

Testimony by Howard M. Headlee, President & CEO, Utah Bankers Association

To the Utah Tax Review Commission

Regarding: Single Sales Factor Apportionment Formula

August 25, 2016

Utah State Capitol

Mr. Chairman, Members of the Commission.

My name is Howard Headlee, I am the President and CEO of the Utah Bankers Association. We appreciate the opportunity to comment on your deliberations regarding the expansion of the single sales factor apportionment formula.

Utah is home to one of the largest and most dynamic banking environments in America. Utah punches way above its weight, as it is the 8th largest banking state in the nation as measured by assets under supervision. Banking and financial services is one of the Governor's targeted industry clusters. Last year, Utah's banks paid over \$5 billion in state and federal taxes. Utah's banks are at the heart of the community and economy. We interact and support every sector of the economy from small and large businesses, to homeowners to non-profit charitable organizations and local governments.

Perhaps even more impressive than the sheer size of Utah's banking industry, is its variety and diversity. From small community banks to large regional banks, to money center banks and industrial banks serving a myriad of industries and consumer groups, there is no state that benefits from as diverse a collection of banks as Utah.

How we got to this point is important background to the feedback I will provide later in my testimony, so if it please the Chair, I will take a minute to explain some of the origins of Utah's global banking center.

Utah has a rich history of prudent and wise community bankers who were gifted at efficiently deploying capital in their local communities to fuel economic growth and wealth creation. Utah has always distinguished itself in this way. One of our most prominent local bankers, Marriner Eccles was so well regarded nationally that he was tapped by Franklin Roosevelt to help pull our nation out of the Great Depression by designing and overseeing an overhaul of our federal reserve system. He is widely recognized as the father of the current Fed. The headquarters of the Federal Reserve in Washington D.C. bears his name – it is the only building in Washington D.C. named after a Utahn.

Our rich banking heritage has also resulted in the headquarters of one of the largest banks west of the Mississippi here in Salt Lake City – Zions Bank, as well as many, smaller high performing community banks.

Utah's federal delegation has also played a key role in the US banking system. For many years Utah Senators played key roles on the US Senate Banking Committee from Wallace Bennett to Jake Garn and then Bob Bennett. During Senator Garn's service as the Banking Committee Chairman, he was able to preserve an emerging industry in Utah, the Industrial Loan Companies or now know as Industrial Banks. He effectively protected them from changes in the National Bank Holding Company Act that would have eliminated their viability.

Thanks to this insightful action, Utah and 4 other states were allowed to continue to charter Industrial Banks. But Utah was the state where these institutions flourished. This was primarily due to strong regulatory leadership within the Utah Department of Financial

Institutions, and a favorable and stable business environment for banking. In effect, Utah was the best place for firms who wanted to own a bank but did not want to deal with the encumbrances, and in some cases outright prohibitions contained in the National Bank Holding Company act.

Recent changes to federal banking laws prompted by the financial crisis have eliminated many of the unique structural advantages that led to the tremendous growth in Utah's banking industry. However, continued strong regulatory leadership along with a favorable and predictable business environment have preserved Utah's position as a national banking center.

The elimination of the previously existing structural advantages as well as the diversity of Utah's banking industry makes policy discussions like the one you are considering today all the more important and somewhat complicated. For that reason, the Utah Bankers Association is very appreciative that you have invited us to provide comment.

In preparation for today's hearing, we surveyed our member banks with a particular emphasis on those institutions that conduct business in multiple states. I was not surprised to receive informed and very detailed responses that were as diverse as the industry I represent.

In summary, there are indeed some institutions that would benefit from converting to the single sales factor apportionment formula. Several of these institutions are part of much larger national and multi-national firms and have indicated that such a change could indeed lead to additional investments in Utah, as their experiences thus far in Utah have been extremely positive.

Given the priority status of this industry cluster, we would recommend that we expand the statutory limits on this election to allow financial institutions to make this election.

However, there are also many institutions for which that same election would be detrimental. If such a blanket approach were to be adopted, we could possibly lose more than we would gain. Therefore, providing institutions with an election would be essential to any changes in this area and could be constructed in just about any fashion deemed necessary by the legislature as the business plans of most banks don't change dramatically from year to year; hence, a 3 or 5 year election cycle should be satisfactory.

Again, we appreciate the opportunity to present this information to the Commission. We are grateful for your service to our state and compliment you on all your efforts to make Utah an attractive place to live and do business. The many accolades received by the state are the result of the thoughtful work over many years by individuals like each of you who step up to make small yet important contributions that all add up to the success we now enjoy.

Thank you for your service. I am happy to answer any questions.

UTAH DEPARTMENT OF FINANCIAL INSTITUTIONS
State Chartered Banks in Utah - By Asset Size
As of 6/30/2016 41 BANKS

Commercial Banks (26)		Industrial Banks** (15)	
<u>Greater than \$1 billion</u>		<u>Greater than \$1 billion</u>	
	<u>2</u>		<u>10</u>
Ally Bank	\$ 114,554,166	UBS Bank USA*	\$ 54,680,466
People's Intermountain Bank	\$ 1,546,804	American Express Centurion Bank*	\$ 37,565,022
		Sallie Mae Bank	\$ 15,521,944
		BMW Bank of North America	\$ 9,946,846
		Optum Bank, Inc.	\$ 5,478,435
		Comenity Capital Bank	\$ 5,282,641
		Merrick Bank Corporation	\$ 2,675,043
		WEX Bank	\$ 1,823,833
		EnerBank USA	\$ 1,284,924
		Medallion Bank	\$ 1,160,224
 <u>\$500 million to \$1 billion</u>		 <u>\$500 million to \$1 billion</u>	
	<u>7</u>		<u>1</u>
Bank of Utah	\$ 998,072	Pitney Bowes Bank, Inc.	716,234
Cache Valley Bank	\$ 943,151		
Central Bank	\$ 917,749		
State Bank of Southern Utah	\$ 893,147		
Green Dot Bank	\$ 818,262		
Marlin Business Bank	\$ 814,394		
Transportation Alliance Bank, Inc.	\$ 714,121		
 <u>\$100 million to \$500 million</u>		 <u>\$100 million to \$500 million</u>	
	<u>10</u>		<u>3</u>
Grand Valley Bank	\$ 353,601	Celtic Bank	\$ 499,203
First Utah Bank	\$ 322,996	WebBank	\$ 378,156
Rock Canyon Bank	\$ 286,447	LCA Bank Corporation	\$ 157,938
Capital Community Bank	\$ 236,245		
Prime Alliance Bank	\$ 232,326		
Brighton Bank	\$ 194,490		
Continental Bank	\$ 165,850		
Home Savings Bank	\$ 122,254		
Town & Country Bank	\$ 110,050		
Republic Bank	\$ 103,919		
 <u>Less Than \$100 million</u>		 <u>Less Than \$100 million</u>	
	<u>7</u>		<u>1</u>
Proficio Bank	\$ 91,705	First Electronic Bank	\$ 17,636
Gunnison Valley Bank	\$ 87,676		
American Bank of Commerce	\$ 76,359		
Utah Independent Bank	\$ 68,752		
Holladay Bank & Trust	\$ 50,478		
Finwise Bank	\$ 42,778		
Liberty Bank	\$ 12,100		
COMMERCIAL BANKS:	\$ 124,757,892	41 BANKS	INDUSTRIAL BANKS:
		\$ 261,946,437	\$ 137,188,545

* PERCENTAGE OF UTAH INDUSTRIAL BANK ASSETS
W/ FRB SUPERVISION AT THE HOLDING COMPANY: 67%

STATE CHARTERED BANKS ONLY - AS OF JUNE 30, 2016

BY STATE				BY ASSETS UNDER SUPERVISION				BY NUMBER OF BANKS				BY AVERAGE SIZE			
STATE	ASSETS	COUNT	AVE SIZE	STATE	ASSETS	COUNT	AVE SIZE	STATE	ASSETS	COUNT	AVE SIZE	STATE	ASSETS	COUNT	AVE SIZE
1 AK	2,713,825	4	678,456	1 NY	837,163,885	87	9,622,573	1 IL	276,169,094	349	791,315	1 Puerto Rico	57,807,945	5	11,561,589
2 AL	247,138,333	114	2,167,880	2 CA	401,771,463	139	2,890,442	2 IA	70,035,382	283	247,475	2 DE	132,589,447	12	11,049,121
3 AR	72,971,685	85	858,490	3 MA	383,943,968	116	3,309,862	3 TX	264,782,165	275	962,844	3 NY	837,163,885	87	9,622,573
4 AZ	19,093,277	11	1,735,752	4 NC	301,569,575	53	5,689,992	4 MO	116,217,534	250	464,870	4 HI	42,706,643	6	7,117,774
5 CA	401,771,463	139	2,890,442	5 GA	283,420,236	155	1,828,518	5 MN	42,036,971	249	168,823	5 UT	261,946,437	41	6,388,937
6 CO	49,580,562	65	762,778	6 IL	276,169,094	349	791,315	6 KS	39,331,721	217	181,252	6 NC	301,569,575	53	5,689,992
7 CT	34,679,596	32	1,083,737	7 TX	264,782,165	275	962,844	7 WI	53,098,758	182	291,751	7 MA	383,943,968	116	3,309,862
8 Dist Columbia	400,726	1	400,726	8 UT	261,946,437	41	6,388,937	8 NE	39,829,641	161	247,389	8 CA	401,771,463	139	2,890,442
9 DE	132,589,447	12	11,049,121	9 AL	247,138,333	114	2,167,880	9 GA	283,420,236	155	1,828,518	9 AL	247,138,333	114	2,167,880
10 FL	50,323,109	103	488,574	10 OH	170,822,006	97	1,761,052	10 OK	45,671,324	155	294,654	10 GA	283,420,236	155	1,828,518
11 Fed Micronesia	145,503	1	145,503	11 PA	147,314,845	130	1,133,191	11 TN	60,196,798	145	415,150	11 OH	170,822,006	97	1,761,052
12 GA	283,420,236	155	1,828,518	12 DE	132,589,447	12	11,049,121	12 CA	401,771,463	139	2,890,442	12 AZ	19,093,277	11	1,735,752
13 Guam	2,064,656	2	1,032,328	13 MO	116,217,534	250	464,870	13 KY	49,708,739	134	370,961	13 OR	33,026,903	20	1,651,345
14 HI	42,706,643	6	7,117,774	14 NJ	86,301,830	64	1,348,466	14 PA	147,314,845	130	1,133,191	14 RI	9,195,849	6	1,532,642
15 IA	70,035,382	283	247,475	15 AR	72,971,685	85	858,490	15 MA	383,943,968	116	3,309,862	15 NJ	86,301,830	64	1,348,466
16 ID	4,733,408	11	430,310	16 IA	70,035,382	283	247,475	16 AL	247,138,333	114	2,167,880	16 PA	147,314,845	130	1,133,191
17 IL	276,169,094	349	791,315	17 MS	69,387,286	68	1,020,401	17 LA	61,774,822	106	582,781	17 WA	52,498,668	47	1,116,993
18 IN	56,311,191	84	670,371	18 VA	68,129,501	64	1,064,523	18 FL	50,323,109	103	488,574	18 CT	34,679,596	32	1,083,737
19 KS	39,331,721	217	181,252	19 LA	61,774,822	106	582,781	19 OH	170,822,006	97	1,761,052	19 VA	68,129,501	64	1,064,523
20 KY	49,708,739	134	370,961	20 TN	60,196,798	145	415,150	20 NY	837,163,885	87	9,622,573	20 Guam	2,064,656	2	1,032,328
21 LA	61,774,822	106	582,781	21 Puerto Rico	57,807,945	5	11,561,589	21 AR	72,971,685	85	858,490	21 MS	69,387,286	68	1,020,401
22 MA	383,943,968	116	3,309,862	22 IN	56,311,191	84	670,371	22 IA	70,035,382	283	247,475	22 TX	264,782,165	275	962,844
23 MD	30,760,077	41	750,246	23 WI	53,098,758	182	291,751	23 MI	45,958,596	81	567,390	23 ME	17,019,819	18	945,546
24 ME	17,019,819	18	945,546	24 WA	52,498,668	47	1,116,993	24 ND	20,334,626	69	294,705	24 AR	72,971,685	85	858,490
25 MI	45,958,596	81	567,390	25 FL	50,323,109	103	488,574	25 CO	49,580,562	65	762,778	25 NV	10,203,564	12	850,297
26 MN	42,036,971	249	168,823	26 KY	49,708,739	134	370,961	26 MO	116,217,534	250	464,870	26 IL	276,169,094	349	791,315
27 MO	116,217,534	250	464,870	27 CO	49,580,562	65	762,778	27 NJ	86,301,830	64	1,348,466	27 CO	49,580,562	65	762,778
28 MS	69,387,286	68	1,020,401	28 MI	45,958,596	81	567,390	28 VA	68,129,501	64	1,064,523	28 MD	30,760,077	41	750,246
29 MT	28,689,634	48	597,701	29 OK	45,671,324	155	294,654	29 NC	301,569,575	53	5,689,992	29 AK	2,713,825	4	678,456
30 NC	301,569,575	53	5,689,992	30 HI	42,706,643	6	7,117,774	30 SD	25,180,822	52	484,247	30 IN	56,311,191	84	670,371
31 ND	20,334,626	69	294,705	31 MN	42,036,971	249	168,823	31 WV	27,869,101	49	568,757	31 VT	4,625,466	7	660,781
32 NE	39,829,641	161	247,389	32 NE	39,829,641	161	247,389	32 MT	28,689,634	48	597,701	32 MT	28,689,634	48	597,701
33 NH	7,770,328	15	518,022	33 KS	39,331,721	217	181,252	33 WA	52,498,668	47	1,116,993	33 LA	61,774,822	106	582,781
34 NJ	86,301,830	64	1,348,466	34 CT	34,679,596	32	1,083,737	34 SC	24,435,677	42	581,802	34 SC	24,435,677	42	581,802
35 NM	9,584,543	32	299,517	35 OR	33,026,903	20	1,651,345	35 MD	30,760,077	41	750,246	35 WV	27,869,101	49	568,757
36 NV	10,203,564	12	850,297	36 MD	30,760,077	41	750,246	36 UT	261,946,437	41	6,388,937	36 MI	45,958,596	81	567,390
37 NY	837,163,885	87	9,622,573	37 MT	28,689,634	48	597,701	37 CT	34,679,596	32	1,083,737	37 NH	7,770,328	15	518,022
38 OH	170,822,006	97	1,761,052	38 WV	27,869,101	49	568,757	38 NM	9,584,543	32	299,517	38 FL	50,323,109	103	488,574
39 OK	45,671,324	155	294,654	39 SD	25,180,822	52	484,247	39 WY	5,847,227	26	224,893	39 SD	25,180,822	52	484,247
40 OR	33,026,903	20	1,651,345	40 SC	24,435,677	42	581,802	40 OR	33,026,903	20	1,651,345	40 MO	116,217,534	250	464,870
41 PA	147,314,845	130	1,133,191	41 ND	20,334,626	69	294,705	41 ME	17,019,819	18	945,546	41 ID	4,733,408	11	430,310
42 Puerto Rico	57,807,945	5	11,561,589	42 AZ	19,093,277	11	1,735,752	42 NH	7,770,328	15	518,022	42 TN	60,196,798	145	415,150
43 RI	9,195,849	6	1,532,642	43 ME	17,019,819	18	945,546	43 DE	132,589,447	12	11,049,121	43 Dist Columbia	400,726	1	400,726
44 SC	24,435,677	42	581,802	44 NV	10,203,564	12	850,297	44 NV	10,203,564	12	850,297	44 KY	49,708,739	134	370,961
45 SD	25,180,822	52	484,247	45 NM	9,584,543	32	299,517	45 AZ	19,093,277	11	1,735,752	45 NM	9,584,543	32	299,517
46 TN	60,196,798	145	415,150	46 RI	9,195,849	6	1,532,642	46 ID	4,733,408	11	430,310	46 ND	20,334,626	69	294,705
47 TX	264,782,165	275	962,844	47 NH	7,770,328	15	518,022	47 VT	4,625,466	7	660,781	47 OK	45,671,324	155	294,654
48 UT	261,946,437	41	6,388,937	48 WY	5,847,227	26	224,893	48 HI	42,706,643	6	7,117,774	48 WI	53,098,758	182	291,751
49 VA	68,129,501	64	1,064,523	49 ID	4,733,408	11	430,310	49 RI	9,195,849	6	1,532,642	49 IA	70,035,382	283	247,475
50 Virgin Isles	306,954	2	153,477	50 VT	4,625,466	7	660,781	50 Puerto Rico	57,807,945	5	11,561,589	50 NE	39,829,641	161	247,389
51 VT	4,625,466	7	660,781	51 AK	2,713,825	4	678,456	51 AK	2,713,825	4	678,456	51 WY	5,847,227	26	224,893
52 WA	52,498,668	47	1,116,993	52 Guam	2,064,656	2	1,032,328	52 Guam	2,064,656	2	1,032,328	52 KS	39,331,721	217	181,252
53 WI	53,098,758	182	291,751	53 Dist Columbia	400,726	1	400,726	53 Virgin Isles	306,954	2	153,477	53 MN	42,036,971	249	168,823
54 WV	27,869,101	49	568,757	54 Virgin Isles	306,954	2	153,477	54 Dist Columbia	400,726	1	400,726	54 Virgin Isles	306,954	2	153,477
55 WY	5,847,227	26	224,893	55 Fed Micronesia	145,503	1	145,503	55 Fed Micronesia	145,503	1	145,503	55 Fed Micronesia	145,503	1	145,503
TOTAL:	5,257,191,741	4,623													

* GE Capital Bank charter extinguished 4/21/16. W/O GECEB, UT would be #8 with \$255B in assets under supervision