

Public Banking Act (AB 857, 2019)



Progress Update

In 2019, the California Legislature enacted the [Public Banking Act](#) (AB 857), which was then signed into law by Governor Gavin Newsom. This [landmark legislation](#) created a system allowing local governments to apply to the state Department of Financial Protection and Innovation (DFPI) for licenses to operate publicly-owned banks. These public banks will enable the reinvestment of taxpayers' money into local communities, promoting economic development and addressing pressing local needs.

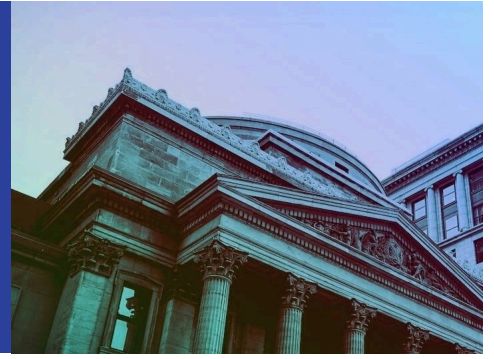
What are public banks? In contrast to privately owned banks that prioritize shareholder returns, public banks can leverage their lending power to better serve locally-determined needs. By focusing on critical local issues such as affordable housing, small business loans, renewable energy, and public infrastructure projects—including disaster recovery and preparation efforts—public banks can enable fiscally responsible investments that directly benefit the people and businesses within the jurisdictions they serve. Following the model set by the successful public Bank of North Dakota, California public banks are legally required to collaborate with local community banks, credit unions, and CDFIs to provide retail services. As has been shown in North Dakota, this collaborative model strengthens local financial institutions and the broader local economy.

How would a city/county create a public bank? Under the Public Banking Act, a sponsoring local government must first conduct a viability study, present it to the public, and receive approval from its governing body before submitting an application to the DFPI and FDIC. Public banks created under AB 857 will be subject to the same financial and regulatory requirements as commercial banks and must also comply with the Brown Act and the Public Records Act, ensuring transparency, good governance, and commitment to the public interest.

Will public banks be a safe depository for public funds? The Public Banking Act created a multilayered system of protections to ensure the safety of public funds and public banks. After the Orange County bankruptcy in the mid-1990s, the California Legislature enacted laws requiring additional collateral protections for funds deposited in banks by local agencies. These collateral protections apply in the same way to deposits in a public bank. In addition, AB 857 requires that public banks obtain and maintain deposit insurance from FDIC, just like conventional banks.

What is the timeline? The Public Banking Act established a pilot program, limiting the issuance of licenses to two per calendar year, with a maximum of ten licenses over seven years. This program began in January 2022 and is set to conclude by September 2028. Five cities/regions are working towards applying for a public bank license, but have not yet submitted applications. Because of the complexity of the processes underway in these jurisdictions, legislation to extend this sunset date will likely be needed.

Advantages of Public Banks



Public banks are government-owned financial institutions mandated to serve the local community's needs. They hold government deposits and offer lending tailored to the community's needs, including affordable housing, small business loans, and infrastructure modernization. Unlike private banks driven by profit, public banks can prioritize the public good by supporting local economic and social well-being.

Recirculating Funds for Local Growth

Public banks drive economic development by lending to small businesses, affordable housing, and infrastructure projects, instead of relying on costly bonds or commercial bank loans. Dividends stay within cities and counties, supporting local growth instead of enriching shareholders, and freeing up funds for other priorities.

Community Partnerships for Impact

California public banks will operate as wholesale banks with low overhead, partnering with local financial institutions to expand lending for small businesses, affordable housing, climate projects, and municipal finance. By centralizing public financing and combining multiple funding sources, they expedite cost-effective lending.

Racial and Economic Justice

Public banks can increase credit access for unbanked and underbanked residents through partnerships with community banks and credit unions that have proven track records working with these populations. They can prioritize investments in disadvantaged communities, addressing banking deserts and countering predatory lending.

Self-Sustaining Model

Public banks generate revenue through interest payments and fees from lending, allowing them to cover operating costs while offering lower interest rates. Once self-sustaining, they can return profits to local governments, as seen in the Bank of North Dakota, which has an [18% return on equity](#) (2023) and has reinvested over \$1 billion into the state's general fund since its founding.

Values-Driven Public Investment

Public banks can help ensure that local government funds align with community values, making targeted, long-term investments while avoiding harmful, extractive financial practices.

Status of California's Public Banks



Since the passage of the Public Banking Act in 2019 and the finalization of regulations by the DFPI in 2022, multiple localities have begun working to establish public banks.

City and Regional Progress Update

We're making significant headway in public banking. Across California, local governments are investing in developing viability studies and business plans that lay the groundwork for community-centered public banks—detailing lending priorities, capitalization strategies, and governance structures.

Central Coast

[The People for Public Banking Central Coast](#) coalition is championing a four-county regional public bank for Santa Cruz, Santa Barbara, Monterey, and San Luis Obispo. Twelve jurisdictions have signed on to participate in a viability study.

East Bay

[Public Bank East Bay](#) has secured strong support from private foundations and has finalized its regional business plan for regulatory submission in 2025. Alameda County Treasurer Hank Levy has committed funds to capitalize the East Bay Public Bank, which is also supported by the cities of Berkeley, Oakland, and Richmond.

Los Angeles

The LA City Council unanimously approved Phase 1 of the Public Bank feasibility study and business plan in May 2024. The [Public Bank LA](#) coalition is advancing the process. Two non-partisan think tanks, the Jain Family Institute and Berggruen Institute, released a [five-report series](#), demonstrating profitability while covering practical lending portfolios of the Municipal Bank of Los Angeles: affordable housing, clean energy, and small businesses.

Sacramento

Sacramento City Council approved funds for the [Public Bank Sacramento](#) viability study and business plan and issued an RFP in August 2024 to hire consultants. The local coalition is led by the Sacramento Climate Coalition and Sacramento ACT.

San Francisco

Efforts to establish a non-depository Green Bank that will transition into a Public Bank have been led by the [San Francisco Public Bank Coalition](#). Plans focusing on lending for affordable housing, small businesses, and climate projects were developed by the Reinvestment Working Group, created by the Board of Supervisors, with input from local stakeholders, including small businesses, affordable housing advocates and developers, climate experts, credit unions, and CDFIs. The Board of Supervisors unanimously approved the plans in September 2023.

California Public Banking Option Act (AB 1177, 2021)



CalAccount Background

The [California Public Banking Option Act](#) (AB 1177) passed in 2021, establishing the CalAccount Blue Ribbon Commission to oversee a market analysis of the proposed CalAccount program. Modeled after CalSavers, CalAccount will offer zero-cost, zero-fee, and zero-penalty basic transaction accounts for all Californians. The [CalAccount program](#) will provide all Californians with an accessible, affordable, and inclusive state-sponsored option for essential financial transaction functions, offering a zero-fee debit account and card, direct deposit, automatic bill pay, recurring payments, and credit-building infrastructure.

Nearly 8 million Californians, or nearly 20% of the population, are unbanked or underbanked. 80.7% of unbanked Californians earn less than \$15 per hour, and [nearly half of Black and 41.1% of Latino households](#) in California are unbanked or underbanked.

The CalAccount program aims to reduce costs and improve access to safe financial services and credit-building opportunities to support economic growth and reduce disparities experienced by low-income communities and communities of color. In addition to helping to close the racial wealth gap, CalAccount would provide an alternative to predatory check-cashing and similar services, and reduce the risk of Californians getting caught in harmful debt traps. A [study by HR&A Advisors](#) found that the CalAccount program would result in \$3.3 billion in savings for low-income households, create 22,000 jobs, and boost California's economy by \$4.2 billion.

In 2022, the CalAccount Blue Ribbon Commission, chaired by State Treasurer Fiona Ma, was formed to assess the feasibility, scope, and costs of the CalAccount program. The [market analysis report](#) by RAND Corporation was published on July 1, 2024, and concludes that the program is feasible and necessary to address the financial inclusion of unbanked and underbanked Californians. The final report incorporated public testimony on the impact of unfair banking practices gathered from a series of statewide town halls held in February and July 2024. Upon completion, the report will return to the Legislature for approval in the 2025-26 session, making CalAccount the first state-administered universal banking program in the nation.

CalAccount Program (AB 1365, 2025)



AB 1365 Legislation Brief

[AB 1365 \(Garcia\)](#), under consideration in the 2025-26 legislative session, builds on the California Public Banking Option Act (AB 1177, 2021) by moving the CalAccount Program from planning to implementation. While the 2021 legislation established the CalAccount Blue Ribbon Commission to study the feasibility of a state-sponsored banking option, AB 1365 creates the program and outlines its operational framework, marking a significant step toward delivering tangible financial services to Californians.

The CalAccount Program will offer no-fee, no-penalty, federally-insured transaction accounts with debit cards, direct deposit, automatic bill pay, and recurring payment options. It also includes credit-building tools to help users establish or improve their credit history.

When implemented, [CalAccount](#) will become the first state-administered universal banking program in the U.S., positioning California as a national leader in financial inclusion. The program's success could inspire similar initiatives nationwide, addressing systemic financial inequities on a broader scale.

Financial Services Network Administrator

The CalAccount Commission will solicit proposals and select a financial services network administrator to manage the program. The administrator will coordinate with participating financial institutions to provide CalAccounts and ensure account holders have access to fee-free services, including ATMs and debit cards.

Proposals will be evaluated based on their ability to meet program goals, such as financial inclusion, consumer protection, and accessibility, with priority given to institutions with a proven track record of serving low-income, racially diverse, and multilingual communities. The selected administrator must comply with all program requirements, including fee-free services, robust security measures, and accessibility for vulnerable populations, such as unhoused individuals and victims of domestic violence. The RFP process will also emphasize ethical banking practices and technical capabilities, ensuring the program delivers on its mission to provide equitable financial services to all Californians.

Program Funding

The CalAccount Program will be funded through the CalAccount Fund, established in the State Treasury. Funds will be available upon legislative appropriation and will support program operations, including outreach, customer service, and administrative costs. The program is designed to minimize financial liability for the state, with costs covered through partnerships with

financial institutions and potential federal reimbursements.

Employer Requirements

AB 1365 mandates that all employers and hiring entities with 25 or more workers offer payroll direct deposit options for workers who choose to participate in the CalAccount Program. Employers must coordinate with the program to facilitate seamless direct deposits and cannot retaliate against employees who opt in. This requirement ensures that workers, especially those in low-wage jobs, can easily access their earnings without relying on costly check-cashing services.

Enforcement

The Labor Commissioner will enforce compliance, investigating complaints against employers who fail to adhere to the program's requirements. Violations will result in civil penalties, with fines deposited into the CalAccount Fund to support the program.

Outreach and Education

AB 1365 includes a robust outreach and marketing component to ensure all Californians, particularly those in underserved communities, are aware of the program and its benefits. This includes financial empowerment resources to help users make the most of their accounts. The program will prioritize outreach to communities disproportionately impacted by financial exclusion, including Black, Latino, and immigrant households, as well as individuals experiencing homelessness or housing instability.

Market Analysis Findings

The 2024 [RAND Corporation market analysis](#) created for the CalAccount Blue Ribbon Commission confirmed the program's feasibility and necessity. The report highlighted the significant financial burden faced by unbanked and underbanked Californians, who collectively spend billions annually on check-cashing fees, money orders, and other costly alternatives. AB 1365 incorporates insights from this analysis, ensuring the program is designed to meet the needs of its target population effectively. After it is implemented, the legislation requires the CalAccount Commission to submit an annual report to the Governor, Controller, State Auditor, and Legislature for accountability.

California State Public Bank



Background on the State Bank Proposal

The [California State Public Bank Act](#) (AB 310) introduced in 2020, aimed to create a [state-owned public bank](#) by expanding the California Infrastructure and Economic Development Bank (IBank). The bill sought to address the economic fallout from the COVID-19 pandemic by providing emergency lending and credit to local governments, small businesses, and underserved communities.

It proposed investing as little as 1% of the state's Pooled Money Investment Account (PMIA) into the IBank to fund low-cost loans for local governments and small businesses, with a focus on disadvantaged communities. AB 310 also laid the groundwork for converting the IBank into a full-fledged state public bank, allowing it to accept state deposits and access low-cost credit through the Federal Reserve.

The bill was designed to save California billions in fees and interest paid to Wall Street, redirecting those funds into local projects like affordable housing, green energy, and disaster resilience. It also included provisions to support the formation of local public banks, creating a network of community-focused financial institutions. AB 310 garnered widespread support from labor unions, mayors, and community organizations.

Although AB 310 did not move forward, it laid the foundation for future public banking efforts in California, including the successful passage of AB 1177 (the California Public Banking Option Act) in 2021.

Why It's Urgent and Relevant Today

The need for a California state public bank is urgent now more than ever. With federal instability threatening critical resources and ongoing budget deficits crippling municipalities, cities and counties across the state are struggling to fund essential services like affordable housing, wildfire recovery, and climate-resilient infrastructure.

The federal administration's policies and gridlock have left California vulnerable, unable to rely on Washington for support. A state public bank would provide financial autonomy, allowing California to reinvest billions currently wasted on private banking fees and debt service into local projects that address these crises. Expanding the IBank's mandates could fast-track affordable housing, fund small businesses, and rebuild after wildfires. A state bank would empower California to leverage its own assets to meet local community needs amid strained resources, providing low-cost loans and emergency liquidity to help communities recover and thrive.