

**HB853, HD1
EDT/CPN**

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEES ON ECONOMIC DEVELOPMENT AND
TECHNOLOGY
AND COMMERCE AND CONSUMER PROTECTION
ON
HOUSE BILL NO. 853, H.D. 1

March 23, 2011

RELATING TO THE BANK OF THE STATE OF HAWAII

House Bill No. 853, H.D. 1, establishes a task force to explore the establishment of a bank of the State of Hawaii. The purpose of this bank would be to support economic development, provide stability to the local financial sector, and leverage the state's financial capital and resources. The bill authorizes the task force, describes its function and the members which would comprise the task force.

The Department supports the bill to establish a task force to further study the feasibility of such a state bank as it may provide expanded opportunities for economic development in the State.

Thank you for the opportunity to provide testimony on this measure.



NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

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TO THE
SENATE COMMITTEES ON
ECONOMIC DEVELOPMENT AND TECHNOLOGY
AND
COMMERCE AND CONSUMER PROTECTION

THE TWENTY-SIXTH STATE LEGISLATURE
REGULAR SESSION OF 2011

Wednesday, March 23, 2011
1:30 p.m.

TESTIMONY ON H.B. NO. 853, H.D.1 RELATING TO THE BANK OF THE STATE OF
HAWAII

THE HONORABLE CAROL FUKUNAGA, CHAIR,
THE HONORABLE ROSALYN H. BAKER, CHAIR
AND MEMBERS OF THE COMMITTEES:

My name is Iris Ikeda Catalani, Commissioner of Financial Institutions
("Commissioner"). I am testifying on behalf of the Department of Commerce and
Consumer Affairs ("Department") on House Bill No. 853, H.D.1. The Department
wishes to offer comments on this measure.

This measure would create a task force to study the feasibility of establishing a
bank of the State of Hawaii. In broad terms, its mandate would include conducting a

review and investigation of an existing state-owned bank, namely the Bank of North Dakota, and to recommend such laws as may be required to establish such a bank in this State and to create an implementation plan for the bank.

More specifically, the specific responsibilities of the task force, as enumerated in the measure, include, but are not necessarily limited to a review and evaluation of the following:

- (1) The bank of North Dakota, its enabling statutes, its governing structure, and its programs;
- (2) The feasibility of Hawaii creating a state-owned bank similar to that of the bank of North Dakota;
- (3) The effectiveness and usefulness of an existing state bank, specifically the economic impact of having a state bank;
- (4) The laws, statutes, rules, and regulations applicable to establishing a state-owned bank;
- (5) The capital requirements of a state-owned bank;
- (6) Initial capitalization options for a state-owned bank;
- (7) The cash management and banking needs of the State;
- (8) An estimation of the short-term operating costs and projected revenues of a bank of the State of Hawaii;

- (9) The long-term broad economic impact and long-term job creation and state revenue impacts of having a bank of the State of Hawaii;
- (10) Any impacts to existing banks and financial institutions in the State;
- (11) Sound underwriting practices necessary for a state-owned bank;
- (12) Standards to ensure that loans result in the outcomes described in the approved loan applications;
- (13) Ethics and conflict of interest requirements for the board, offices, and employees of a state-owned bank;
- (14) Transparency requirements for the operations of a state-owned bank; and
- (15) Any necessary legislation to establish a state-owned bank.

The task force that is envisaged is to be comprised of ten individuals, with the standing or qualifications specified in Section 2 of the measure. It is to submit an interim report to the legislature no later than twenty days prior to 2012 regular session, and a final report to the legislature no later than twenty days prior to the 2013 regular session. The task force would be assisted with research and organization support services provided by the Legislative Reference Bureau.

Without prejudging, in any manner, the merits and desirability of establishing such a State-owned bank in Hawaii, the Department notes, and wishes to emphasize, that this task force, if established, does not solely have a mandate to recommend how a State-owned bank, along the model of the Bank of North Dakota, can be expeditiously organized

in Hawaii. As we understand the mandate of the proposed task force, it would also include studying whether a State-owned bank would be a financially feasible, appropriate, useful, and beneficial enterprise for the State of Hawaii to undertake. Consequently, should the task force interim report determine and recommend that a State-owned bank would not be feasible, appropriate, useful, or beneficial for the State of Hawaii to undertake, the task force, at that juncture, would presumably need, and would expect, the legislature's guidance as to whether any further efforts by the task force to develop legislation and finalize cost estimates to capitalize a State-owned bank should proceed, in light of the interim report recommendations, should they be adverse to the concept of a State-owned bank.

If that understanding can be reached, the Department is willing to offers its support and cooperation in implementing the proposed task force. We have estimated that the annual travel costs associated with conducting the work of the task force will be \$6,600, for an estimated total cost of \$13,200 over the two-year existence of the task force, for which a legislative appropriation would be required. However, at this time, we respectfully reserve the right to modify the appropriation request upon submission of the task force interim report should it be determined by that time that additional, unanticipated costs have been or will likely be incurred prior to the filing of the task force final report .

Thank you for the opportunity to testify. I would be pleased to respond to any questions you may have.

Charlotte A. Carter-Yamauchi
Acting Director

Shawn Nakama
Assistant Director for Research

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LEGISLATIVE REFERENCE BUREAU
State of Hawaii
State Capitol
415 S. Beretania Street, Room 446
Honolulu, Hawaii 96813

Written Comments

HB853, HD1 **RELATING TO THE BANK OF THE STATE OF HAWAII**

Comments by the Legislative Reference Bureau
Charlotte A. Carter-Yamauchi, Acting Director

Presented to the Senate Committees on Economic Development and Technology and
Commerce and Consumer Protection

Wednesday, March 23, 2011, 1:30 p.m.
Conference Room 016

Chairs Fukunaga and Baker and Members of the Committees:

The Bureau appreciates the opportunity to comment on this measure.

House Bill No. 853, HD1, among other things,

- (1) Creates a task force to:
 - (A) Review, investigate, and study an existing state-owned bank and any applicable laws necessary to establish the Bank; and
 - (B) Craft an implementation plan for the Bank;
- (2) Establishes the membership of the task force;
- (3) Stipulates that the Commissioner of the Division of Financial Institutions of the Department of Commerce and Consumer Affairs shall serve as the chair of the task force; and
- (4) Requires the task force to submit an interim and final report to the Legislature that includes, among other things, information concerning a review of the Bank of North Dakota model, the feasibility of establishing the Bank, the short-term and long-term economic impacts of the Bank, and estimated costs of establishing the Bank.

Section 5 of House Bill No. 853, HD1, directs the Legislative Reference Bureau to provide the research and organizational support services necessary to assist the task force in achieving its purposes as required under the measure.

While the Bureau takes no position on the merits of the measure, it is concerned with the responsibilities charged to the Bureau under Section 5 of the measure, particularly since the task force, as established under the current draft of the bill, is not a creature of the Legislature.

Historically, when a task force is established and attached to an executive branch agency, the responsibility to provide the research and organizational support services necessary to assist the task force is vested with the executive agency to which the task force is attached. The Bureau, which is a legislative service agency administratively attached to the Legislature, a separate branch of government, is ill-suited to provide such services to entities administratively attached to the executive branch.

In addition, if the Bureau is required to provide organizational support, which could be argued to include administrative support services such as making travel arrangements, finding meeting space and coordinating meetings, and paying for incidental and travel costs incurred by task force members, then the end result would mean that the provision of such services would negatively impact the Bureau's existing operating budget. In such case, if required to provide these services to the task force, we would request that an appropriation section be added to the measure so that funds are made available to the Bureau, since the Bureau's budget does not currently contain sufficient funds to cover the costs of providing these services.

Thank you for this opportunity to provide written comments on this measure. If you have any questions, please do not hesitate to contact the Bureau at 587-0666.

Presentation to the Committees on Economic Development and Technology
and Commerce and Consumer Protection
Wednesday, March 23, 2011, at 1:30 p.m.
Testimony on Bill H.B. 853 HD1

In Opposition

TO: The Honorable Chairs Carol Fukunaga and Rosalyn Baker
The Honorable Vice Chairs Glenn Wakai and Brian Taniguchi
Members of the Committees

My name is Gary Y. Fujitani, Executive Director of the Hawaii Bankers Association (HBA), testifying in opposition to HB 853 HD1, which establishes a task force to review, investigate, and study the feasibility and cost of establishing the bank of the State of Hawaii.

HD1 is an improvement over the original bill, which proposed to set up a bank without a feasibility study and financial analysis. However, we oppose a policy of putting public deposits meant to pay for current operating expenses/capital items into long term loans that run the risk of not being repaid. Further, an appropriation would be required for an undetermined amount of capital to start up and operate a bank for a period of time without any offsetting revenues. There would be no guarantee that the bank would make money in a reasonable period of time, if ever.

To our knowledge the Bank of North Dakota (BND), started in 1919, is touted as the model to follow. One has to question why in 92 years, no other state has set up a state-owned bank?

The State of North Dakota is very unique in that it has a population of less than 650,000 residents and yet almost 100 banks operate in the state (Hawaii has 11 FDIC insured banks). BND acts as a bankers' bank or a wholesale bank. So BND provides services to banks, whether it's check clearing, liquidity, bond accounting safekeeping or loan participations. Hawaii banks either do it themselves or already obtain these services elsewhere.

Being a bankers' bank, does not serve the needs of consumers and since any state funds placed with the bank are self insured, the State loses the benefit of collateralization of state deposits. Additionally, deposits at BND are insured by the State of North Dakota and not by the FDIC. So the State is liable in the unforeseen event of the bank's failure.

A quote from the 2009 Bank of North Dakota (BND) Annual Report follows:

“BND’s 90-year evolution as the only state-owned bank in the nation had humble beginnings with a \$2 million bond issuance in 1919, the rough equivalent of \$25 million today.”

“The State of North Dakota began using bank profits in 1945 when money was first transferred into the General Fund.”

So it took 25 years before the State of North Dakota reaped any profits from the bank and a bond issuance was necessary to provide the capital to start the bank. Federal capital guidelines of 8% to 9% of total assets to start a new (de novo) bank would mean that \$1 billion in public deposits would require \$80 to \$90 million in capital that must be appropriated. So while the Bank of North Dakota may be a successful model to following, it took many years to develop before it produced a return.

A state owned bank could face public pressure to make loans to consumers or businesses that do not meet traditional bank credit qualifications. Thus the state would make riskier loans, which increases the risk of these loans not being repaid as agreed. For example this current legislative session, lawmakers are looking for ways to help homeowners facing foreclosure. Would lawmakers look to the state owned bank to make loans to these troubled borrowers?

Obviously, a State-Owned Bank would have an unfair advantage over Hawaii financial institutions that have been serving Hawaii since 1858. Hawaii banks are an integral part of the engine that drives Hawaii’s economy and the setting up of this unfair competition could have unintended consequences.

Over our long history Hawaii’s banks have meet the needs of our community by providing loans, deposit accounts and innovative services to the public and businesses. Banks are very supportive of non-profit human services organizations and other charities by providing monetary assistance and volunteers to help these charities fulfill their missions.

To place public funds meant to pay for current state operations is a risky policy decision to make in these troubling economy times.

Thank you for allowing us to testify on this bill and ask that this bill be held.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gary Y. Fujitani', with a horizontal line extending to the right.

Gary Y. Fujitani
Executive Director



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Testimony to the Senate Committee on Economic Development and Technology and
Senate Committee on Commerce and Consumer Protection

Testimony in opposition to HB 853 HD1, Relating to the Bank of the State of Hawaii

To: The Honorable Carol Fukunaga, Chair
The Honorable Glenn Wakai, Vice-Chair
Members of the Committee on Economic Development and Technology

The Honorable Rosalyn Baker, Chair
The Honorable Brian Taniguchi, Vice-Chair
Members of the Committee on Commerce and Consumer Protection

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 85 Hawaii credit unions, representing approximately 810,000 credit union members across the state.

We are in opposition to HB 853 HD1, which creates a task force to review, investigate, and study the feasibility and cost of establishing a state bank. Our main concern is simply that public funds being deposited into a state bank would be insured by the state itself. Without the benefit of being insured by a separate entity like the National Credit Union Administration (which insures and oversees all credit unions in the State of Hawaii), the state would be in an extremely precarious situation in the event of any financial difficulty within the bank.

Thank you for the opportunity to testify.



46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Founder/Legislative Director

TESTIMONY ON HOUSE BILL 853, HOUSE DRAFT 1, RELATING TO THE BANK OF THE STATE OF HAWAII

Senate Committee on Economic Development and Technology

Hon. Carol Fukunaga, Chair

Hon. Glenn Wakai, Vice Chair

Wednesday, March 23, 2011, 1:30 PM

State Capitol, Conference Room 016

Honorable Chair Fukunaga and committee members:

I am Kris Coffield, representing the Imua Alliance, a nonpartisan political advocacy organization that currently boasts over 60 local members. On behalf of our members, we offer this testimony in support of HB 853, HD1, relating to the Bank of the State of Hawaii, with consideration for amendments.

Beginning in 2007, the American economy began slipping into a sharp recession, a result of, among other things, profligate speculation on risky derivatives by Wall Street bankers and plummeting property values. As the credit crisis deepened, national unemployment rates soared, eventually surpassing 10 percent. The coupling of high unemployment with a decimated housing market led to extreme budget shortfalls for most states, finally culminating in monoline bond insurers, like Moody's, reducing many states' credit ratings. Hawaii was not spared, as its bond rating fell to "negative" from "stable," in 2010, on the basis of declining tax collections and budget reserves.

While the federal stimulus program and Troubled Asset Relief Program helped stem the hemorrhaging of jobs into unemployment lines, they failed to resolve the credit crunch or spur lending to states, businesses, and individuals. What's more, financial firms receiving bailout funds have worked to undermine regulatory mechanisms put in place to protect investors and have disbursed huge bonuses to the some of the same executives that sanctioned the trading schemes underlying the recession. As Hawaii grapples with a \$964 million deficit and potentially billions in unfunded liabilities, it's clear that something has to be done. Exploring the notion of a state-owned public bank, via the enactment of HB 853, HD1 is exactly the kind of innovative solution needed to offset future losses.

In allowing for the consolidation of state assets under a single fiduciary umbrella, a public bank would allow the state to leverage its own resources to finance operations free of interest, since the State of Hawaii would own the Bank of the State of Hawaii and return excess earnings to the state's general fund. Moreover, a public bank would not be beholden to the profit-based agendas of private banks, thereby permitting the Bank of the State of Hawaii to leverage capital on a fractional basis

without consideration for shareholder earnings or market expectations. The capital reserves of private banks, today, are tainted with so-called “toxic” assets and subject to quarterly earnings statements. Because neither of these limitations would apply to a public bank, however, the Bank of the State of Hawaii would be able to better engage in long-term planning based on available deposits and revenue forecasts.

Perhaps the best argument in favor of establishing a task force to study the feasibility of creating a public bank resides not in Hawaii, but North Dakota. Currently, North Dakota is the only state in the country with a public bank, called the Bank of North Dakota. Tasked with maintaining the vitality of local government businesses through collective leveraging and management of state assets, the BND has helped North Dakota escape the economic downturn and, instead, enter the new calendar year with a *\$1 billion surplus*. Granted, North Dakota is home to myriad small banking institutions (unlike Hawaii, whose fiscal landscape boasts a small number of comparatively large institutions). The BND’s 25 percent return on equity and \$60 million dividend payment to the state, in 2009, cannot be easily dismissed, though, particularly when contextualized by the roughly \$300 million that the bank has injected into North Dakota’s general fund coffers over the last decade, according to the Public Banking Institute.

Nevertheless, the Imua Alliance believes this bill can be strengthened through the adoption of several amendments. First, we believe that section 2(a), which sets forth the members of the proposed task force, should be revised to include a representative from the Department of Business, Economic Development and Tourism, the agency responsible for providing the statistical and financial expertise that guides the state’s economic development efforts, in the form of the director of DBEDT or the director’s designee. Second, we submit that section 2(b) should be amended to stipulate that the director of or director’s designee from the Department of Budget and Finance shall service as the task force’s vice-chairperson. Third and finally, we feel that section 2(d)(2) should be modified to encourage investigation of the possibility of creating a centrally computerized bank function (as opposed to a bricks and mortar building), thereby changing the language of this subsection to read: **“The feasibility of Hawaii creating a state-owned bank similar to the Bank of North Dakota, or a virtual economic development bank.”**

As Ellen Brown, president of the Public Banking Institute, has indicated, the projected collective state budget deficit for 2011 stands at \$140 billion, a total that pales in comparison to the \$12.3 trillion in liquidity and short-term loans extended, by the Federal Reserve, to bail out Wall Street. Yet, Fed Chairman Ben Bernanke announced, in January, that a bailout for local and state governments had been taken off the table. States, then, must act to protect their own interests, and passage of this measure would be a smart first step. Mahalo for the opportunity to testify in support of this bill.

Sincerely,
Kris Coffield
Legislative Director
IMUAlliance

COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
Senator Carol Fukunaga, Chair
Senator Glenn Wakai, Vice Chair

COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
Senator Rosalyn H. Baker, Chair
Senator Brian T. Taniguchi, Vice Chair

Wednesday, March 23, 2011
1:30 p.m.
Conference Room 016

Testimony in support of HB 853, HD1

RELATING TO THE BANK OF THE STATE OF HAWAII.

Chair Fukunaga, Chair Baker and members of the Committees:

I am in full agreement that a state-owned bank would promote agriculture, education, community development, economic development, housing, and industry in the State by building a resource to help stabilize and grow the State's economy; use the resources of the people of the State within the State; support the common good and public benefit of the State; and leverage the State's financial capital and resources.

Creating a task force on establishing the bank of the State of Hawaii is an excellent first step.

Thank you for the opportunity to testify in support of this bill.

Ian Chan Hodges
Haiku, Hawaii