

16 NOV -9 AM 11:18

City Attorney's Office

OAKLAND CITY COUNCIL

RESOLUTION NO. _____ C.M.S.

INTRODUCED BY COUNCILMEMBERS REBECCA KAPLAN AND DAN KALB

RESOLUTION DIRECTING THE CITY ADMINISTRATOR TO PREPARE AN INFORMATIONAL REPORT WITH THE COST ESTIMATES OF COMMISSIONING A STUDY ANALYZING THE FEASIBILITY AND ECONOMIC IMPACT OF ESTABLISHING A PUBLIC BANK FOR OR INCLUDING THE CITY OF OAKLAND, AND PROVIDING FUNDING OPTIONS FOR THE FEASIBILITY STUDY, INCLUDING THE OPTION OF ALLOCATING TO THE STUDY ANY REMAINDER OF THE MONEY THAT WAS BUDGETED FOR THE GOLDMAN SACHS DEBARMENT PROCEEDINGS.

WHEREAS, there is a desire for local funding solutions that reinvest public funds in the local community; and

WHEREAS, public banking operates in the public interest, through institutions owned by the people through their representative governments; and

WHEREAS, public banks are able to return revenue to the community and can provide low-cost financing in support of City policies; and

WHEREAS, a public bank can have investment priorities that focus on the creation of jobs in Oakland that spur local economic growth by providing affordable credit to small and medium-sized businesses that have been historically ignored by the larger, more established banks; and

WHEREAS, a public bank can have investment priorities that center on providing loans for low and moderate income housing to help relieve the current housing crisis facing Oakland; and

WHEREAS, a public bank can have investment priorities that provide loans for energy conservation, installation of solar panels and measures for conserving water in Oakland; and

WHEREAS, Wall Street banks seek short-term profits for their private shareholders by investing in stocks, derivatives, credit default swaps and other speculative financial instruments; and

WHEREAS, Some Wall Street banks have broken criminal statutes and violated civil and regulatory rules with impunity; and

WHEREAS, on September 8, 2016, Wells Fargo bank was fined \$185 million for fraudulently opening up accounts without customers' consent, which then damaged customers' credit scores and caused customers to be charged illegal banking fees; and

WHEREAS, on May 20, 2015, Citigroup Inc. and JP Morgan Chase & Co. agreed to plead guilty to felony charges for conspiring to manipulate the price of U.S. dollars and euros exchanged in the foreign currency exchange spot market; and

WHEREAS, on May 20, 2015, Citigroup Inc. agreed to pay a criminal fine of \$945 million and JP Morgan Chase & Co. agreed to pay a criminal fine of \$550, for illegally manipulating the foreign exchange market; and

WHEREAS, on May 20, 2015, the Federal Reserve announced that it was imposing a separate set of fines on Citigroup, Inc. and JP Morgan Chase & Co. of \$342 million for their illegal practices in the foreign exchange markets; and

WHEREAS, on March 9th, 2016, the Wall Street Journal reported that Wall Street banks had paid in total more than \$100 billion in fines and penalties for mortgage-related fraud, and

WHEREAS, said Wall Street banks' criminal conduct and wrongful behavior should not be rewarded with future business dealings with Oakland; and

WHEREAS, the state of North Dakota created a state publicly-owned bank (the Bank of North Dakota) in 1919 for the benefit of the people of North Dakota; and

WHEREAS, the state of North Dakota, during the recent "Great Recession," escaped the credit crisis and maintained budget surpluses with zero public debt and had the lowest foreclosure rates and unemployment rates in the nation, the lowest credit card defaults, and no bank failures, due in large part to the Bank of North Dakota's willingness to provide loans to keep the state economy functioning while credit had been frozen elsewhere; and

WHEREAS, the Bank of North Dakota's total assets have increased seven-fold over the last two decades; and the Bank of North Dakota has returned \$385 million to the General Fund of North Dakota over the last 20 years; and

WHEREAS, Community Banks in North Dakota, in large part due to their partnership with the Bank of North Dakota, averaged about \$12,000 in lending per capita compared to an average of \$3,000 for Community Banks in per capita lending nationwide; and

WHEREAS, the City of Philadelphia, by unanimous City Council Resolution, authorized the Council's Committee on Commerce and Economic Development to hold hearings regarding public banking; and

WHEREAS, a comprehensive feasibility study completed for the City of Santa Fe cost \$50,000 and found that that a public bank is feasible and has the potential to provide enhanced fiscal management, improved net interest rate margins, and a more robust local lending climate; and

WHEREAS, a Resolution will soon come before the Santa Fe City Council to appoint a Public Bank for Santa Fe Task Force that will convene and develop a product that will define the process, resources, information and timelines to be met in order to be prepared to submit an application for a New Mexico Bank Charter for a Public Bank for Santa Fe; and

WHEREAS, other cities such as Manchester, New Hampshire, and Reading, Pennsylvania have taken steps to examine public banking; and

WHEREAS, on October 20th, the Oakland Cannabis Regulatory Commission approved a Resolution recommending that the City Council establish a public bank for Oakland; and

WHEREAS, the City of Oakland is tasked with holding and protecting the fundamental interest of the public as well as the financial wellbeing of the City; now, therefore be it

RESOLVED: That the Oakland City Council directs the City Administrator, or his/her designee, to prepare an informational report with the cost estimates of commissioning experts in public banking to conduct a study analyzing the feasibility and economic impact of establishing a public bank for the City of Oakland; and be it

FURTHER RESOLVED: That this informational report shall include funding options for the feasibility study, including the option of allocating to the study the remainder of the money that was budgeted for the Goldman Sachs Debarment Proceedings, and shall consider whether feasibility could be enhanced by partnering with other jurisdictions, such as via a Joint Powers Authority; and be it

FURTHER RESOLVED: That, in preparation from this informational report, the City Administrator, or his/her designee, shall, from community stakeholders who have interest or expertise in banking issues, solicit input and information regarding: studying feasibility; other government entities that could partner with Oakland in studying feasibility and/or establishing a public bank; potential contractors to conduct a feasibility study; and possible private funding sources for a feasibility study; and be it

FURTHER RESOLVED: That the City Administrator shall return to the Finance Committee with this informational report within ninety (90) days of adoption of this Resolution.

IN COUNCIL, OAKLAND, CALIFORNIA,

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL WASHINGTON, GALLO, GUILLEN, KALB, KAPLAN, REID AND
PRESIDENT GIBSON MCELHANEY

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____

LATONDA SIMMONS
City Clerk and Clerk of the Council of the
City of Oakland, California

16 NOV -9 AM 11:16

CITY OF OAKLAND



CITY HALL • 1 FRANK H. OGAWA PLAZA • OAKLAND, CALIFORNIA 94612
REBECCA KAPLAN (510) 238-7008
At-Large FAX: (510) 238-6910
atlarge@oaklandnet.com TDD: (510) 839-6451

Date: November 9, 2016

To: Finance & Management Committee

From: Councilmember At-Large Rebecca Kaplan and Councilmember Kalb

Re: Resolution Requesting Informational Report On Public Bank Feasibility Study

Dear Colleagues on the City Council and Members of the Public,

With our introduction of a Resolution requesting an informational report on a public bank feasibility study, we are submitting the attached: a letter from local organizations urging the Finance Committee to investigate a public bank for the City of Oakland; information about the Bank of North Dakota, the nation's first publicly owned bank.

We urge you to support this Resolution, which will be heard at the Finance Committee Meeting on November 15, 2016.

Respectfully submitted,

Handwritten signature of Rebecca Kaplan in cursive.

Councilmember At-Large Rebecca Kaplan

Handwritten signature of Dan Kalb in cursive.

Councilmember Dan Kalb

16 NOV -9 AM 11:19

May 16, 2016

Oakland City Council Finance Committee:

Last year, the City Council of Santa Fe, New Mexico commissioned a study[i] to determine the feasibility of establishing a Municipal Public Bank for that City. On January 14th, 2016, the study was released. It concluded that not only was such an undertaking feasible, but that *[the] cumulative value over 7 years to the City exceeds \$24 million, or approximately \$3,500,000 per annum.*

The City of Oakland is about six times larger than Santa Fe in population, and its economic footprint is likely a larger multiplier still. A simple extrapolation suggests that the benefits of a Public Bank to Oakland would be somewhere between \$15,000,000 and \$25,000,000 per year.

We, the undersigned, consider it the Finance Committee's fiduciary responsibility to the taxpayers of Oakland to seriously investigate this opportunity. We believe you should **recommend to the full Council that, like Santa Fe, a report be commissioned on the feasibility of a Public Bank of Oakland, including its benefits for our budget and its wider economic impacts.**

The Santa Fe study cost \$50,000, or about 0.25% of the potential savings to Oakland in a single year. Oakland has a different economic signature than Santa Fe, and is part of a different state, with a different regulatory framework. A study of similar breadth is therefore necessary for Oakland - and in itself would help the City Council and public better understand the advantages of municipal public banking.

Here is a short article from the Albuquerque Journal about the study and proposed bank: <http://tinyurl.com/z7mfnh>, and another on a detailed strategy with profit projections: <http://tinyurl.com/z2fugl7>.

Other public banking activity: On February 18 an Arizona State GOP-dominated Legislature committee voted 6-1 to proceed with official hearings toward a state public bank. On February 22 Philadelphia's City Council's Committee on Commerce and Economic Development held hearings regarding public banking. And on February 24 the Maryland House of Delegates held committee hearings on a public banking bill. Now is the time for Oakland to act.

Sincerely,

California Nurses Assoc/National Nurses United
Causa Justa::Just Cause
Commonomics USA
Community Development Finance
Empowered Investments/Mehul Thakker
Green Party of Alameda County
Idle No More SF Bay
John George Democratic Club

Oakland Education Association Executive Board
Oakland Green Party
Oakland Justice Coalition
Oakland Tenants Union
Public Banking Institute
Strike Debt Bay Area
Wellstone Democratic Renewal Club

[i] Download: http://www.santafenm.gov/document_center/document/4524
PDF on the web: <http://tinyurl.com/z7ghm7u>

cc: Libby Schaaf, Mayor
Sabrina Landreth, City Administrator
Katano Kasaine, Treasury Manager



Public Banks: Bank of North Dakota

ILSR Admin | 0 Comments | Jul 2, 2015

North Dakota is the only state that has established a publicly owned bank. Founded in 1919, the Bank of North Dakota's mission is to "promote agriculture, commerce, and industry" and "be helpful to and assist in the development of... financial institutions... within the State."

BND functions mainly as a "banker's bank" — meaning that most of its lending is done in partnership with local banks and credit unions. About half of the bank's \$3.9 billion [loan portfolio](#) consists of business and agricultural loans that are originated by a local financial institution and funded in part by BND. By participating in these loans, BND expands the lending capacity of North Dakota's community banks, giving them added strength in competing against big out-of-state banks.

The remainder of BND's loan portfolio consists of residential mortgages and student loans. In keeping with its mission to support, rather than compete with, local banks, BND does not make home loans directly. Instead, it provides a secondary market, buying up mortgages originated by the state's local banks and credit unions.

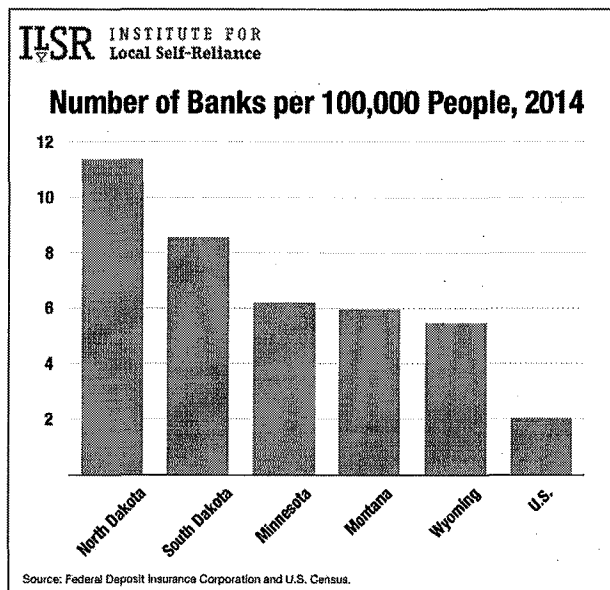
Student loans are the only part of the bank's lending in which it works directly with borrowers. At a time when many students leave college burdened by high-interest rate loans, BND offers some of the lowest student loan rates in the country.

Thanks in large part to BND, community banks are much more numerous and robust in North Dakota than in other states. North Dakota has more banks and credit unions per capita than any other state. In fact, it has nearly *six times* as many local financial institutions per person as the country overall. While locally owned small and mid-sized banks and credit unions (those under \$10 billion in assets) account for only 29 percent of deposits nationally (see [this graph](#)), in North Dakota they have a remarkable 83 percent of the market.

By helping to sustain a large number of local banks and credit unions, BND has strengthened North Dakota's economy, enabled small businesses and farms grow, and spurred job creation in the state.

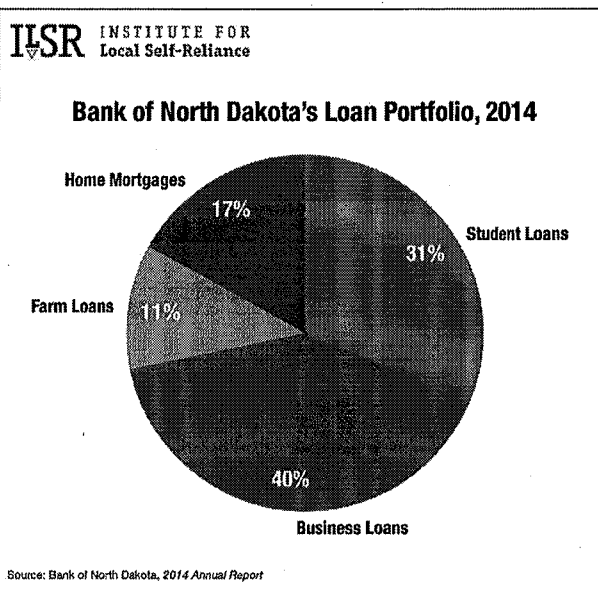
Over the last 21 years, BND has generated almost \$1 billion in profit. Nearly \$400 million of that, or about \$3,300 per household, has been transferred into the state's general fund, providing support for education and other public services, while reducing the tax burden on residents and businesses.

History and Structure

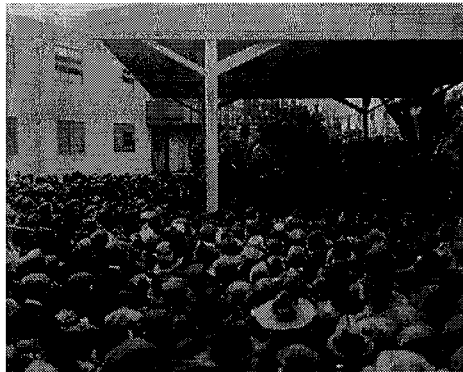


Desperately poor and tired of being at the mercy of out-of-state economic powers, North Dakota's farmers launched the Nonpartisan League in 1915. This political party united progressives, reformers, and radicals behind a platform that called for returning control of the state's economy to its people. At the time, farmers were utterly dependent on out-of-state grain milling companies, national railroads, and Minneapolis banks, all of which had been gouging farmers.

In the 1918 elections, the League won both houses of the legislature. One of the first bills these new lawmakers passed created a publicly owned grain mill, the North Dakota Mill and Elevator, and a publicly owned bank, the Bank of North Dakota (BND).



BND is governed by the state's Industrial Commission, consisting of the governor, attorney general, and the commissioner of agriculture, all elected officials. The commission, in effect, serves as the bank's board of directors. The bank also has a seven-member advisory board, which is appointed by the Governor and consists of people with expertise in banking, including representatives of community banks.



The primary deposit base of the BND is the State of North Dakota. All state funds and funds of state agencies (excluding pension funds and trusts managed by the state) are deposited with the bank. The bank pays a competitive interest rate that is generally at about the midpoint of rates paid by other banks in the state.

Individuals may also open accounts at the bank, but BND does not market these services and does not have ATMs, branch offices, and other standard features common to retail banks. This is in keeping with the bank's mission to support local banks, rather than compete with them.

In contrast to most commercial banks, BND is not a member of the Federal Depository Insurance Corporation. Its deposits are instead guaranteed by the state of North Dakota.

Capitalizing the Local Economy

The core mission of the Bank of North Dakota is to cultivate the state's economy by supporting local banks and credit unions. The more these community-based financial institutions flourish, the thinking goes, the more capacity they have for financing new and growing businesses. BND works with almost all of the state's 89 local banks and many of its credit unions.

One of the chief ways BND fulfills this mission is through its lending. The bank's \$3.9 billion loan portfolio has four main components: business, farm, residential, and student loans.

Its business and farm loans, which comprise half of its lending, are almost exclusively "participation" loans. These loans are originated by local banks and credit unions, but BND provides part of the funds. In doing so, BND expands the lending capacity of the state's local financial system. At the end of 2014, BND had almost \$2 billion in participation loans in its portfolio, an amount equal to

10 percent of the total value of loans outstanding on the books of the state's small and mid-sized community banks and credit unions. This partnership helps local banks compete is by enabling them to make larger loans than they could on their own. As their business customers grow and require larger loans, North Dakota's local banks, with the support of BND, can continue to meet their needs, rather than lose these borrowers to large out-of-state banks.

Another segment of BND's portfolio is comprised of mortgages. About 20 years ago, the bank began buying home loans made by local banks and credit unions. At the time, local banks were looking for an alternative to the conventional secondary mortgage

market. They no longer wanted to sell their home loans to Wells Fargo and other large banks, a practice that was giving their biggest competitors a steady stream of new customers. BND stepped in and offered to purchase their mortgages instead. This gave local banks a way to move loans off their books, thus freeing them up to make new loans, but without handing the business to their competitors.

This arrangement also benefits borrowers. First, BND services the mortgages it buys, ensuring that North Dakota homeowners continue to have in-state servicing for their loans. Second, it ensures that the mortgage interest homeowners pay each month stays in the state rather than flowing to Wall Street. In 2010, BND purchased about 7 percent of the home loans originated in the state. It currently holds about \$650 million in residential mortgages. Between BND's mortgages and those held by local banks and credit unions, roughly 20-25 percent of the state's mortgage debt is held and serviced within North Dakota.

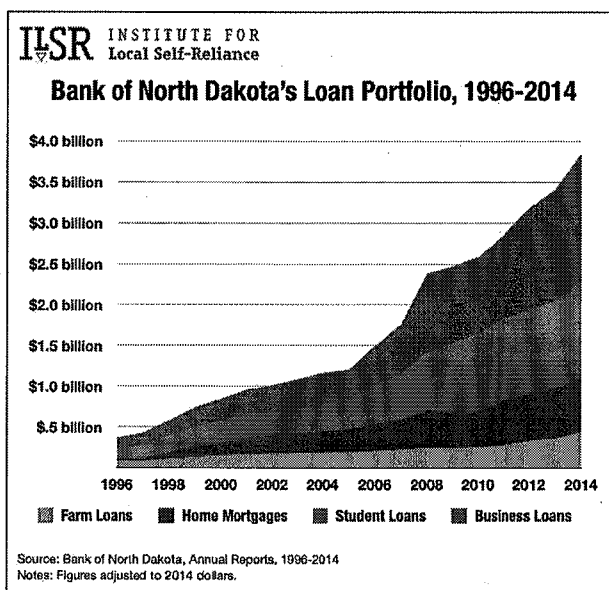
The final component of BND's loan portfolio consists of student loans. This is the only area of lending in which the bank works directly with borrowers. BND offers loans to state residents enrolled in schools located anywhere, as well as to out-of-state residents attending schools in North Dakota or any adjacent state. Its interest rates are widely regarded as some of the lowest in the country. In early 2015, the bank's rates were about 2 percent for a variable-rate loan and 5 percent for a fixed-rate — substantially lower than the 10-15 percent rates typical of private student loans. In April 2014, the bank launched a new program that allows residents to consolidate their student loan debt. By the end of the year, the bank had refinanced over \$100 million in student loans, saving borrowers money by cutting their interest payments.

Backing Community Banks and Credit Unions

BND supports the state's financial institutions in other ways as well. One of its explicit goals is to expand local ownership of banks and increase their capitalization. To this end, the bank has a bank stock loan program, which provides loans to finance the purchase of bank stock by North Dakota residents. In 2008, for example, BND provided a loan to help the employees of Ramsey National Bank & Trust in Devil's Lake, North Dakota, gain a controlling interest in the bank, ensuring that this institution, which was founded in 1892 and has about \$200 million in assets, would continue to be owned locally.

BND functions as a kind of mini Federal Reserve. It clears checks for both banks and credit unions, provides coin and currency, and maintains an Automated Clearing House system that allows local banks to offer direct deposit and automated payment services to their customers. Its Federal Funds program assists local banks with short-term liquidity needs and has a daily volume of over \$300 million.

The state bank also enables North Dakota's local banks to take deposits and manage funds for municipal and county governments. This is rare in other states, because banks must meet fairly onerous collateral requirements in order to accept public deposits. This can make taking public funds more costly than it's worth. But in North Dakota, those collateral requirements are waived by a letter



of credit from BND. This gives local banks an additional source of deposits and benefits residents by ensuring that their city and county funds are held locally rather than turned over to distant Wall Street banks.

In tough economic times, BND helps stabilize North Dakota's banking system. During the aftermath of the recent financial meltdown, as community banks in other states struggled to retain sufficient capital levels as many of the loans on their books went unpaid — a balance-sheet crisis that caused a staggering number to fail — North Dakota's banks turned to BND. The state bank helped them increase their capital ratios by buying loans on their books and infusing them with new equity investment through its bank stock loan program.

Federal data show that North Dakota's local banks are healthier than their peers. They are more efficient, devote more of their resources to productive lending, and earn better returns on their assets than community banks nationally.

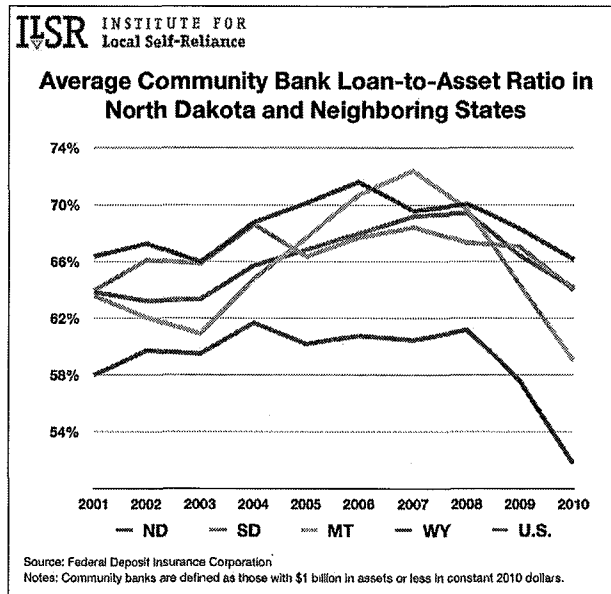
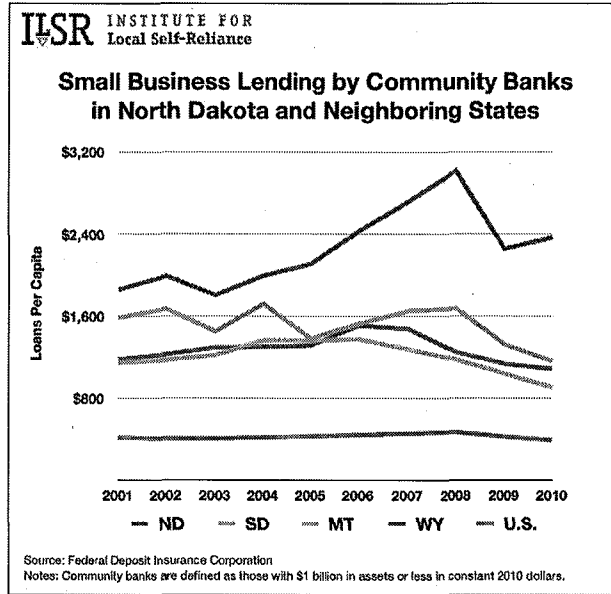
Impact of the Bank of North Dakota

BND has helped North Dakota maintain a local banking sector that is markedly more robust than that of other states. North Dakota has more local banks (relative to population) than any other state. Over the last ten years, the amount of lending per capita by small community banks (those under \$1 billion in assets) in North Dakota has averaged about \$12,000, compared to \$9,000 in South Dakota and \$3,000 nationally. The gap is even greater for small business lending. North Dakota community banks averaged 49 percent more lending for small businesses over the last decade than those in South Dakota and 434 percent more than the national average. (To see graphs of these measures and others, go [here](#).)

Not only are community banks more numerous and more active in North Dakota, but there is some indication that the Bank of North Dakota has enabled them to maintain a higher average loan-to-asset ratio — meaning they are able to devote more of their assets to economically productive lending, rather than safer holdings like U.S. government securities. North Dakota's community banks have generally maintained a higher average loan-to-asset ratio than their counterparts in four neighboring states and nationwide. That ratio also declined much less steeply during the recession.

Expanding Economic Opportunity

By and large, BND is run on a for-profit basis. The bank evaluates loan opportunities according to how likely they are to be repaid and provide a return for BND. As the bank's president and chief executive, Eric Hardmeyer, said in an interview with American Banker magazine, "If you are going to have a state-owned bank, you have to staff it with bankers. If you staff it with economic developers you are going to have a very short-lived, very expensive experiment. Economic developers have never seen a deal they didn't like. We deal with that every day."



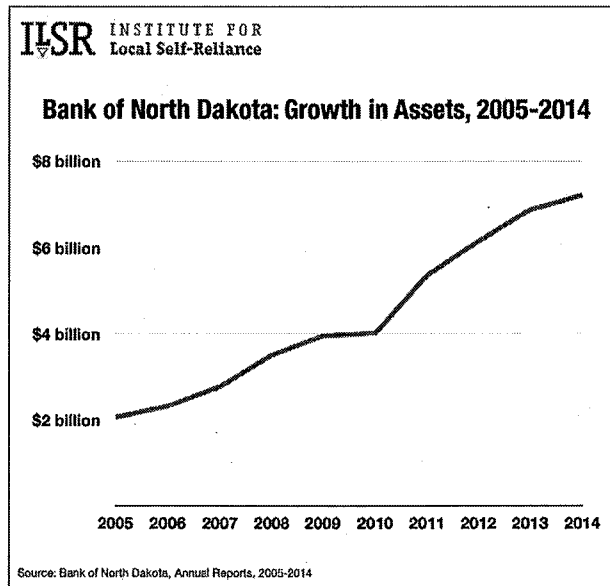
BND does forego some profit, however, in order to further economic development in the state. The bank offers several programs that accept higher levels of risk or lower returns on certain kinds of loans. Through its PACE Fund ("Partnership in Assisting Community Expansion"), for example, BND buys down the interest rate by 1-5 percent for some job-creating business loans. In 2009, this program saved business borrowers \$3.5 million in interest payments. BND makes about 50 of these loans a year (all in partnership with a community bank and a local economic development entity) and currently has about 300 outstanding, valued at \$50 million. BND operates a similar program for farmers called Ag PACE.

BND also has a Business Development Loan Program, which enables new and existing businesses to obtain loans that have a higher degree of risk than would normally be acceptable to a lending institution, while its Beginning Entrepreneur Loan Guarantee Program guarantees 85 percent of a loan of up to \$100,000 made by a local bank to a start-up entrepreneur.

Profitability and Returns for the State

At the end of 2014, the Bank of North Dakota had \$652 million in capital and \$7.2 billion in assets. The bank has grown substantially over the last two decades. Its assets have expanded sevenfold, and its net income, or profit, rose from \$22 million in 1995 to \$111 million in 2014.

Although BND has foregone some profit in order to expand credit and lower the cost of loans for borrowers in North Dakota, the bank still earns a very healthy return on its assets. BND's ROA, or return-on-assets, a standard measure of bank performance, was 1.54 percent in 2014, compared to an average ROA of 1.01 percent for all banks nationwide.



Part of the bank's profits are used to expand its capital base, which in turn enables it to make more loans. The rest are paid into the state government's general fund, reducing the amount of tax revenue the state needs to collect. How much of each year's earnings are transferred to the state is determined through negotiations between the legislature and the bank's Governing Board. Over the last 20 years, BND has made \$385 million in payments to the general fund. That works out to about \$3,300 per family — meaning North Dakota households received \$3,300 more in public services than they had to pay for through taxes.

BND provides other direct financial benefits to the state. It can borrow at the Federal Reserve's discount window, for example, and lend directly to local governments at lower rates than the municipal bond market provides.

BND can also provide emergency financing that would otherwise have to be shouldered solely by state and local government. When the Red River valley underwent massive flooding in 1997, BND quickly established a \$25 million line of credit for the City of Grand Forks, \$12 million for the University of North Dakota in Grand Forks, and \$25 million for state emergency management. It also set up a disaster relief loan program for families and businesses. Partly as result of this support, the Grand Forks economy recovered much more quickly than its sister city of East Grand Forks just across the river in Minnesota.

	BND's Profit	BND's Contribution to the State's General Fund
1995	\$22 million	\$19 million
1996	\$23 million	\$19 million
1997	\$26 million	\$13 million
1998	\$28 million	\$30 million
1999	\$30 million	\$15 million
2000	\$33 million	\$25 million
2001	\$33 million	\$25 million
2002	\$32 million	\$30 million
2003	\$32 million	\$30 million
2004	\$34 million	\$30 million
2005	\$36 million	\$30 million
2006	\$43 million	\$30 million
2007	\$51 million	\$30 million
2008	\$57 million	\$30 million
2009	\$58 million	\$30 million
2010	\$62 million	-
2011	\$70 million	-
2012	\$82 million	-
2013	\$94 million	-
2014	\$111 million	-
TOTAL	\$957 million	\$385 million

More:

- [Bank of North Dakota web site](#)
- [Video: Bank of North Dakota](#)
This 26-minute video, produced by Prairie Public Broadcasting, chronicles the bank's history and current operations.
- [North Dakota State Statutes](#)
See sections beginning at 6-09 for the portion of the code that establishes the bank and governs its operations.
- [Policy of the Bank of North Dakota](#)
Adopted in 1920, sets out the mission and purpose of the bank.
- [Testimony from Stacy Mitchell before the Maryland House of Delegates Economic Matters Committee on HB0794 \[PDF\]](#), a bill to authorize a task force on public banking, February 2016
- [Oregonians for a State Bank](#)
- [Oregon State Bank FAQ](#)
- [Center for State Innovation's Analysis of an Oregon State Bank](#)
- [Banking on America: How Main Street Partnership Banks Can Improve Local Economies](#), Demos, April 2011
- [The Maine Partnership Bank: Promote a strong and resilient local financial system by partnering with Maine community institutions](#), report by Jared Gardner, March 2013

TAGS: [bank of north dakota](#) / [north dakota](#) / [state](#) / [state banks](#) / [state policy](#)