

ASSEMBLY BILL 857 (CHIU & SANTIAGO)

PUBLIC BANKING ACT

SUMMARY

This bill would allow a local government to apply for a banking charter from the Department of Business Oversight (DBO) to establish a public bank.

BACKGROUND

Public banks are financial institutions that are owned by one or more public entities, such as a city, county, or joint powers authority. They can invest, lend, and provide banking services to the local community, and can partner with local financial institutions.

Unlike a privately owned bank, which prioritizes shareholder returns, public banks leverage their deposit base and lending power to benefit the public. This allows public banks to focus on pressing local needs, like affordable housing, small business loans, and public infrastructure projects such as rebuilding after wildfires. A public bank's decisions may consider the needs of the community, and leverage public funds to meet those needs at a lower cost than the public sector.

Established by the North Dakota legislature in 1919, the Bank of North Dakota (BND) is the oldest publicly owned bank in the United States. BND, in partnership with local banks and credit unions, promotes economic development within the state and has been profitable for many years. Recently, several states and cities across the nation have started exploring the feasibility of creating public banks.

THE PROBLEM

California does not have any public banking options. As a result, many California local governments must hold their assets with large out-of-state commercial banks, which are oftentimes the only option for governments with larger budgets. Private banks frequently charge local governments large fees to hold their deposits and perform their cash management services.

Additionally, billions of taxpayer dollars are invested with commercial banks that have little incentive to use their assets for the betterment of the local community. Many of these private commercial banks engage in practices that could be seen as inconsistent with the values of California communities, such as engaging in predatory lending practices, funding private prisons and

detention centers, and extracting fossil fuels in environmentally unsustainable ways.

THE SOLUTION

AB 857 provides more local control, transparency, and self-determination in how local taxpayer dollars are leveraged in the banking system by allowing local government to charter their own public banks. These public banks would have oversight by the DBO and a separate, professional board. In contrast to profit-driven commercial banks, the public bank's board of directors will have a fiduciary duty to protect taxpayers' assets.

AB 857 also requires partnerships between a public bank and existing local financial institutions to provide retail services, enabling public banks to provide affordable loans and lines of credit to local businesses and nonprofits, and increase the lending capacity of the local banking system.

By creating a public bank, taxpayer money will be held by an insured financial institution that measures its return on investment not only by profits, but also by its success in supporting communities.

SUPPORT

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