

**Department of Legislative Services**  
 Maryland General Assembly  
 2011 Session

**FISCAL AND POLICY NOTE**

Senate Bill 789 (Senator Raskin)  
 Finance

**Maryland State Bank Commission - Study and Report**

This bill establishes the Maryland State Bank Commission to review and evaluate the creation of a Maryland State Bank. The Department of Labor, Licensing, and Regulation (DLLR) must provide staff support to the commission. A member of the commission may not receive compensation; however, the member is entitled to reimbursement for expenses as provided in the State budget. The commission must report its findings and recommendations to the Governor and the General Assembly by October 1, 2011.

The bill takes effect June 1, 2011, and terminates October 31, 2011.

**Fiscal Summary**

**State Effect:** General fund expenditures in DLLR increase by at least \$7,300 in FY 2011, because of the June 1, 2011 effective date, with the addition of two contractual employees to staff the commission. FY 2012 expenditures reflect the completion of the report in October 2011. Revenues are not affected.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	7,300	29,400	0	0	0
Net Effect	(\$7,300)	(\$29,400)	\$0	\$0	\$0

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The commission must undertake a review and evaluation of a State bank which would:

- purchase, guarantee, or hold loans made by private banks, credit unions, or other financial institutions doing business in Maryland;
- make loans in the form of participation loans with Maryland community banks to qualified individuals and businesses residing or doing business in Maryland when the originator of the loan is a private bank, credit union, or other financial institution;
- serve as a banker's bank for Maryland-chartered banks by providing correspondent banking services and other related services in keeping with its mission;
- accept deposits related to such transactions from banks and other financial institutions; and
- be authorized to issue bank stock loans to Maryland-chartered banks.

The commission must also (1) study the Bank of North Dakota; (2) determine whether other states have state banks or are currently considering the creation of a state bank; (3) evaluate the effectiveness and usefulness of existing state banks; (4) determine the costs and revenues associated with the Bank of North Dakota and any other existing state banks; (5) estimate the short-term operating costs and projected revenues of a Maryland State Bank; and (6) examine the long-term broad economic impact and long-term job creation and State revenue impacts of having a Maryland State Bank.

**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 currently operates with more than \$270 million in capital. It 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.

Nine states are currently considering legislation to either establish a state-owned bank or commission a study.

**State Fiscal Effect:** As the bill requires, the commission has to be appointed, convene, complete the required study, and report its findings and recommendations within a four-month period. DLLR does not have sufficient resources to undertake the required

study, particularly given the limited timeframe. Thus DLLR advises that two contractual positions are necessary to implement the study. Legislative Services concurs.

Accordingly, general fund expenditures increase by at least \$7,341 in fiscal 2011, which accounts for the bill's June 1, 2011 effective date, and at least \$29,364 in fiscal 2012. This estimate reflects the cost of hiring two contractual employees, a staff attorney and paralegal, in order to organize the commission, call meetings, and research and review complex legal issues. It is not clear whether this staffing complement would be sufficient given the already limited legal resources at the Office of the Commissioner of Financial Regulation, the complexity of the issue, and short time period to prepare the report. DLLR advises that it may also have to divert current staff from other priorities prior to the start date in order to prepare for the establishment of the commission. The estimate includes salaries, one-time start-up costs, and operating expenses:

Contractual Positions	2
Salaries	\$32,772
Operating Expenses	<u>3,933</u>
<b>Total GF Expenditures</b>	<b>\$36,705</b>

To the extent additional resources are needed, general fund expenditures increase further.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1066 (Delegates Gutierrez and Feldman) - Economic Matters.

**Information Source(s):** Department of Labor, Licensing, and Regulation; Bank of North Dakota; Public Banking Institute; Department of Legislative Services

**Fiscal Note History:** First Reader - March 2, 2011  
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Analysis by: Michael F. Bender

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510