

PUBLIC BANKING ACT (AB 857)

ADVANTAGES AND BENEFITS

AB 857 creates a pathway for cities, counties, and regions to set up their own public banks. Authored by Assemblymembers David Chiu (SF) and Miguel Santiago (LA), this 2019 session bill enables the Department of Business Oversight to issue state banking charters to local government agencies. AB 857 defines public banks as banks that are wholly-owned by a local government, or a group of local governments. AB 857 does not create a bank; rather, it creates a pathway for cities, counties, and regions to form their own banks.

1 AB 857 public banks are safer than the alternative.

- AB 857 public banks will face increased oversight compared to a local government's current bank options because public banks will be regulated by the Federal Deposit Insurance Corporation and the California Department of Business Oversight (DBO).
- AB 857 public banks will be collateralized and FDIC insured.
- AB 857 public banks will form as a public benefit corporation or social purpose corporation separate from its local government owner(s). All debts and liabilities remain with the bank, not with its owner.

2 Public banks save money.

- Cities and counties pay billions per year in interest, all to private banks, controlled by a handful of shareholders, who reap record profits year after year. Nearly 50% of the cost of all infrastructure projects goes towards paying interest and fees. If we deposit city money and fund public projects through a public bank, we can halve the cost of infrastructure, doubling our power to invest in our own communities.

3 Public banks enable local control.

- Public banks leverage their deposit base and lending power to benefit the public. This allows public banks to focus on pressing local needs such as: rebuilding after natural disasters, local infrastructure including roads, parks, schools and renewable energy projects, affordable housing projects, and small businesses.

4 Public banks are accountable to taxpayers.

- Prior to receiving a banking charter under AB 857, the government entity must conduct a viability study showing how the bank will serve community needs, such as achieving cost savings for local government. The viability study needs to be approved both by the local governing body and the DBO.

5 Public banks partner with community banks and credit unions.

- AB 857 restricts public banks from offering retail services where consumer and commercial markets already adequately serve constituents. Public banks will partner with local banks and non-profit credit institutions to extend credit to communities and expand services to the underbanked.

6 Public banks create jobs.

- AB 857 gives local government the ability to directly support small business through economic policy without relying on federal or state resources. Small business remains the core economic driver for long term economic stability for California families. Small and medium-sized businesses continue to struggle with access to needed lending and capital access to develop and scale.

7 Public banks are managed by banking professionals.

- AB 857 enforces layers of fiscal oversight, governance and organizational structure that ensures highly ethical business practices when it comes to the management of public monies.

8 Bank of North Dakota is a successful precedent.

- The Bank of North Dakota (BND), the nation's only existing public bank, recorded its 15th consecutive year of record profits in 2018.
- Since 2000, BND has returned 464 million dollars to the state general fund.
- 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.