

ASSEMBLY BILL 857 (CHIU & SANTIAGO)

PUBLIC BANKING ACT

SUMMARY

This bill would allow a local government to apply for a charter to establish a public bank authorized by state government

BACKGROUND

Public banks are financial institutions that are owned by one or more public entities, such as a city or county. They can invest, lend, and provide banking services at rates that are below market, and can form partnerships with local community banks.

Unlike a privately owned bank, which prioritizes shareholder returns, 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 private sector. Some examples of projects a public bank could fund include affordable housing, small business loans, and public infrastructure projects such as rebuilding after wildfires.

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. Because of this, many California local governments currently hold their assets with private commercial banks, which are oftentimes the only option for governments with larger budgets since money over \$250,000 cannot be FDIC-insured when held in a community bank or credit union.

Even though they are often the only available option, private banks frequently charge local governments large fees to hold their assets and unfavorably high interest rates when lending money.

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 inconsistent with the values of California communities, such as engaging in predatory lending practices, funding private prisons and detention centers, and financing the fossil fuel industry.

THE SOLUTION

AB 857 provides more local control, transparency, and self-determination in how local dollars are used by governments by permitting local governments to charter a public bank. In contrast to profit-driven commercial banks, local public officials are charged with a fiduciary duty to the public they serve, and a public bank will be accountable to more than just its shareholders.

AB 857 also encourages 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 a financial institution that measures its return on investment not only in financial returns, but also by its success in supporting communities.

SUPPORT

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