investment Account \(PMIA\)](#) (which would equate to \$9.9 billion) into the IBank. Because this is an alternative investment of existing State funds, currently held in the PMIA, this bill does not involve a budget appropriation.

Description: *Part 1: Expand the IBank's lending capacity to meet this moment.*

The bill directs that the IBank immediately use the influx of capital from PMIA funds to lend to local governments and small business recovery.

Local Governments: The bill directs the IBank to provide direct loans or purchase municipal bonds at below-market rates (equal to or exceeding the PMIA's current average yield of 1.7%). Within two months of taking effect, the bill requires the IBank to create a specific bridge loan program for local governments serving disadvantaged communities identified pursuant to Health and Safety Code Section 39711.

Equitable Small Business Recovery: The bill directs the IBank to expand its existing small business loan guarantee program to allow it to directly partner with CDFIs, credit unions and banks, referred to as "participating lenders". The bill requires the existing small business loan guarantee program to target 60% of loan guarantee dollars to underserved and disadvantaged small businesses in urban and rural areas, referred to as "Target Borrowers". The bill directs the IBank to add a new small loan guarantee program focused exclusively on Target Borrowers, providing participating lenders a 100% guarantee for such loans. Finally, the bill provides the IBank with tools to significantly increase the lending capacity of financial institutions serving low-income communities, including CDFIs, community development credit unions and local public banks, by providing them with long-term subordinated debt at favorable terms and by offering them full or partial loan repurchases.

Part 2: Convert the IBank into the State Public Bank.

The bill requires the Department of Business Oversight to charter the IBank as a depository institution by January 1, 2022. The Treasurer is required to transfer 20% of state deposits into the IBank within one year of it becoming a depository institution; and 100% of state deposits within five years.

As a depository institution, the state public bank would be able to access the Federal Reserve's primary credit discount window, which offers an interest rate of around 1.25% to de novo banks. The Fed's discount window is the least expensive source of credit for banks in the global economy. This discount window would have provided the State a critical lifeline in the COVID-19 induced economic recession. Instead, the Federal Reserve has offered states and municipalities the Municipal Liquidity Facility, which according to the Washington State Treasurer would equate to "between 2.3 and 2.8 times higher than the comparable interest rate for a loan obtained through the traditional municipal bond market."

The state public bank would provide a long-term source of stable financing for local governments and small businesses, redirect existing investment funds into the state economy, and lay the foundation for resilient and equitable growth. The state public bank would also accept deposits and handle accounts for California local agencies and governments, functioning similarly to a credit union for local agencies. This would offer local governments savings on fees and interest they are currently paying to Wall Street banks.

The bill requires the state bank to assist the formation of local public banks by providing technical assistance for local public bank viability studies, business plans and charter applications; developing loan facilities and credit for public banks; liaising with the Federal Reserve and federal agencies on behalf of local public banks; and developing a plan to create a network of public banks to pool risk, insurance, technology, compliance, and administrative capacity.

Federal loan
guarantees and
PMIA protection:

The bill directs the IBank executive director to work with the Governor and the Treasurer to seek additional security for the funds invested into the IBank from the Municipal Liquidity Facility ("MLF") or other facilities established pursuant to Section 4003(b)(4) of the CARES Act. The MLF would allow the State of California to access U.S. Treasury-backed loan guarantees to shore up the IBank's assets, including the investment of PMIA funds into the IBank.

Impact:

The Market Value of the PMIA is \$99 billion. Ten percent investment into the IBank would leverage \$9.9 billion immediately available to local governments and small businesses in the form of direct loans, bond purchases, loan guarantees and loan purchases. For context, IBank has supported \$3 billion in loans through Small Business Finance Center projects, which has already helped create or retain nearly 384,000 jobs, so we could expect to see its jobs impact significantly increased with the PMIA investment.