

# A Public Bank for Los Angeles? City Council Puts It to the Voters

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*California legislators exploring the public bank option may be breaking not just from Wall Street but from the Federal Reserve.*

*Voters in Los Angeles will be the first in the country to weigh in on a public banking mandate, after the City Council agreed on June 29<sup>th</sup> to put a measure on the November ballot that would allow the city to form its own bank. The charter for the nation's second-largest city currently prohibits the creation of industrial or commercial enterprises by the city without voter approval. The measure, introduced by City Council **President Herb Wesson**, would allow the city to create a public bank, although state and federal law hurdles would still need to be cleared.*

The bank is expected to save the city millions, if not billions, of dollars in Wall Street fees and interest paid to bondholders, while injecting new money into the local economy, generating jobs and expanding the tax base. It could respond to the needs of its residents by reinvesting in low-income housing, critical infrastructure projects, and clean energy, as well as serving as a depository for the cannabis industry.

The push for a publicly-owned bank comes amid ongoing concerns involving the massive amounts of cash generated by the cannabis business, which was legalized by Proposition 64 in 2016. Wesson has said that [cannabis has "kind of percolated to the top"](#) of the public bank push, "but it's not what's driving" it, citing affordable housing and other key issues; and that [a public bank should be pursued](#) even if it cannot be used by the cannabis industry. However, the prospect of millions of dollars in tax revenue is an obvious draw. Los Angeles is the largest cannabis market in the state, with Mayor Eric Garcetti estimating that it would bring in \$30 million in taxes for the city.

## **Bypassing the Fed**

[State Board of Equalization Member Fiona Ma](#), who is running for state treasurer, says California's homegrown \$8-20 billion cannabis industry is still operating mostly in cash almost 2 years after state legalization, with the majority of businesses operating in the black market without paying taxes. This is in large part because federal law denies them access to the banking system, forcing them to deal only in cash and causing logistical nightmares when paying taxes and transferring money.

Cannabis is still a forbidden Schedule 1 drug under federal law, and the Federal Reserve has refused to give a master account to banks taking cannabis cash. Without a master account, they cannot access Fedwire transfer services, essentially shutting them out of the banking business.

[In a surprise move in early June](#), **President Donald Trump** announced that he “probably will end up supporting” legislation to let states set their own cannabis policy. But Ma says that while that is good news, California cannot wait on the federal government. She and State **Sen. Bob Hertzberg** (D-Los Angeles) have brought [Senate Bill 930](#), which would allow state-chartered banks and financial institutions to apply for a special cannabis banking license to accept clients, after a rigorous process that follows regulations from the US Treasury Department. The bill cleared a major legislative hurdle on May 30<sup>th</sup> when it passed on the Senate Floor.

SB 930 focuses on California state-chartered banks, which unlike federally-chartered banks can operate under a closed loop system with private deposit insurance. As Ma explained in [a May 17 article in The Sacramento Bee](#):

There are two types of banks - those with federal charters, and banks with California charters. Because cannabis is still considered a Schedule 1 narcotic, we cannot touch federal banking wires. We want state-chartered banks that are protected, regulated and certified under California law, and not required to be under the FDIC.

State income taxes, sales taxes, unemployment, workers’ compensation and property taxes could all be paid through a closed-loop system that takes in revenue from the cannabis industry, but is apart from the federal banking system. . . . Cannabis businesses could be part of a cashless system similar to Apple Pay, and their money would be insured by a state-licensed institution.

That is a pretty revolutionary idea - a closed-loop California banking system that is independent of the Federal Reserve and the federal system. SB 930 would bypass the Feds only for cannabis cash, and the bill strictly limits what the checks issued by these “pot banks” can be used for. But the prospects it opens up are interesting. California is now the fifth largest economy in the world, with 39 million people. It has the resources for its own cashless “CalPay” or CalCoin” system that could bypass the federal system altogether.

The Bank of North Dakota, currently the nation’s only state-owned depository bank, has been called a “mini-Fed” for that state. The Bank of North Dakota partners with local banks to make below-market loans for community purposes, including 2 percent loans for local infrastructure, while at the same time turning a tidy profit for the state. In 2017, it recorded its [14th consecutive year of record profits](#), with \$145.3 million in net earnings and a return on the state’s investment of 17 percent. California, with more than 50 times North Dakota’s population, could use its own mini-Fed as well.

### **Growing Support for Public Banks**

It is significant that the proposal for a closed-loop California system is not coming from academics without political clout. Fiona Ma is slated to become state treasurer, having won the primary election in June by a landslide; and the current state treasurer [John Chiang has been exploring the possibility](#) of a public bank that could take cannabis cash for over a year. **Lt. Gov. Gavin Newsom**, the front runner for governor, [has also called for the creation of a public bank](#). These are not armchair theoreticians but the people who make political decisions for the state, and they have substantial popular support.

Public bank advocacy groups from cities across California have joined to form the California

Public Banking Alliance, a coalition to advance legislation that would facilitate the formation of municipal banks statewide under a special state charter. A [press release by Public Bank Los Angeles](#), one of its founding advocacy groups, notes that 15 pieces of legislation for public banks are being explored across the nation through municipal committees and state legislators, with over three dozen public banking movements building in cities and states across the country. San Francisco has created a 16-person Municipal Bank Feasibility Task Force; Seattle and Washington DC have separately earmarked \$100,000 for public banking feasibility studies; and Washington State legislators have added nearly a half million dollars to their budget to produce a business plan for a public depository bank. New Jersey state legislators, with the backing of Governor Phil Murphy, have introduced a bill to form a state-owned bank; and GOP and Democratic lawmakers in Michigan have filed a bipartisan bill to create one in that state.

Cities and states are seeking ways to better leverage taxpayer dollars and reinvest them in the needs of local communities. Public banking serves that purpose, providing local determination and the opportunity for socially and environmentally responsible lending and investments. The City Council of Los Angeles is now taking it to the voters; and where California goes, the nation may well follow.

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