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Is the Bank of Los Angeles Feasible?

LA WATCHDOG-The Economic Development and Jobs Committee of the Los Angeles City Council authorized the Chief Legislative Analyst to release a Request for Proposal (“RFP”) seeking consulting services needed to conduct policy, fiscal, and economic analyses related to the formation of a public bank serving the City of Los Angeles.

Retaining an independent consultant who understands the banking industry is an excellent idea, but one that should have been implemented in 2018 before the Herb Wesson led City Council placed Charter Amendment B on the November 2018 ballot at great cost to the City.

[This ballot measure to allow the City to establish a bank, described by the Los Angeles Times as “one of the most ill-conceived, half-baked measures to come out of City Hall in years, and that’s saying something,” was rejected by 56% of the voters despite the endorsement of Mayor Garcetti and twelve members of the City Council.]

Importantly, the consultant’s report will provide Angelenos with objective information so that we can make an informed decision when we vote on whether accept or reject the charter changes required to establish the municipally owned Bank of Los Angeles.

However, the proponents of the Bank of Los Angeles are claiming that voter approval is not required based on a memorandum prepared by the Kaufman Legal Group, the consigliere for many of our local politicians. But this issue was not discussed at committee meeting even though the CLA and City Attorney have stated that a popular vote is required.

Because the timeframe to establish a bank will take several years because of all the regulatory hurdles, the proponents of the Bank of Los Angeles requested that the City form a Municipal Finance Corporation that would be eligible to receive \$100 million this summer from the \$1.35 billion infusion to the City’s coffers pursuant to the American Rescue Plan. After leveraging these funds through borrowings or guarantees, the proponents claim that the MRC would be able to provide financing to save 10,000 businesses and help in the creation of 50,000 affordable housing units that would end up costing around \$25 billion.

While the thought of providing \$100 million to the yet to be formed MRC outside of the budget process was quickly dismissed by Councilmember Blumenfield, you have to wonder what the proponents were smoking to propose such a hare-brained scheme with such outlandish outcomes.

In the past, feasibility studies for public banks in Massachusetts and San Francisco indicated that a public bank would require a significant upfront investment of cash as well as continuing infusions of capital for at least ten years until the bank reached breakeven.

Should Los Angeles be the guinea pig? Or should other cities pave the way? An independent analysis will help us to determine whether the Bank of Los Angeles is feasible and in the best interests of Angelenos

CITY WATCH LA

by JACK HUMPHREVILLE

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(Jack Humphreville writes LA Watchdog for CityWatch. He is the President of the DWP Advocacy Committee and is the Budget and DWP representative for the Greater Wilshire Neighborhood Council. He is a Neighborhood Council Budget Advocate. He can be reached at: lajack@gmail.com.)

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