Why Does Washington State Need a State-Owned Bank?

Why we need a state-owned bank: We simply can't keep borrowing from the future!

- The state has **$32 billion in debt** (2019) and is currently **the sixth highest in debt** per capita in the United States.[1]
- The Washington State treasurer urges reducing the capital budget reliance on debt.[1]
- **The debt is reaching the constitutional limit,** thus the state can't afford to accommodate the demand for new infrastructure projects and public services to meet the state population growth without raising more taxes. State revenues are not growing as fast as state needs.
- The $7 billion average public funds (the monthly balance in 2020) deposited in private-sector banks are not yielding benefits nor providing adequate return to the state, yet the state borrows money from the private sector to meet the various purpose General Fund (62% of the general fund is borrowed money). Washingtonians pay $1.40 to $1.60 to borrow $1.00 by issuing bonds.[2]
- The lack of state funding has been affecting maintenance and improvement of the existing infrastructure (Washington's infrastructure grade is "C-minus" average).[3]
- The state does not have an adequate rainy-day fund to meet a severe recession, which may arise from the impact of the current COVID-19 pandemic on the state's healthcare expenditures, revenue, and economy.[1]

How can a state-owned public bank (PB) help meet the state's needs?

With a state-owned PB holding its own public funds, Washington State could invest and earn better interest income on its money:

- Unlike a state funding agency, the PB functions as a bank, which can increase its lending capacity by giving out loans (investments) up to tenfold the original fund amount. This banking practice, known as leveraging, would also result in higher interest income to the state. The PB can create more cash flow to the state and its economy than state funding agencies.
- The PB would increase available funds for public projects without raising taxes by increasing the return on investment of public funds while providing borrowers with lower interest rates and lower fees than currently available from private-sector banks, which have expenses that can reach 50% to 60% of the total income.
- Using its own money to finance public projects and services, the PB would reduce the need for the state to obtain private-sector bank debt financing.

- The PB investment income and profit would be reinvested and stay within the state and some could augment the state revenue.
- The PB could accept public funds from local government jurisdictions and provide low-interest loans with lower fees to state and local governments.
- The PB would start to yield profits within five to ten years of, depending on the source of initial capital.

What are the concerns about establishing a PB?

Concerns and rebuttals:

Concern: There's no need for a public bank because a state funding agency plays a similar role.

Rebuttal: This argument demonstrates a lack of understanding of the difference between banking and agency funding.

Concern: A public bank could fail.

- Rebuttal: Banking business failure is an issue for both public and private banking.

Concern: Political influence negatively affects bank activities.

- Rebuttal: We need a robust firewall between the PB and political influence.

Concern: There are political challenges to establishing a PB.

- Rebuttal: The challenges stem from a poor understanding of banking operations by politicians, fierce opposition from private-sector banking and financial associations, and political fear of risking a loss of public funds.

Sample Questions for Political Candidates

Suggested unbiased/nonleading questions when discussing the PB issue:

- Our state debt is $36 billion and the sixth highest in debt per capita in the nation. How do we reduce our reliance on public debt?
- Given the budget concerns in many states and municipalities, the concept of a government-owned bank managing and investing public funds has been suggested. Would you support or not support the concept and why?

References:

[1] Duane A. Davidson, *Debt Affordability Study 2020*, Washington Office of the State Treasurer, https://www.tre.wa.gov/wp-content/uploads/2020-Debt-Affordability-Study.pdf.

[2] Adam Johnson, "Washington State Bonds Draw Strong Bid," March 6, 2018, Washington State Treasurer website, https://www.tre.wa.gov/washington-state-bonds-draw-strong-bids/
"The sale attracted strong interest, with both series receiving bids from six underwriters. Morgan Stanley & Co, LLC won the bid for both sales, with a True Interest Cost (TIC) of 3.60187% for the $489,880,000 of Various Purpose G.O. Bonds and a TIC of 3.609200% for the $112,040,000 of MVFT G.O. Bonds. . . . Both series of bonds are expected to be delivered on March 21, 2018, have average lives of 15.2 years, and final maturity dates of Feb. 1, 2043. This morning Treasurer Davidson signed the resolution finalizing the sale of the bonds."

An example of why Washingtonians need to pay $1.40 to $1.60 to borrow $1.00 fund issuing the GO bonds in 2018 by the WA State is shown by the result of Municipal Tax exempt bond calculator (https://www.municapital.com/payment-calculator.html).

For $488 million GO fund, total bond issued is $ 556 million with net monthly payment of $3.84 million with the 15 year term or the monthly payment of $2,6 million with the 25 year term.
At the end of 15 year maturity, the total payment is $3,840,329 x12 mons x15 years = $ 691,259,220. WA will pay $691 million to get the $488 million General Obligation fund e.i. the state needs to pay $1.40 to get $1.00 by issuing the bonds
At the end of 25 year maturity, the state total payment is $ 2,650,137 x 12 x 25 = $795,041,100 ($795 million– $488 million)/$488 million = 0.629. In this case the state needs to pay $1.63 to get $1.00 fund by issuing the bonds.

[3] Ann Denecke, "2019 Report Card for Washington's Infrastructure: State Earns an Overall Grade of 'C'; Transportation Grades Improve," Jan. 16, 2019, Infrastructure Report Card website, https://www.infrastructurereportcard.org/2019-report-card-for-washingtons-infrastructure-state-earns-an-overall-grade-of-a-c-transportation-grades-improve/; and American Society of Civil Engineers, "2019 Washington Infrastructure Report Card," ASCE website, https://www.infrastructurereportcard.org/state-item/washington/.

Attachments:

- "Are Your Voters' Guide Questions as Unbiased as You Think?" (https://my.lwv.org/sites/default/files/unbiased_questions.pdf)
- LWVWA Public Bank Task Force Recommendation Report to the state board.