

Communication from Public

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Date Submitted: 10/24/2019 11:54 PM
Council File No: 19-1235

Comments for Public Posting: Will We Have the Right to Vote on Wesson's Municipal Bank of Los Angeles? JACK HUMPHREVILLE 24 OCTOBER 2019 LA WATCHDOG-"Wesson intends to bring the bank proposal back to the ballot again after the idea has been fleshed out so voters can approve the final concept." Los Angeles Times editorial of September 20, 2018. On November 6, 2018, 56% of the voters of the City of Los Angeles rejected Charter Amendment B: Shall the City Charter be amended to allow the City to establish a municipal financial institution or bank? This was despite the fact that the measure received over 170 endorsements, including Mayor Eric Garcetti, City Council President Herb Wesson, 11 other members of the City Council, and numerous other elected officials, including State Senators Bob Hertzberg and Kevin de Leon. There was no organized opposition. However, the Los Angeles Times urged a NO vote saying that "Charter Amendment B is one of the most ill-conceived, half-baked ballot measures to come out of City Hall in years, and that's saying something." Despite the negative vote and Wesson's 2018 comment that he would drop the idea of forming a City owned bank if it was rejected by the voters, on Friday, October 11, Wesson sponsored a motion instructing the City "to obtain consultant services needed to establish a public bank in Los Angeles." Underlying Wesson's flip is the passage by the State of the Public Banking Act (Assembly Bill 857) that would permit the City to form the Municipal Bank of Los Angeles with the approval of the State's Commissioner of Business Oversight. As part of the approval process, the City shall include a copy of its required study to assess the viability of the Bank with its application to the Commissioner. While the study may address the benefits of the Bank, it must also include a financial analysis. This includes the costs associated with starting the Bank, the amount of capital required, financial projections for the first five years, the time necessary to achieve profitability, and the subsidies required until breakeven is achieved. The study must also include a "downside scenario that considers the effect of an economic recession on the financial results" of the Bank. Importantly, the Public Banking Act requires that the Bank must "obtain and maintain insurance provided by the Federal Deposit insurance Corporation." While the FDIC will only insure deposits of up to \$250,000, the Bank will have to comply by the rigorous standards demanded by the FDIC. There are other considerations to be addressed. While the Public Banking Act exempts the Bank from disclosing confidential information, the Bank should be subject to the reporting and disclosure requirements demanded by Securities and Exchange Commission. The City needs to identify the source of funds for the Bank's capital requirements and any subsidies to finance its operating deficits. And what are the sources of deposits? Will the City deposit billions in a start-up bank with no credit rating? Will the City's deposits be collateralized by marketable securities as required by law? Will the Bank reimburse the City investment fund for any lost interest income? Today, the City has bank deposits of \$50 million, a small slice of its \$10.6 billion portfolio that consists of high-grade marketable securities yielding more than 2%. In the past, the Bank proponents have cited cost savings. But what is the cost to establish reliable systems to replace the services provided by the large money center banks which have very efficient systems? The study must address the governance and management of the Bank, especially when it involves investment and loan decisions. We do not need another Los Angeles Community Development Bank that tanked in less than a decade. The City Charter requires a majority vote to establish a commercial enterprise such as a bank. Furthermore, since banking is a very risky business that can result in serious losses, we deserve the opportunity to review, analyze, and comment on any proposal to establish the Municipal Bank of Los Angeles before voting. Will City Council President and wannabe Los Angeles County Supervisor Herb Wesson live up to his word and allow us to vote? Or was this just another campaign promise that he will not honor? <https://www.citywatchla.com/index.php/la-watchdog/18693-will-we-have-the-right-to-vote-on-wesson-s-municipal-bank-of-los-angeles>