

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: August 15, 2011
POSITION: Oppose
SPONSOR: Author

BILL NUMBER: AB 750
AUTHOR: B. Hueso

BILL SUMMARY: Investment Trust Blue Ribbon Task Force

This bill would:

- Create the investment trust blue ribbon task force to consider the viability of creating the California Investment Trust—a state bank, to meet the financial needs of the state as specified.
Require the task force to:
Assess the state’s current network of public and private financial resources.
Examine administrative and operational structures for organizing a trust.
Consider options for integrating a state trust model into the existing state financial resources network.
Provide a report to the Legislature on December 1, 2012. If the task force recommendations are supportive, the task force shall provide information on steps to be taken to establish a state bank.

FISCAL SUMMARY

The Center for State Innovation (CSI), an organization that performs studies on state banks, estimates this bill would result in staffing costs of approximately \$120,000. Finance does not have a basis for a different cost estimate; however, this amount seems too low considering the scope and breadth of this issue. This bill does not provide a funding source for this study. The State Treasurer’s Office (STO) believes that as currently drafted, the resulting costs for the STO are minor and absorbable. No estimate has been provided by the State Controller’s Office (SCO).

COMMENTS

The Department of Finance opposes this bill for the following reasons:

- There is no clear need for this bill at this time.
By creating a new task force, this bill continues the proliferation of government task forces and commissions.
The scope and requirements of this bill are broad in nature and could be difficult to accomplish without incurring significant costs. This bill does not provide appropriation authority to cover costs.

Other states have attempted to create state banks; however, legislation has progressed very slowly or has stalled.

At this time, both the SCO and the STO have no formal position on this bill.

SUMMARY OF CHANGES

Amendments to this bill since our analysis of the 05/05/2011 version do not alter our position.

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

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

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**ANALYSIS****A. Programmatic Analysis**

This bill would specify the membership of the task force and the processes, procedures, and regulations that would govern the task force as specified. Additionally, it would require the task force to be staffed by a private corporation or non-profit organization that has specific expertise in public finance and public institutional models.

The task force will be required to provide a report to the Legislature on December 1, 2012. Should the task force be supportive of creating a state bank, the bill requires the task force to provide information on the next steps that need to be taken. This requirement expands the scope of the study and potentially may result in unplanned additional costs.

Given the economic crisis of the last few years and its far reaching effects, coupled with the success of the Bank of North Dakota, this bill attempts to have a task force provide exploratory information on the formation of a state bank. Considering the complexity of the state of California, and the broad nature of the scope and requirements of this measure, the study would likely require considerable analysis of facts and information to develop a workable bank model.

Considering California's long term fiscal problems were immense, the Administration has made substantial progress in addressing the state's fiscal condition by reducing and making state government more efficient. Furthermore, the needs this bill attempts to address are already being addressed at various levels by the banking industry, the STO through the time deposit program, the infrastructure bank, and others. Based on this, there doesn't seem to be a clear need for this bill at this time.

California, like other states, has been greatly impacted by the great recession; however, the Administration continues to make a concerted effort to resolve the impact of the economic crisis by reducing state government among others options. This bill would continue the proliferation of government task forces and commissions.

According to the Chair of the Public Banking Institute's testimony to the Legislature in May 2011, to date eleven other states have introduced legislation to create a state bank or study the creation of a state bank. So far, most of this legislation has progressed very slowly or has stalled.

**B. Fiscal Analysis**

This bill does not identify a funding source or provide for any position authority for this study; however, it provides that the task force shall be staffed by an organization that has specific expertise in public finance. CSI has provided a rough estimate of \$120,000 for the cost of staffing based on their experience with other states. The costs are broken down by task and budget line to allow for the possibility of contracting for certain tasks while covering others with state agency staff. The study will require information from other state agencies such as the STO and the SCO on programs they administer. It is notable, however, that both the SCO and STO have no formal position on this bill. The STO believes that as currently drafted, the Treasurer or his designee's role as a member of the task force is minor and absorbable. Although Finance does not have a basis for a different cost estimate, this amount seems too low considering the scope and breadth of this issue.

**BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)**

**AUTHOR**

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO	PROP							
	RV	98	FC	2011-2012	FC	2012-2013	FC	2013-2014	
9901/Var Depts	SO	No	-----	See Fiscal Summary	-----				0001
9901/Var Depts	SO	No	-----	See Fiscal Summary	-----				0494
9901/Var Depts	SO	No	-----	See Fiscal Summary	-----				0988

<u>Fund Code</u>	<u>Title</u>
0001	General Fund
0494	Other - Unallocated Special Funds
0988	Other - Unallocated NGC Funds