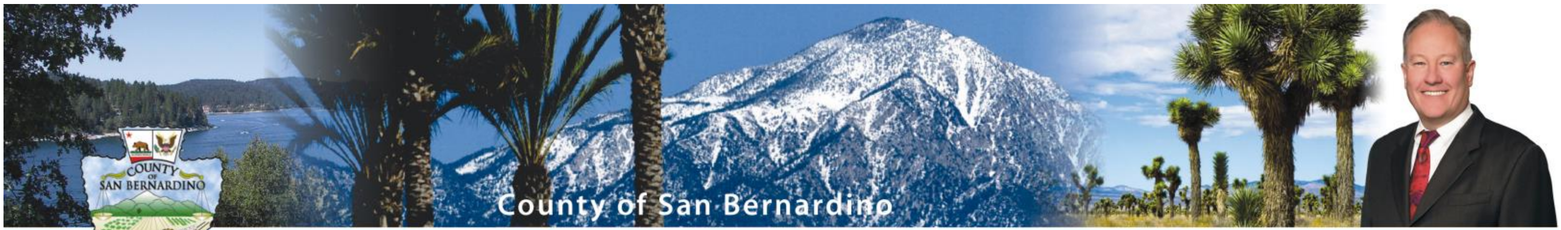

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PUBLIC BANKS COULD BREAK THE BANK

San Bernardino, CA — The California legislature recently enacted and Governor Newsom signed the Public Banking Act (AB 857 Chiu). This new law allows for the establishment of "public banks." The idea is that a public bank will make loans that benefit society but may not qualify for traditional financing. "This will allow politicians to raid public treasuries for projects they deem worthy, but cannot attract private capital," charged San Bernardino County Auditor-Controller/Treasurer/Tax Collector Ensen Mason. "If the project cannot attract private capital, the reason probably is that it doesn't make financial sense. If it doesn't make financial sense, we sure as heck shouldn't be doing it with taxpayers' money."

The new law allows the treasuries of cities and counties (i.e. taxpayer dollars) to be an unlimited source of funding for politically favored projects. In order to protect the integrity of public funds, California Government Code currently places limits on treasury investments. This law, effective January 1, 2020, removes those protective limits for investments in public banks. It doesn't matter how unstable, or how long the term, or what the chances are of being repaid. If they so choose, one hundred percent of the public treasury that pays the salaries of police officers, firemen, teachers and other workers can be invested in something with no regard to the quality of investment.

County treasurers must follow prudent investor standards. They have a fiduciary duty to invest for the benefit of their beneficiaries – generally schools, cities and public agencies. That means they must ONLY consider the beneficiaries' interests. They cannot consider their own interests, politics or what some may believe would benefit the "common good." By definition, an investment in a public bank violates that duty. If a project represented a quality investment with a fair rate of return for the investment risk taken, they would not need to raid public treasuries for capital. Wall Street would be flocking to invest in public bank debt offerings.

The loans that the public bank will make are therefore by definition, poor quality from a risk/return perspective. Poor investment quality is why banks and investors will not make these loans using their own private capital. If a quality project requiring these loans paid a fair return for the risk taken, banks would line up to make them.

Public agencies already have a mechanism to fund public projects at low rates of interest – it's called municipal bonds. Their tax-free treatment on both the state and federal level for interest earned allows them to pay out a lower rate of interest than comparable taxable bonds. Today's rates are under 2% (5 year yields are 1.1%). How is that not a low enough interest rate to fund agency projects?

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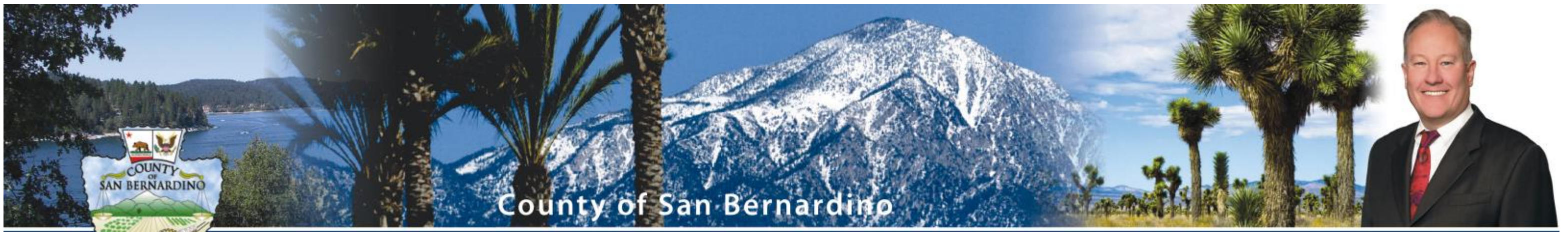

This public bank law is therefore both dangerous and unnecessary. There are currently in place many funding mechanisms to finance worthwhile public projects. One look at any property tax bill will tell you that local government agencies in California are having no problems issuing municipal bonds.

“I believe this new law establishing California public banks is a travesty. The law creates a continuing violation of a treasurer’s fiduciary duty, prudent investor standards and the public trust. As long as I am Treasurer of San Bernardino County, I will never allow our public treasury to be raided for political purposes or risk our employees’ paychecks on projects not solid enough to attract the interest of professionals who safeguard and grow other people’s investment money for a living,” concluded Mason.

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