

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: April 8, 2019

TO: Honorable Members of the Rules, Elections, and Intergovernmental Relations
Committee

FROM: Sharon M. Tso 
Chief Legislative Analyst

Assignment No: 19-04-0311

SUBJECT: Resolution (Wesson-Koretz-Krekorian) to SUPPORT AB 857 (Chiu & Santiago).

CLA RECOMMENDATION: Adopt Resolution (Wesson-Koretz-Krekorian) to include in the City's 2019-2020 State Legislative Program SUPPORT for AB 857 (Chiu & Santiago), which would permit a local government to apply for a banking charter to establish a public bank.

SUMMARY

Resolution (Wesson-Koretz-Krekorian), introduced on March 29, 2019, describes that with no public banking options, many local governments in California hold their assets with large out-of-state commercial banks, who often charge excessive fees and have little incentive to invest in the local community. Besides these fees, many banks engage in practices inconsistent with the values of California communities, including predatory lending, funding private prisons, and supporting the extraction of fossil fuels. The Resolution calls on the City to support AB 857, which would permit a local government to apply for a banking charter to establish a public bank. Public banks can invest, lend, and provide banking services to the local community and leverage their assets back into the community, prioritizing community returns over shareholder returns.

BACKGROUND

Public banking has historically emerged as a response to extreme economic uncertainty. The Bank of North Dakota (BND), the only active public bank in the United States, was formed in 1919 in response to limited credit available to local businesses. Public banking emerged again periodically from the 1930s through the 1970s in response to economic uncertainty, but successful public banks did not result from these efforts. The issue has again experienced a resurgence in response to the fiscal crisis that began in 2008. The most recent interest in public banking can also be attributed to the consolidation of local community banks with larger national and international institutions. The terms "public bank" and "municipal bank" have been used to describe a bank owned by a public entity, with a public bank serving as a generic term for any publicly owned bank and a municipal bank specifically referring to a public bank owned by a city.

Advocates for public banking argue that as opposed to private banks, which are beholden to shareholders, public banks would serve the local community by leveraging its deposit base and lending power to benefit the public. These benefits include funding affordable housing, small business loans, and public infrastructure projects. There could be additional benefits in reduced fees charged to municipalities.

AB 857 would permit the establishment of public banks in the State of California. Under the bill:

- Public banks would be required to obtain and maintain insurance (i.e. Federal Deposit Insurance Corporation or similar insurance).
- Local agencies would be permitted to deposit funds in a public bank and to invest in a public bank.
- Public banks would be required to identify in its articles of incorporation either a special purpose or a special public benefit.
- Activities of the bank could include but not be limited to infrastructure lending, wholesale lending, and participation lending.
- Public banks may engage in retail banking activities (typical mass-market banking with savings and checking accounts, mortgages, personal loans, debit/credit cards and certificates of deposit).

In November 2018, voters rejected a City Charter Amendment to allow the City to establish a municipal financial institution or bank. Because AB 857 provides the City with the option to engage in further analysis and dialogue on the benefits of public banks, the City should support AB 857.

DEPARTMENTS NOTIFIED

N/A

BILL STATUS

03/20/19	Re-referred to Com. on B. & F.
03/19/19	From committee chair, with author's amendments: Amend, and re-refer to Com. on B. & F. Read second time and amended.
03/18/19	Referred to Coms. on B. & F. and L. GOV.
02/20/19	Introduced.


Clay McCarter
Analyst

Attachment: Resolution (Wesson-Koretz-Krekorian)

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations, or policies proposed to or pending before a local, state or federal government body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, with no public banking options, many local governments in California hold their assets with large out-of-state commercial banks; and

WHEREAS, these private banks often charge excessive fees and have little incentive to invest the bank's assets into California communities; and

WHEREAS, many of these private commercial banks engage in practices inconsistent with the values of California communities, such as predatory lending, funding private prisons, and supporting the extraction of fossil fuels; and

WHEREAS, currently pending in the California State Assembly is AB 857 (Chiu & Santiago), the Public Banking Act, which would allow a local government to apply for a banking charter from the State Department of Business Oversight to establish a public bank; and

WHEREAS, public banks can invest, lend, and provide banking services to the local community and leverage their assets back into the community; and

WHEREAS, instead of prioritizing shareholder returns, public banks will prioritize community returns such as affordable housing, equitable small business loans, and public infrastructure projects;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2019-2020 State Legislative Program SUPPORT for AB 857 (Chiu & Santiago), which would permit a local government to apply for a banking charter to establish a public bank.

PRESENTED BY: _____
HERB J. WESSON, Jr.
Councilmember, 10th District

PAUL KORETZ
Councilmember, 5th District

PAUL KREKORIAN
Councilmember, 2nd District

SECONDED BY: _____