

Presentation to the Committee On Economic Revitalization & Business
Tuesday, January 24, 2012, at 8:30 a.m.
Testimony on Bill H.B. 1840

In Opposition

TO: The Honorable Angus L.K. McKelvey, Chair
The Honorable Isaac W. Choy, Vice Chair
Members of the Committee

My name is Gary Y. Fujitani, Executive Director of the Hawaii Bankers Association (HBA), testifying in opposition to HB 1840, which proposes to establish the Bank of the State of Hawaii.

Our opposition stems from the unfair advantage a State-Owned Bank would have over Hawaii financial institutions. There does not appear to be a clear business justification to expend an unknown sum of money to pursue this objective, especially as the State struggles to balance its budget.

Hawaii banks, which first began serving Hawaii in 1858, are an integral part of the engine that drives Hawaii's economy. Introducing unfair competition into the marketplace could have unintended consequences.

Throughout history Hawaii's banks have met the needs of our community by providing loans, deposit accounts and innovative services to consumers and businesses. Banks also play a very large role in supporting our local non-profit human services organizations and other charities. The local banks are major providers of not only monetary assistance but also volunteers to help these charities fulfill their missions.

To our knowledge the Bank of North Dakota (BND), started in 1919, is the only state-owned bank operating in the United States. One has to question why in 93 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 fewer than 650,000 residents and yet almost 100 banks operate in the state (Hawaii has 11 FDIC insured banks). **BND business model is based on acting as a bankers' bank or a wholesale bank. As a banker's bank, BND provides services to banks, whether it's check clearing, liquidity, or bond accounting safekeeping. Hawaii banks are capable of independently performing these services or already obtain these services elsewhere.** So the BND business model would not be viable in Hawaii.

Any state funds placed with the bank are self insured so 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. Therefore, the State is liable in the event of the bank's failure.

Following is a quote from an interview done by BND president & CEO, Eric Hardmeyer:

"...do you think it could be viable for other states to implement your model?"

***EH:** So much of what is going on right now is a knee-jerk reaction to some things that have happened... So my advice is everybody take a deep breath and we're going to get through this... For all states to look at North Dakota's model and say this would be the panacea to all those things, I don't see that happening."*

The State of Massachusetts established a Commission to study the feasibility of establishing a state-owned bank in 2010. **The Commission recommended against establishing a state owned bank.**

Below is an excerpt from the "Report of the Commission to Study the Feasibility of Establishing a Bank Owned by the Commonwealth" dated August 8, 2011.

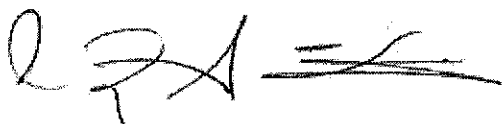
"The Commission recommends that the Legislature not pursue establishing a bank owned by the Commonwealth or by a public authority constituted by the Commonwealth. The primary reasons for the Commission's recommendation are that (1) a state-owned bank would require significant initial capital investment and it remains unclear that there is a proven need to justify the investment; (2) the only existing model of a state-owned bank is that of North Dakota which is inadequate given the vast differences in the banking industries and economies of North Dakota and Massachusetts; (3) the public funds of the Commonwealth would be exposed to unacceptably high risk if deposited in a state-owned bank, the public funds would be used to provide risky gap financing, and the rate of return would need to match that currently earned under the management of the Treasurer; (4) the infrastructure investment activities in Massachusetts are substantially more established than in North Dakota; and (5) Massachusetts has a prominent network of public agencies, quasi-public agencies, and non-profits which offer various lending programs and services, including lending to help support infrastructure. We believe that bolstering these programs, policies and agencies is a faster and more effective way to meet gaps in our capital markets than establishing an entirely new organization."

The link to the Commission report follows:

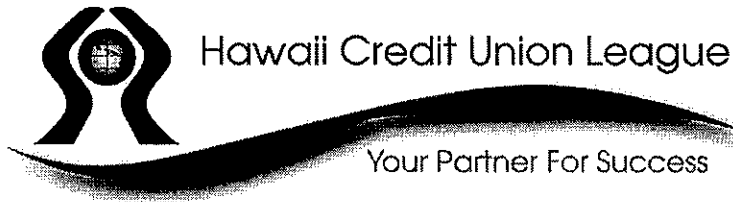
<http://www.mass.gov/hed/docs/eohed/report-of-the-commission-to-study-the-feasibility-of-establishing-a-bank-owned-by-the-commonwealth.pdf>

The Massachusetts study clearly outlines the reasons a state owned bank would also not be appropriate for Hawaii. Instead the Commission recommended using programs, policies and government agencies as a faster and more effective way to meet gaps in capital markets than establishing an entirely new organization.

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



Gary Y. Fujitani
Executive Director



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Testimony to the House Committee on Economic Revitalization and Business
Tuesday, January 25, 2011 at 8:30 a.m.

Testimony in opposition to HB 1840, Relating to State-Owned Bank

To: The Honorable Angus McKelvey, Chair
The Honorable Isaac Choy, Vice-Chair
Members of the Committee on Economic Revitalization and Business

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 83 Hawaii credit unions, representing approximately 811,000 credit union members across the state.

We are in opposition to HB 1840, 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.

HACBED

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Puni Kekauoha &
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Keikialoha Kekipi &
Susie Osborne (*Hawai`i*)
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Tuesday, January 24, 2012

Conference Room 312

House Committee on Economic Revitalization & Business

Testimony in Support for HB 1840

Relating to Task Force to Establish a State Bank Of Hawaii

Dear Chair McKelvey and Committee Members:

The Hawai`i Alliance for Community Based Economic Development (HACBED) **supports HB 1840** which creates a task force to evaluate the feasibility of a state Bank of Hawaii based on the model of the Bank of North Dakota.

The creation of a state bank has the potential to build a unique asset base for the state and the evaluation of this model is an appropriate step. HACBED stands to support the taskforce in any capacity should this effort go forward.

Thank you for the opportunity to submit testimony.

Sincerely,

Brent Dillabaugh
Asset Policy Coordinator

TESTIMONY ON HOUSE BILL 1840, RELATING TO STATE-OWNED BANK

House Committee on Economic Revitalization and Business

Hon. Angus L.K. McKelvey, Chair

Hon. Isaac W. Choy, Vice Chair

Tuesday, January 24, 2012, 8:30 AM

State Capitol, Conference Room 312

Honorable Chair McKelvey and committee members:

I am Kris Coffield, representing the IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 150 local members. On behalf of our members, we offer this testimony in support of HB 1840, creating the task force on establishing 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 outlook on \$4.7 billion of general-obligation bonds fell to "negative" from "stable," in 2010, on the basis of budget reserve depletion prompted by decreased tax collections.

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 \$1.3 billion deficit and billions more 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 1840 is exactly the kind of innovative solution needed to offset future losses.

By consolidating 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 recent calendar years 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 IMUAlliance believes this resolution can be strengthened through the adoption of several amendments. First, we believe that the enumerated members of the proposed task force contained in section 2, subsection (a) 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, subsection (b) the proposal should 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 the list of considerations recommended for review by the task force 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 section 2, subsection (d) to read: "The feasibility of Hawaii creating a state-owned bank or a virtual economic development bank," and/or listing the option of a virtual economic development bank as a topic of task force consideration under the the aforementioned subsection.

As Ellen Brown, president of the Public Banking Institute, has indicated, the projected collective state budget deficit for 2011 stood 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 REVITALIZATION & BUSINESS

Rep. Angus L.K. McKelvey, Chair

Rep. Isaac W. Choy, Vice Chair

Tuesday, January 24, 2012 at 8:30am

Conference Room 312

Testimony in support of HB 1840
RELATING TO STATE-OWNED BANK

Chair McKelvey and Vice-Chair Choy:

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 to review, investigate, and study the feasibility and cost of establishing a state-owned bank is an excellent first step.

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

Ian Chan Hodges
Responsible Markets LLC
Makawao, HI