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Memorandum

October 12, 2022

TO: Pension Review Subcommittee

FROM: Anne Wallace, Senior Research Analyst, 303-866-4364

SUBJECT: Public Banking in Other States

Summary

This memorandum describes public banks, North Dakota's public bank, and other states' interest in creating a public bank. The Office of Legislative Legal Services will provide a related legal opinion about creating a public bank in Colorado.

What is public banking and what states currently operate a public bank?

A public bank is a banking institution administered and funded by a governmental entity. Unlike commercial banks, the purpose of a public bank is not to make a profit. Public banks are directly controlled by a state or local government. They must be set up for a specific purpose, such as to offer small business loans, facilitate affordable housing, or to finance infrastructure programs. There are no public banks operating in Colorado. North Dakota is the only state that currently operates a public bank.

How does the Bank of North Dakota operate?

The Bank of North Dakota (BND) is the only state-owned bank remaining in the United States. The bank was created in 1919 and has served various purposes since its inception, including paying teacher salaries during the Great Depression, selling foreclosed farmland, and offering home mortgage, commercial, and student loans. Currently, the bank offers checking and savings accounts, and other banking services such as foreign currency exchange and loans to North Dakota residents. BND is managed by the State Industrial Commission (commission), made up of state government officials. An advisory board of directors, appointed by the governor, reviews BND's operations and makes recommendations regarding BND's management, services, and policies and procedures to the commission.

BND is not a member of the Federal Deposit Insurance Corporation, so its funds are not federally protected. Profits from BND are appropriated through the North Dakota legislature to the General Fund based on budgetary needs, used for mission-driven loan programs to support economic development and infrastructure, or added to BND's capital. The majority of BND's deposits are from state taxes and fees on corporations, local government entities, and financial institutions. According to its website, it is BND's policy not to compete with other financial institutions in the state, and the bank does not offer debit or credit cards or online bill pay.¹

Have other states considered creating a public bank?

Other states have introduced legislation to create state or local public banks. In 2019, California passed a bill that created a process to allow municipalities to create public banks. To date, no municipalities have created a public bank under this law. In 2021, California passed another bill to study the feasibility of a state-sponsored bank. This study has not been completed. A number of states have recently introduced legislation to allow the creation of public banks, including Massachusetts, New Mexico, New York, and Washington. To date, public banking legislation has not passed in these states.²

¹Bank of North Dakota. *History of BND*. <https://bnd.nd.gov/history-of-bnd/>. Accessed August 26, 2022.

²The Pew Charitable Trusts. *Your State Could Decide to Open a Bank*. <https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2021/12/14/your-state-could-decide-to-open-a-bank>. December 14, 2021. Accessed August 26, 2022.