

# CALIFORNIA PUBLIC BANKING ACT

California  
Public Banking  
Alliance

## Policy Brief

### INTRODUCTION:

In 2019, the California State Legislature passed the Public Banking Act (AB 857), signed by Governor Gavin Newsom. Conceived by the California Public Banking Alliance and championed by Assemblymembers David Chiu (D-SF) and Miguel Santiago (D-LA), this law allows local governments to apply for licenses to run public banks through the Department of Financial Protection and Innovation (DFPI). California is the first state to create a legal framework for cities to form public banks.

### 1. WHAT ARE PUBLIC BANKS?

Public banks prioritize local needs over shareholder returns. They reinvest taxpayers' money into local communities, supporting economic development such as affordable housing, green energy, public infrastructure projects, and small business loans. California public banks collaborate with community banks, credit unions, and CDFIs to provide retail services, strengthening the local economy.

### 2. REINVESTING IN LOCAL COMMUNITIES

Public banks, as defined by the California Public Banking Act, will be established for cost savings, strengthening local economies, supporting community economic development, and addressing infrastructure, and housing needs for localities.

### 3. ARE PUBLIC BANKS INSURED?

AB 857 requires public banks to obtain and maintain FDIC deposit insurance, just like conventional banks.

### 4. HOW WOULD A CITY/COUNTY CREATE A PUBLIC BANK?

The local government must conduct a viability study, present it to the public, and get approval from its governing body before applying to the DFPI and FDIC. Public banks must meet the same financial and regulatory standards as commercial banks and comply with the Brown Act and Public Records Act for transparency and good governance.

### 5. PUBLIC BANKING PROGRESS

California cities and regions, including Central Coast, East Bay, Los Angeles, Sacramento, and San Francisco, are at various stages of developing viability studies and business plans as they work towards applying for a public bank license.

Numerous groups in the California Public Banking Alliance including Fresno, Pomona Valley, San Diego, and the North Coast, are working on coalition building, advocacy, and generating political support.

# KEY BENEFITS OF PUBLIC BANKS

Public banks prioritize the public good, empowering local governments to cut borrowing costs and turn their assets into engines of community growth, driving local economic and social prosperity.

## 1. PURPOSE-DRIVEN FINANCING

Public banks align local government financing with community values and priorities, making strategic, long-term investments in underinvested communities of color and avoiding harmful investments.

## 2. RACIAL & ECONOMIC JUSTICE

Public banks increase credit access for unbanked and underbanked Californians through partnerships with local community banks and credit unions. They prioritize investments in marginalized communities, addressing "banking deserts" in low-income neighborhoods and combating predatory lending.

## 3. LOW-COST LENDING & SAVINGS

Public banks lend to small businesses, affordable housing, and infrastructure projects without needing costly bonds or commercial bank loans. Loan repayments stay within cities and counties, supporting local growth and freeing up funds for other priorities.

## 4. STREAMLINING COMMUNITY INVESTMENTS

California's public banks operate as wholesale banks with low overhead. They collaborate with local financial institutions to boost lending for small businesses, affordable housing, climate investments, and municipal finance. By centralizing public financing, they can efficiently expedite lending for these projects.

## 5. MULTIPLIER EFFECT

Public banks give local governments a tool to leverage their own assets to fund community priorities, creating a multiplier effect that maximizes the impact of public funds.

## 6. SELF-SUSTAINING

Revenue from interest and fees covers public banks' operating costs, such as staffing and technology. Public banks offer lower interest loans and, once self-sustaining, can return profits to the local government's general funds, similar to the Bank of North Dakota, the US's state-owned public bank, which has returned over \$1 billion to the state since 1945.