

Bank of Los Angeles: Just Another Cash Drain

JACK HUMPHREVILLE
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LA WATCHDOG--*Charter Amendment B: Shall the City Charter be amended to allow the City to establish a municipal financial institution or bank?*

The City Council's failure to prepare even a preliminary plan on the proposed municipally owned Bank of Los Angeles is a calculated move designed to keep us in the dark about the underlying cost of Charter Amendment B, which according to the Los Angeles Times, is *"one of the most "ill-conceived, half-baked ballot measures to come out of City Hall in years, and that's saying something."*

The proponents of Charter Amendment B, including Mayor Eric Garcetti and City Council President Herb Wesson, say it will not cost the City anything. Of course, this campaign promise is pure, unadulterated baloney.

While the Chief Legislative Analyst (“CLA”) recommended that the City retain experts to develop a comprehensive plan, she did not provide any cost estimates. Nor did the CLA provide any estimates of how much it would cost to establish the Bank of Los Angeles.

However, a conservative estimate would probably be in the range of at least \$5 million, if not considerably more.

But what would be the source of the necessary funds? The City’s cash strapped budget.

According to the CLA, the Bank would incur “exorbitant” start-up costs.

What is the source of this money? The City’s cash strapped budget.

The Bank would also need to be properly capitalized so that it could establish the necessary reserves required by the banking regulators. If the Bank of Los Angeles was the size of the \$7 billion Bank of North Dakota, the only government owned bank in the country, the required capital would exceed \$800 million.

And what is the source of this money? The City’s cash strapped budget.

Some have proposed that the City tap the City’s two pension plans that have over \$35 billion in assets. But a related party transaction in a start-up bank would not be considered a “prudent” investment and would expose the pension plan trustees, the Mayor, the City Attorney, the Controller, and the members of the City Council to personal liability.

Some have also mentioned bonds as a source of capital. But the proceeds from bond offerings may only be used to fund physical assets, not an equity investment in a start-up bank with very few hard assets.

The City will also take a hit if it deposits money from the City’s \$9 billion investment pool in the Bank of Los Angeles because the rates that a bank pays on deposits is less than the yield on a high-grade pool of marketable securities with an average life of two years. At the same time, the City would be incurring significantly more risk as the deposits will not be insured or backed by marketable securities.

If the Bank of Los Angeles was to be the size of the \$7 billion Bank of North Dakota, the annual hit would most likely be in the range of \$70 million a year.

The City Council and Mayor Garcetti are asking us to be guinea pigs and buy into Herb Wesson's ill-conceived pet project to establish a City owned bank without providing us any details on the negative financial impact on the City's cash strapped budget, its bond ratings, and general city services. We have also not been provided any information on governance, management, strategy, capital requirements, bond ratings, data management and systems, regulatory requirements, risk management, deposit insurance, borrower profiles, staffing, and branch offices.

If the City is not willing to provide us with a plan, contrary to the advice of the City Legislative Analyst, we should not vote to give the Herb Wesson, the City Council, and Mayor Eric Garcetti a blank check.

Protect the City's treasury and vote NO on Charter Amendment B.-----

For more information on Charter Amendment B, see the following articles.

[Herb Wesson's Latest Pitch: City Owned 'Bank of Los Angeles' ... Is It Worth the Risk?](#)
27 JULY 2017

[The Bank of Los Angeles is Not for Pet Projects](#)
19 OCTOBER 2017

[LA Pot Bank Is a Pipe Dream](#)
22 JANUARY 2018

[The Bank of Los Angeles: A Weapon of Mass Financial Destruction?](#)
28 JUNE 2018

[Memo to City Council: Los Angeles Is Not North Dakota](#)
13 AUGUST 2018

[The Not So Independent Bank of Los Angeles](#)
20 AUGUST 2018

[Bank of Los Angeles: No Plan Just Promises](#)
10 SEPTEMBER 2018

(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.) – cw

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