Oregon Public Banking Alliance

Written Testimony of Madeline Merritt:

Co-Chair of the Oregon Public Banking Alliance, Board Member, Public Banking Institute.

Before the Oregon House Committee on Emergency Management, General Government and Veterans

Regarding HB 2763, Establishing a State Public Bank Task Force,

February 16, 2023.

Dear Members of the House Committee on Emergency Management, General Government and Veterans,

I am writing today in support of HB 2763, which "Establishes a State Public Bank Task Force." This testimony is submitted on behalf of the Oregon Public Banking Alliance, of which I am the co-chair. OPBA is a non-partisan grassroots organization committed to supporting legislation that will bring Public Banking to Oregon, as well as educating and organizing the public. I also serve on the Board of Directors for the national research non-profit, the Public Banking Institute. I was a core member of the California Public Banking Alliance and helped pass California's municipal banking bill, AB 857 before moving to Oregon and I have been a long-time environmental advocate.

Public Banking is a solution whose time has come. Though the concept is little known in the US, internationally more than 900 public banks hold more than $49 trillion in assets. These banks are often the economic engines for infrastructure and green energy transitions. What makes a public bank so different from a Wall Street Bank is that a public bank is mandated to serve the financial interests of the public rather than the short term profits of private investors. In the US, our operating example is the bank of North Dakota, which was formed in 1919, and has been a major vehicle for affordable credit for small agriculture, small businesses, and affordable college loans. The bank works with community banks and credit unions (in fact, North Dakota has the highest rate per capita of Community Banks and Credit Unions in the US), has no brick and mortar branches, and acts as a bankers bank for the state, as well as its rainy day fund, making assets more nimbly accessed in emergencies such as Covid 19, or natural disasters. The Bank of North Dakota remained profitable throughout the financial crisis and is frequently more profitable than Goldman Sachs and JP Morgan Chase. This is because of its low overhead, lack of bonuses and enormous executive salaries, and because it serves the long term financial interests of the public, including supporting a healthy economy via its lower cost avenues of credit.

I do not need to tell anyone on this committee the immense challenges we face in Oregon. Surging costs of living, farmers and small businesses on the brink of solvency, lack of affordable housing, and immense needs for infrastructure investment. We are a people who care about the environment and are seeing the effects of a rapidly changing climate in our wildfire season, more intense storms, and dwindling rainfall. We are seeing more and more people who live on the street and we have huge mental health and drug challenges without the infrastructure to support treatment. We have a legal system that has been rendered non-functional due to a lack of public defenders. We have rural communities that have been left behind and desperately need better infrastructure and services. We have a lot we need to invest in to meet these challenges head on, and yet, in these times of high interest rates and financial uncertainty the tendency is to meet great need with increasing austerity as access to credit is becoming rapidly more expensive.

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A Public Bank of Oregon could provide a new source of revenue, supercharge the impact of federal funds (including the 5.3 Billion allocated via the Inflation Reduction Act), and provide localized credit offerings for our small farmers and small business interests. A Public Bank could be designed to work in partnership with community banks and credit unions, it could be a depository or bankers bank for the state as well as municipalities (saving us millions in fees to hold checking accounts with large out of state banks), and it could provide more affordable lines of credit for major infrastructure projects. It could benefit the local economy, provide specialized support for affordable housing development, potentially bank the cannabis industry and lower cash-targeted crime. It could even help a transition from fossil fuel energy infrastructure to a more resilient and renewable grid for our state. A Public Bank could do all this, because like any bank, a state owned bank can lend up to ten times the amount of capital it holds, allowing it to start benefiting Oregon as soon as it opens its doors.

The charter, directors, and management can focus on a triple bottom line philosophy, which prioritizes preserving the capital of government depositors, meeting the needs of residents, and supporting the economic and environmental goals of the state and its communities.

There are so many possibilities for the structure, design and goals of a public bank of Oregon, that's why we at the OPBA heartily support HB 2763 which seeks to stand up a task force that will bring together stakeholders from across Oregon to explore the issue in depth. The taskforce will then generate a report with their recommendations for how to best utilize public banking in Oregon. This report will guide future legislation on how an Oregon public bank should be set up, capitalized and overseen.

Is there a cost to doing nothing? Absolutely. The cost of doing nothing is amply displayed in the current ongoing debt payments, as well as the future increasing costs of credit while we need major investments to uphold quality of life. In 2019, **Oregon** paid **$581 million** dollars in interest payments while **Portland** paid **$110 million** and the **University of Oregon** paid **$32 million** in the same year.

Meanwhile, due to collateralization requirements, many of our local and state funds are deposited with out-of-state banks in addition to those banks providing checking services. Four Major Banks used frequently by Oregon Municipalities: US Bank, Bank of America, Wells Fargo, and JP Morgan Chase all rank as insignificant investors in small business and small farm lending.

Institutional change is almost always avoided in favor of sticking with the status quo. However, in these times of increasing public challenges, economic uncertainty, and insufficient funding, we should explore financial tools that will provide more value for our public dollars and raise revenue without increasing our tax burden. This is an incredible opportunity for you, our elected representatives, to make Oregon better, for all our communities, rural and urban, and across any party lines. Public Banking just makes sense. This is why we are asking you to support a Task Force that will study with intention and economic expertise the options in making a fiscally and socially responsible banking option for Oregon.

Thank you for your time and consideration,

Madeline Merritt

Co-Chair, Oregon Public Banking Institute.

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Frequently Asked Questions

Public Banking Taskforce (HB 2763)

What is a public bank?

A public bank is a bank chartered and capitalized to provide banking services that benefit the public. They are independently managed by banking professionals and a board of directors, and are chartered and mandated to serve the long-term financial interests of the public instead of short term profits for private investors.

What are the benefits of public banks?

Public banks can fund infrastructure, affordable housing, and other public projects at lower interest rates and with lower fees than conventional Wall Street financiers, saving as much as 40%—50% over the life of a 30-year bond.

Additionally, interest, fees, and profits go back to the public bank itself, which provides a new form of public revenue without raising taxes. They can offer better rates for underbanked and rural communities via small agriculture and small business loans (administered by community banks and credit unions), as well as funding infrastructure that private banks refuse to capitalize (in our cities and townships with small annual budgets).

What does this bill do?

HB 2763 seeks to stand up a task force that will bring together stakeholders from across Oregon to explore and recommend a fiscally sound banking structure as well as weigh the benefits and harms of a state bank potentially engaging in affordable housing construction, student loans, agricultural loans, a green bank to capture federal funds, financing for local government infrastructure projects, and/or financial services for cannabis businesses. The taskforce would then generate a report with their recommendations for how to best use public banking in Oregon. This report will guide future legislation on how an Oregon public bank should be set up, capitalized and overseen.

Why aren't public banks more common?

Globally, public banks are very common. More than 900 public banks hold more than $49 trillion in assets worldwide. The Bank of North Dakota, founded in 1919, remained profitable through the 2008 financial crisis, and continues to be one of the most profitable banks in the US.

Will a state bank hurt community banks and credit unions?

No, public banks can be designed to support these institutions. By leveraging the bank's resources, we can increase local lending and meet community needs in partnership with local financial institutions such as community banks, credit unions, and CDFIs. A public bank can support local banks and credit unions by backing their loans and letters of credit.

In our U.S. example, the Bank of North Dakota has vibrant public/private partnerships with community banks and credit unions, and the state has the highest rate of these institutions per capita of any state in the nation.

Will we be able to capitalize a public bank?

There are many models to capitalize a public bank, which the task force bill is designed to explore. However, a public bank has the ability to lend up to ten times the amount of capital it holds, allowing it to start making loans as soon as it opens its doors. The charter, directors, and management can focus on a triple bottom line philosophy, which prioritizes preserving the capital of government depositors, meeting the needs of residents, and supporting the economic and environmental goals of the state and its communities.

Public Banking Assets by Continent

North America: $334B
Central & South America: $1,229B
Europe: $13,512B
Middle East: $905B
Africa: $533B
Asia: $34,756B
Oceania: $259B

Public Banking & State Infrastructure

Oregon has a Big Infrastructure Problem. Could a public bank help?

The recent amended budget forecast for ODOT's Rose Quarter project has state officials scrambling to develop a plan to make up the gap between the project's initial cost estimate of around $500 million to the eye-watering number reported at the commission's September 2022 meeting of more than $1 billion.

Rural Malheur County's shipping depot project has now been indefinitely suspended after the $26 million budgeted isn't enough to construct its main building; a blow to processing costs for the region's farmers and eliminating an anchor project for major industrial development, as well as many as 300 jobs. They were unable to find a private lender for the shortfall of $4 million to complete the project.

In addition, huge portions of infrastructure budgets go to pay back interest on loans and bonds—frequently as much as 50% of payback budgets go to interest alone. Federal and state-funded block grants are limited compared to the potential of leveraging those funds through state credit. In the current economic climate, we can be sure that interest costs for newly financed projects will increase.

Can public banks support better infrastructure?

Public banks can help correct market failures that limit municipalities' ability to acquire affordable financing for infrastructure development.
One such failure is the lack of markets and commercial financing for small-scale infrastructure projects, which may result from private sector capital constraints and unwillingness to lend. Municipalities, especially rural communities, often struggle to obtain private sector loans or issue bonds for small, unglamorous, yet critical infrastructure.

Wall Street Banks that underwrite most municipal bonds have outsized power to set the terms of bond deals, and they typically do so in a manner that guarantees profits for themselves and bondholders, at taxpayers' expense. Financial staff for many state and local governments view and treat bond underwriters as de facto advisors, even though they are not legally required to put taxpayers' interests above their own bottom line.

What strategies should a public bank consider when financing infrastructure?

The task force will provide the opportunity for deep inquiry and cost benefit analysis when addressing public infrastructure financing. Should infrastructure investment be commingled rather than separated by sector to enable cross-subsidization? Could pooling municipal capital and resources into an umbrella institution such as a state bank help local governments access cheaper financing and improve their ability to compete for federal and state grants? What are the best strategies for the state bank to have public-centered profit motive, market discipline, political independence, and good governance?

Is there a cost to doing nothing?

Institutional change is almost always avoided in favor of sticking with the status quo. However, in these times of increasing public challenges, economic uncertainty, and insufficient funding, we should explore financial tools that will provide more value for our public dollars and raise revenue without increasing our tax burden.

A task force could also explore re-finance options and structures to consolidate current public debt payments in Oregon. The cost of doing nothing is amply displayed in the current ongoing debt payments, as well as the future increasing costs of credit while we need major investments to uphold quality of life.

*In 2019, Oregon paid $581 million dollars in interest payments while Portland paid $110 million and the University of Oregon paid $32 million in the same year. *Most recent Comprehensive Annual Financial Report (CAFR) or Audited Financial Statements (AFS).*

Meanwhile, due to collateralization requirements, many of our local and state funds are deposited with out-of-state banks in addition to those banks providing checking services. Four Major Banks used frequently by Oregon Municipalities: US Bank, Bank of America, Wells Fargo, and JP Morgan Chase all rank as insignificant investors in small business and small farm lending according to BankLocal.info.

This task force could explore how a state bank could help facilitate increased partnerships with community banks and credit unions while decreasing our affiliations with large out-of-state banks.

Public Banking & Benefits to Local Economies

How can public banking benefit the local economy?

There are many potential benefits a state public bank could bring to local economies. A state public bank could serve as a "fiscal agent" to the state and municipal governments, performing basic services such as holding public funds, managing payroll for public employees, etc. However, a state public bank could also be used to address public infrastructure and services that are currently facing underinvestment due to insufficient federal support, limited fiscal space in the state budget, and the prohibitive cost of credit.

Moreover, a state public bank could potentially support broader access to banking and credit services for unbanked and underbanked communities, such as rural communities, the marijuana industry, and low income populations and partner these efforts with community banks, credit unions and CDFIs.

How would a public bank benefit Oregon as a whole?

A state public bank could support Oregon and her people by reinvesting public money that is currently being held in Wall Street banks, who charge exorbitant fees, high rates of interest on public bonds, fiscal agent fees, and require reliance on national banks for wholesale credit.

Ensuring that Oregon has access to low-cost, equitable and mission-oriented finance means that credit can be directed toward promoting public purpose and overall community wealth. Essentially, a state public bank could provide the state with lower cost funding for any sort of project that the state would normally seek private, commercial funding for.

Additionally, a state public bank could serve as an institutional home for other statutory investment and lending programs, such as the Equity Investment Act (SB-1579).

Would a public bank work alongside existing credit unions and community banks?

A state bank would work in partnership with existing credit unions and community banks. In addition to the minimum services that a state public bank could provide, there are additional services that could be included to bring the public bank to the next level.

The task force could explore the possibility of these additional services. For example, a state public bank could back generic, universal checking and savings accounts, which could help set standards for the rest of the banking industry in Oregon. Additionally, the task force could explore the benefits of using a state public bank for the securitization of smaller loans issued by credit unions and community banks, which would allow smaller loan institutions to have a greater appetite for risk when that risk aligns with public economic benefit.

Who would oversee a public bank?

A state public bank would be administered by financial and economic development experts, but have public oversight, specific community governance, and ongoing input from various key industry stakeholders, such as credit unions and the agricultural industry.

Utilization of a public bank would lead to the overall cost of the banking sector, including overhead and infrastructure costs, in Oregon to decrease given there would be less fees and interest charged on public funds. Keeping public money and investment decisions local is important to guarantee that the community has an input in the investments of public money, is able to provide direction, and hold accountable the entities that are managing these public funds.

Public Banking & Building a Green Economy

How can public banking finance renewable infrastructure?

Public banks are an ideal solution for providing the necessary funding for green initiatives. A public bank, with a charter, directors, and management focused on a triple bottom line philosophy would ensure that the bank's priorities align with preserving government depositors' capital, helping residents in need, and safeguarding the planet.

Public banks have the opportunity to divest from harmful industries and invest in clean resources, regenerative projects, and renewable energy and infrastructure. These investments in sustainable infrastructure projects such as utility scale renewable energy production and storage, solar power for homes and businesses, electric car and bicycle charging stations, benefit the environment and create jobs and economic opportunities for local communities. Financing these projects through public banks will bring well-paying jobs to local residents, improve the quality of life for our communities, and strengthen our economy.

Can public banks help mitigate climate change?

Wall Street banks have invested billions of dollars in technologies that harm the planet, such as fossil fuel extraction, refining, and distribution- focusing on short term profits rather than the true costs to our communities and environment. Those costs are externalized to the public and away from the investors who benefit from the short term profits of these investments.

Public banks have the opportunity to take a different approach, by divesting from these harmful industries and investing in clean resources, regenerative projects, and climate-conscious infrastructure. A state public bank could support remediation in our most impacted front-line communities while building green infrastructure.

Are there any examples of public banks supporting a transition to renewable infrastructure?

More than two dozen green banks exist in 12 countries at either the national or regional level. Australia's trailblazing national green bank, the Clean Energy Finance Corporation, has already facilitated more than $37 billion in investments over 10 years. That money has gone on to finance thousands of projects ranging from renewable energy generation to sustainable red meat production.

Germany has a public sector development bank called KfW that has provided major investments in renewable energy and energy efficiency. Its fossil fuel investments are close to zero. One of the key features of KfW is that much of its lending is driven in a strategic direction determined by the national government. Its key role in the green energy revolution has been played within a public policy framework, including policy measures that have made investment in renewables commercially attractive.

The Financial Times recently unmasked the "fallacy of ESG investing," arguing that "win-win" voluntary investment strategies are illusionary at best. Additionally, private capital priorities typically ignore the need for making these energy-transition investments in ways that are fair and inclusive.

Could an Oregon Public Bank help us access additional Inflation Reduction Act funding?

The IRA doesn't create a national green bank, but it does create the GHG Reduction Fund, which allocates $28 Billion to non profit green funds and an additional $7 billion directly to states, municipalities, tribes, and eligible nonprofits for their own clean power investments. An Oregon public bank could significantly expand the impact of any funding we receive by doing what banks alone can do: leverage its capital assets multiple times through the creation of lendable funds.

Expanding the potential impact of the $5.3 Billion in funds already allocated to Oregon via the IRA is a very important consideration for the Public Banking Task Force (HB 2763).

Where Can I Learn More?

For more information, we recommend visiting the following websites:

- Oregon Public Banking Alliance
  www.oregonpublicbanking.com

For specific questions or concerns, please contact:

- Madeline Merritt, OPBA Chair
  chair@oregonpublicbanking.com
- Kelie McWilliams, Rural Engagement Project
  kelie@ruralengagementproject.com

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Public Banking & Agricultural Finance

How can public banking support Oregon farmers?

Supplemental financing through a public bank can be provided in conjunction with local community banks, credit unions, and Community Development Financial Institutions to established, beginning, and family farmers.

Examples of the financial vehicles that a public bank could provide to drive Oregon agricultural operations include loans for non-traditional agricultural activities, real estate loans, and export enhancement loans. In addition, offering flexible terms and extensions on lines of credit would provide necessary financial relief for continuing operations.

Providing direct access to low interest financing is important for farmers in Oregon to be able to weather the storm in emergencies and to prepare for challenges on the horizon.

Can public banks help mitigate emergencies for farmers?

Recent examples of emergencies that have acutely impacted Oregon agriculture are the COVID-19 pandemic and the war in Ukraine. Responding to worker availability, a spike in oil prices, and supply chain disruptions made operations challenging for farmers. Access to flexible financial tools are crucial for overcoming unpredictable times.

In times of crisis, public banks could be called upon to make capital available to localities immediately (similar to the Bank of North Dakota) and fund programs that would allow farmers to keep workers on payroll and to overcome financial disasters with long-term finance that would allow farmers to make a full recovery.

How can public banking finance help to support existing banking infrastructure?

In contrast, with a public mandate and lower cost of capital, public banks could allow under-resourced regions to create additional credit to spur development while also generating funding streams that compete with private equity for existing supply.

Could a public bank provide support that would allow farmers to make necessary investments to prepare for the road ahead?

Oregon has been experiencing pressures from extreme drought in the summer months that demand solutions for issues such as water quantity, water infrastructure, and irrigation efficiency. A public bank task force could explore how to ensure that the funds that become available for adapting to water challenges are being spent effectively. The public banking system can deliver supplemental financing to targeted needs that will allow for successful transitions through water crises.

Agricultural workforce issues are another prevalent topic that could benefit from the creation of a public bank. Compliance with HB 4002 is already creating administrative hurdles for farmers that complicates farm operations. Where unanticipated costs related to payment of overtime start to arise, operating loan programs can help to free up farmers in a budgetary crunch.

Adaptability in markets is an important trait for the Oregon agricultural industry in the future. At the farm level this means being able to deliver to local markets or pivot to delivering elsewhere. Financing marketing efforts locally and developing supply chains for expanding farmers' reach will be crucial for responding to market shifts.

If you have questions or concerns, we'd love to hear them. You can reach out to:

- Madeline Merritt, OPBA Chair
  chair@oregonpublicbanking.com
- Kelie McWilliams, Rural Engagement Project
  kelie@ruralengagementproject.com