



Monterey County

Item No.18

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

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May 04, 2021

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Response to Board Referral No. 2021.07:

- a. Adopt a resolution expressing interest in participating in a viability study to establish a Central Coast Public Bank encompassing the counties of Santa Cruz, Monterey, San Benito, San Luis Obispo, and Santa Barbara; and
- b. Provide direction to staff.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Adopt a resolution expressing interest in participating in a viability study to establish a Central Coast Public Bank encompassing the counties of Santa Cruz, Monterey, San Benito, San Luis Obispo, and Santa Barbara; and
- b. Provide direction to staff.

SUMMARY:

On April 20, 2021, Supervisor Alejo submitted Board Referral No. 2021.07, "*Expression of Interest in A Viability Study to Establish a Central Coast Public Bank.*" This report responds to the board referral and includes a resolution expressing interest in participating in a viability study to establish a Central Coast Public Bank encompassing the counties of Santa Cruz, Monterey, San Benito, San Luis Obispo, and Santa Barbara. The Santa Cruz County Board of Supervisors is taking the lead on developing funding for a viability study for a Central Coast Public Bank and is seeking expressions of interest from public agencies in participating in such a study. Once the interest of various Central Coast agencies in participating in a viability study of a public bank can be determined, a financial plan to fund the viability study with equitable contributions from involved agencies can be developed to be considered by the potential participants. Monterey County has not allocated appropriations for the funding of a public bank feasibility study, nor does the resolution earmark any funding.

Assembly Bill 857, adopted by the California Legislature in 2019, permits local governments to form and operate public banks. Cities and counties such as San Francisco, Los Angeles, and San Diego have investigated the feasibility of forming public banks using assets held in their treasury investment pools. Creating a public bank is a significant undertaking, with many agencies discussing and reviewing its feasibility.

DISCUSSION:

State legislators adopted AB 857 as a pilot program to establish public banks in California to address local government needs. AB 857 authorizes the lending of public credit by public banks and authorizes public ownership of public banks to achieve cost savings, strengthen local economies, support

community economic development, and address infrastructure and local housing needs.

AB 857 specifically states that any publicly owned depository would fall under the regulatory jurisdiction of the FDIC and the California Department of Business Oversight. On November 20, 2020, the Department of FDIC gave notice of the proposed regulation to implement AB 857. The Act specifies that a local agency will need to meet the same general requirements and approval criteria as existing law requires of a private sector applicant for a banking license, including obtaining deposit insurance provided by the Federal Deposit Insurance Corporation. The Act authorizes the Commissioner of Financial Protection and Innovation ("Commissioner") to promulgate regulations to carry out the Commissioner's duties under the Act. To expedite the rulemaking process, the Commissioner intends to issue regulations in phases. This first phase of regulations focuses on general definitions and application requirements. This will enable the Commissioner to provide guidance on those areas most immediately relevant to stakeholders and enable implementation of the Act as timely as possible. On March 5, 2021, the Commissioner proposed additional changes to the implementing regulations.

A public bank may engage in banking activities, including infrastructure lending, wholesale lending, participation lending, and certain retail activities. A public bank may not compete with local financial institutions or engage in certain retail activities without partnering with a local financial institution. The DFPI is prohibited by law from licensing more than two public banks per calendar year and more than ten public banks in total.

In 2020, Supervisor Lopez and Supervisor Alejo submitted Board Referral No. 2020.11 for staff to investigate the feasibility and viability of creating a public bank to serve the local government needs while not competing with local and national banking institutions. On January 26, 2021, the Board received a report on the cost estimates for a feasibility and viability study for a Monterey County public bank. The study was estimated to cost between \$100,000 and \$500,000. The Fiscal Year 2020-21 adopted budget has no allocated appropriations for a public bank feasibility study. Funding for a study was not discussed during the budget workshop for the FY 2021-22 recommended budget.

On April 20, 2021, Supervisor Alejo submitted Board Referral No. 2021.07, "*Expression of Interest in A Viability Study to Establish a Central Coast Public Bank.*" The Santa Cruz County Board of Supervisors is taking the lead on developing funding for a viability study for a Central Coast Public Bank and is seeking expressions of interest from public agencies in the Central Coast in participating in such a study. The collaboration with other agencies could achieve an economy of scale that improves feasibility and benefits the entire region. Once the interest of various Central Coast agencies in participating in a viability study of a public bank can be determined, a financial plan to fund the viability study with equitable contributions from involved agencies can be developed to be considered by the potential participants.

Other state local governments have formed task forces and issued studies regarding the feasibility of public banks. San Francisco's Municipal Bank Feasibility Task Force Report found that a public bank would be a time-intensive and expensive endeavor, with the need for decades of general fund subsidies. As of this report's writing, the State has not received any applications from public entities to transact business as a public bank.

OTHER AGENCY INVOLVEMENT:

The County Administrative Office prepared this report with input from the County's municipal advisors, consulting groups, the California Department of Financial Protection and Innovation, and other local governments.

FINANCING:


Adopting a resolution expressing interest in participating in a viability study to establish a Central Coast Public Bank does not have a fiscal impact on the general fund. If there's an interest by local agencies in participating in a viability study, a financial plan to fund the viability study with equitable contributions from involved agencies will be developed to be considered by the potential participants.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

Investigating the establishment of a sustainable and feasible public lending institution meets the Board's economic development initiative since banks can collaborate in the local community and strengthen economic development to ensure a diversified and healthy economy.

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety

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Attachments: Resolution