

Department of Legislative Services  
Maryland General Assembly  
2016 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 794

(Delegate Gutierrez, *et al.*)

Economic Matters

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Public Banking Institutions - Authorization and Task Force

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This bill authorizes a political subdivision to establish a public banking institution within its jurisdiction. The political subdivision may act as an incorporator to establish the public banking institution. The bill also establishes the Maryland State Banking Task Force. The Department of Legislative Services (DLS) must provide staff support for the task force. A final report with findings and recommendations is due by December 1, 2016, to the Governor and the General Assembly.

The bill's provisions relating to the establishment of the task force take effect June 1, 2016, and terminate May 31, 2017.

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Fiscal Summary

**State Effect:** Any expense reimbursements for task force members and staffing costs for DLS are assumed to be minimal and absorbable within existing budgeted resources, as discussed below. Special fund revenues and expenditures may increase for the Department of Labor, Licensing, and Regulation (DLLR) if a political subdivision establishes a public banking institution; however, because the bill only contains authorization language, it is not known whether a political subdivision will actually establish the institution.

**Local Effect:** Local government revenues and expenditures may increase if a political subdivision establishes a public banking institution; however, because the bill only contains authorization language, it is not known whether a political subdivision will actually establish the institution.

**Small Business Effect:** None.

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## Analysis

### Bill Summary:

*Authorization to Establish a Public Banking Institution:* If the political subdivision acts as an incorporator to establish the public banking institution, the bill requires the political subdivision to file with the Commissioner of Financial Regulation, for examination and approval, two signed copies of the articles of incorporation. The commissioner must adopt regulations establishing the required contents of the articles and the process for approval of the articles.

The bill requires the political subdivision to file for record one of the endorsed copies of the articles with the State Department of Assessments and Taxation if the commissioner approves the articles. Articles that are filed for record are not effective until the commissioner has given approval.

The bill requires any public banking institution established under the bill to comply with all applicable federal and State laws governing banking institutions.

*Establishment of Task Force:* The bill specifies the membership of the task force and requires the Governor, President of the Senate, and Speaker of the House of Delegates to appoint members to the task force.

The task force must review and evaluate the creation of a Maryland State Bank. In reviewing and evaluating the creation of a Maryland State Bank that would meet specified goals, the task force must:

- perform a general assessment of the State's current network of public and private financial resources for the purpose of identifying potential areas of State bank focus;
- examine how a State bank may support a strong private-sector financial community that would provide capital for businesses in Maryland;
- examine various administrative and operational structures for organizing a State bank;
- consider options for integrating a State bank model into the existing State financial services network; and
- examine the long-term impact of creating a Maryland State Bank on economic growth, job creation, and State revenues.

Task force members may not receive compensation but are entitled to reimbursement for expenses under the standard State travel regulations, as provided in the State budget.

**Current Law/Background:** There is no State-owned bank in Maryland.

North Dakota is the only state that currently owns and operates a bank. Established in 1919, the Bank of North Dakota administers several lending programs, including farm and ranch financing programs; business financing programs; government guaranteed loans for lenders; and community, rural, and regional development loan funds, as well as several banking services for North Dakota's financial institutions. The state of North Dakota has been using profits transferred from the bank into the state's general fund since 1945.

According to the Public Banking Institute, nearly one-half of all states since 2010 have considered legislation to either establish a state-owned bank or commission a study.

**State Fiscal Effect:** Special fund revenues and expenditures may increase for DLLR if a political subdivision establishes a public banking institution; however, because the bill only contains authorization language, it is not known whether a political subdivision will actually establish an institution. Numerous local jurisdictions in Maryland could apply for a charter to establish a public banking institution. DLLR advises that its current staffing levels could accommodate an additional two to three charter applications and examinations over a one-year period. More applications would require additional staff and legal resources. Additionally, DLLR may charge a \$15,000 examination fee for each charter application.

DLS can likely handle the staffing duties associated with the task force with existing resources, assuming heavy reliance on the expertise of task force members and studies conducted in other states.

**Local Fiscal Effect:** Local government revenues and expenditures may increase if a political subdivision establishes a public banking institution; however, because the bill only contains authorization language, it is not known whether a political subdivision will actually establish an institution. According to DLLR, chartering a bank is a very expensive process including legal work, establishing a capital account, personnel costs, finding a business location, and other significant start-up costs. Furthermore, local governments would be required to capitalize a new bank with at least \$10 million before opening its doors.

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### **Additional Information**

**Prior Introductions:** HB 1306 of 2013 received an unfavorable report from the House Economic Matters Committee.

**Cross File:** None.

**Information Source(s):** Department of Labor, Licensing, and Regulation; State Department of Assessments and Taxation; Public Banking Institute; Department of Legislative Services

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