DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 15, 2010
POSITION: Oppose
SPONSOR: New America Foundation

BILL NUMBER: AB 2581
AUTHOR: S. Bradford

BILL SUMMARY: Banking Development Districts

This bill would:

- Create the Banking Development District Program within the State Treasurer's Office (STO) that would encourage the establishment of banking branches or credit union branches that provide needed products and services in specifically designated geographic locations where there is an underserved community.

- Require the STO to set forth selection criteria, evaluate and approve applications, and designate banking development districts (BDD).

- Require the STO to adopt rules and regulations for the establishment and maintenance of BDDs.

- Direct the STO to establish a performance review process for the program.

FISCAL SUMMARY

This bill would result in unknown startup costs for 2010-11, as such costs are difficult to quantify without knowing the number of participating banks in the BDD program. However, the STO estimates the bill would result in costs of $486,000 General Fund annually to fund the program, and require additional staff to meet the requirements of this bill.

SUMMARY OF CHANGES

Amendments to this bill since our analysis of the April 26, 2010 version do not alter our position. The Department of Financial Institutions (DFI) has now been removed as an administrator of the BDD program from this bill.

COMMENTS

Finance opposes this bill for the following reasons:

- The BDD program is intended to help the underserved communities to have access to enhanced banking services; however, there is evidence to show that a similar program in the state of New York (established in 1998) has not been able to achieve the desired outcome.

- A number of financial institutions are already participating voluntarily in programs to provide banking to the underserved in many cities throughout the state.

- This bill would result in unknown startup costs in addition to projected annual costs of $486,000 General Fund beginning in 2010-11 to fund staffing and related program costs at a time when the state's finances are already constrained.

Analyst/Principal	Date	Program Budget Manager	Date
(0190) G. Bruss		Veronica Chung-Ng	

Department Deputy Director Date

Governor's Office: By: Date: Position Approved_____
Position Disapproved_____

- This bill does not provide fees, appropriation authority, or position authority.
- It is unclear what types of incentives can be offered and at what cost to the state.

ANALYSIS

A. Programmatic Analysis

This bill requires the creation of a new program (BDD) within the STO to oversee the establishment of banking services and designate banking development districts. This bill also requires the STO to compile a list of underserved communities, set forth selection criteria to evaluate banks, adopt rules and regulations for establishment and maintenance of banking development districts, as well as establish a performance review process to ensure that banks are meeting their goals and initiatives.

A similar program was established in New York in 1998; however, according to a 2006 Wall Street Journal Article, Citibank executives acknowledged that without below-market-deposit rate deposits from the city and state, the bank was likely to continue incurring losses.

Additionally, a number of financial institutions working in collaboration with Bank on California are already voluntarily participating in programs to provide banking to the underserved in a number of cities throughout the state. Bank on California is a collaborative, voluntary initiative helping more low- and middle-income Californians establish savings, build credit history, gain access to lower cost sources of credit, and invest in the future. This bill would be duplicative and is likely to add another layer to existing state bureaucracy and cost.

While the STO has not taken an official position on this bill, they have expressed some concerns. The latest amendments to delete DFI's co-administration of the BDD program would mean the STO would have to duplicate expertise that is already in place at DFI. Thus, STO would be required to hire additional staff to fulfill functions that would have been more effectively handled by DFI.

B. Fiscal Analysis

This bill would result in additional costs for the STO as more staff and resources would be required to meet the requirements of this bill. STO staff has provided a very preliminary cost estimate of $486,000 General Fund for five positions.

Additionally, this bill does not provide fee/appropriation or position authority. It would appear that the STO would need to divert resources from existing workload to implement the bill's provisions.

This bill would require the STO to provide a range of incentives to help banks overcome short-term costs that may prevent banks from offering product that may have long term potential. It is unclear what these incentives should be and how they will impact the state through direct and indirect costs. The STO is mandated to maximize returns on investment and some of these incentives may create a situation that conflicts with the investment goals of the STO.

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED) **Form DF-43**

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Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	(Fiscal Impact by Fiscal Year) (Dollars in Thousands) 2010-2011	FC	2011-2012	FC	2012-2013	Fund Code
0950/St Treasurer	SO	No	C	$486	C	$486	C	$486	0001