

Date of Hearing: May 14, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 1365 (Garcia) – As Amended April 28, 2025

Policy Committee: Banking and Finance
Labor and Employment

Vote: 7 - 2
5 - 1

Urgency: No State Mandated Local Program: Yes Reimbursable: Yes

SUMMARY:

This bill establishes the CalAccount Program to increase access to traditional banking services.

Specifically, this bill:

- 1) Continues the existing CalAccount Blue Ribbon Commission (Blue Ribbon Commission) as the CalAccount Commission (Commission) to administer the CalAccount Program. The program must: (a) provide every Californian with access to a voluntary, no-cost, zero-fee, zero-penalty, federally insured transaction account and related payment services, and (b) require employers to facilitate program sign-up for employees and comply with employees' direct deposit elections.
- 2) Details how the Commission must implement the CalAccount Program, including requiring the Commission issue a request for proposals for a financial services network administrator by January 1, 2027; managing the relationship between the CalAccount Program and other state and local government programs to facilitate the direct transfer of public assistance payments; and ensuring comprehensive employer and worker education and outreach about the program. The Commission must adopt regulations necessary for implementation.
- 3) Establishes the CalAccount Fund in the State Treasury, with fund moneys available upon appropriation. The State Treasurer must confirm to the Joint Legislative Budget Committee that the Commission demonstrates the feasibility of achieving program goals prior to funds being available for the execution of a contract with a financial institution. The Commission must also take on additional duties related to the CalAccount Program, such as marketing the program to residents and providing small employers with financial and administrative implementation assistance, to the extent funds are available for those purposes.
- 4) Requires an employer or hiring entity to maintain a payroll direct deposit arrangement that enables voluntary worker participation in the CalAccount Program, including participation by an in-home supportive services (IHSS) provider pursuant to certification and oversight by the Department of Social Services (DSS). An employer is prohibited from discharging, disciplining, or retaliating against a worker because of the worker's CalAccount participation.
- 5) Requires the Commission to refer complaints to the Labor Commissioner (LC) regarding an employer or hiring entity's failure to allow a worker to participate in CalAccount or follow related requirements. An employer or hiring entity in violation is subject to a civil penalty of

\$250 per worker, per violation for an initial citation, and \$1,000 per worker, per violation for a subsequent citation. Penalty revenue must be deposited into the CalAccount Fund and the Commission must reimburse the LC's enforcement costs.

- 6) Requires a landlord to allow a tenant to pay rent by a CalAccount electronic funds transfer.
- 7) Requires the Commission to annually submit a report to the Governor, State Controller, State Auditor, and Legislature with specified program information.

FISCAL EFFECT:

- 1) Costs of an unknown, but definitely significant amount, in the hundreds of millions of dollars, to the Commission to establish the CalAccount Program (CalAccount Fund, backfilled by the General Fund (GF) in the initial years). According to the study contracted by the Blue Ribbon Commission, a CalAccount Program that utilizes mobile banking and the existing brick-and-mortar financial network would result in costs of \$120.1 million in the first year and \$171.4 million in the second year, with benefits eventually exceeding costs in the third year and the program becoming revenue-neutral with regard to operating costs within five to 10 years. These initial costs reflect developing a website, mobile application, new banking policies and procedures, enrollment, and outreach.

It is unclear whether the costs of supporting the nine-member Commission and staff are included in the study's cost estimate. The Budget Act of 2022 allocated \$2.7 million in fiscal year (FY) 2022-23, \$709,000 in FY 2023-24, and \$609,000 in FY 2024-225 to the State Treasurer's Office (STO) for three positions and operational costs for the Blue Ribbon Commission.

The author is requesting \$2.0 million in the first year, \$2.4 million in the second year, and \$3.5 million in the third year to support the startup and implementation of the CalAccount Program, an amount proponents believe is sufficient to launch the program, in stark contrast with the study's estimate of costs for the first three years. However, this bill requires the Commission to only issue a request for proposals for a financial services network administrator by the beginning of the second year (January 1, 2027), so the discrepancy between the author's and study's cost projections is likely due to the author anticipating a much longer implementation timeline than the study.

Finally, this bill would result in GF cost pressures of an unknown amount by requiring the Commission to undertake extra marketing and other duties if sufficient funds are available in the CalAccount Fund or appropriated in the state budget.

- 2) Costs of an unknown, but potentially significant amount, to the Department of Financial Protection and Innovation (DFPI), as the DFPI commissioner serves as a Commission member and DFPI staff have the expertise needed to help establish the CalAccount Program. However, DFPI will likely not incur costs related to CalAccount consumer protection or enforcement of laws applicable to state-licensed banks. Although this bill does not explicitly specify that the Commission is responsible for enforcement, this bill provides that the Commission must determine the necessary costs associated with enforcement, along with other responsibilities more clearly in the purview of the Commission. Thus, it is likely the Commission or the STO will be responsible for enforcement activities.

- 3) Costs of an unknown, but likely significant amount, to the LC to provide enforcement against an employer in violation of this bill's direct deposit requirement (Labor Enforcement and Compliance Fund). The LC's primary mission is enforcement of the state's wage and hour laws and protecting workers from related retaliation. Additionally, the LC does not currently provide enforcement over the relationship between a hiring entity and an independent contractor. Thus, the LC would likely need to establish different investigation processes to provide the type of enforcement specified by this bill.
- 4) Costs of an unknown, but likely significant amount, across state employers and local employers (nearly 5,000 cities, counties, special districts, and school districts) to comply with this bill's direct deposit requirements (General Fund or special fund). For local public employers, if the Commission on State Mandates determines this bill's requirements to be a reimbursable state mandate, the state would need to reimburse these costs to local agencies.

COMMENTS:

- 1) **Purpose.** According to the author:

Lacking access to traditional banking not only means that you pay more for basic financial service, but that you are also less able to save, build credit, receive fee-free government assistance and exit poverty. AB 1365 removes banking barriers by establishing the CalAccount Program – offering a zero-fee, zero-penalty, and no-minimum debit account, ensuring that everyone has access to a bank account, while maximizing their income and savings.

- 2) **Background. *CalAccount Blue Ribbon Commission.*** AB 1177 (Santiago), Chapter 451, Statutes of 2021, established the Blue Ribbon Commission, with State Treasurer Fiona Ma as chair, to conduct a market analysis to evaluate the feasibility of the CalAccount Program. AB 1177 designed CalAccount to offer Californian accountholders free access to a voluntary, zero-fee, zero-penalty, federally insured transaction account and related payment services, including robust and geographically diverse mechanisms for accessing account funds and account management tools that facilitate the automation of basic financial transactions designed to serve the needs of individuals with low or fluctuating income.

On July 1, 2024, the Rand Corporation released the CalAccount Market Study and Feasibility Assessment, which concluded:

Our findings suggest that the success of CalAccount hinges most on enrollment. If CalAccount does not reach a sufficient level of uptake, costs are likely to outweigh benefits. If it does, benefits are likely to outweigh costs, including meaningful savings for customers and significant reductions in unbanked disparities.

We estimate that the societal benefits from CalAccount could outweigh its costs over a decade if enrollment is adequate. The program mainly benefits unbanked and underbanked households in California through savings from avoided fees. However, nonmonetary might include improvements in financial inclusion, literacy, stability, and innovation. While participating banks and the state could also

benefit from new deposits and revenue-sharing, the program's operational costs might be too high to incentivize bank participation without subsidy.

The study offers four recommendations to support a sustainable CalAccount Program, including consideration of an implementation study, as "Our study points to several key areas in need of additional analysis, including developing a better understanding of trust concerns, considering how to best integrate community partners, and refining potential options for CalAccount's structure."

Next Steps for the CalAccount Program. Since the study found that the CalAccount Program is generally feasible, with some caveats, this bill reestablishes the Blue Ribbon Commission as the Commission to establish, oversee, and manage the CalAccount Program. This bill prescribes how the Commission must implement the program and requires the STO to confirm in a letter to the Joint Legislative Budget Committee that program goals are feasible prior to the appropriation of funds to execute a contract with a financial institution to begin account services. However, this bill does not specify the criteria the STO must consider when determining feasibility.

In addition to providing services for unbanked or underbanked households, this bill also requires the Commission to ensure the inclusion of comprehensive worker education and outreach about the program and create an administrative structure that facilitates employee participation while addressing employer needs. An employer and hiring entity must maintain a payroll direct deposit arrangement that enables voluntary worker participation in the CalAccount Program and is prohibited from taking an adverse employment action against an employee who elects into the program. An employer in violation of these provisions is subject to enforcement by the LC.

3) **Support and Opposition.** This bill is supported by the CalAccount Community Coalition, led by SEIU California, which argues this bill "will offer new opportunities for depositing earnings and income and will endeavor to meet the unique needs of Californians who are unbanked or underbanked by the current banking system." This bill is also supported by State Treasurer Fiona Ma and by anti-poverty, consumer, and workers' rights groups.

This bill is opposed by a coalition of banking industry groups, led by the California Bankers Association, which argues, "utilizing existing market solutions is a more fiscally sound, and less risky approach, to solving the unbanked problem."

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