

# CALIFORNIA PUBLIC BANKING ALLIANCE

ADVANCING SOCIALLY AND ENVIRONMENTALLY  
RESPONSIBLE PUBLIC BANKS

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**2022  
RESOURCE  
BOOKLET**

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## **CALIFORNIA PUBLIC BANKING ALLIANCE**

Central Coast — People for Public Banking Central Coast

East Bay — Public Bank East Bay

Humboldt County — Cooperation Humboldt

Los Angeles — Public Bank Los Angeles

North Coast — Public Bank North Coast

Pomona Valley — Public Bank Pomona Valley

San Diego — Public Bank San Diego

San Francisco — SF Public Bank Coalition

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# **CALIFORNIA PUBLIC BANKING ALLIANCE**

## **Cities, Counties and Regions Advancing Public Banks:**

City of Los Angeles

City and County of San Francisco

City and County of San Diego

East Bay Regional Public Bank:

Alameda County

City of Oakland

City of Berkeley

City of Richmond

Central Coast Regional Public Bank:

Santa Cruz County

Santa Barbara County

Monterey County

City of Santa Cruz

City of Seaside

City of Scotts Valley

City of Capitola

City of Watsonville

City of Del Rey Oaks

City of Marina

Pomona Valley Regional Public Bank:

City of Pomona

City of La Verne

City of Claremont

City of San Dimas

North Coast Regional Public Bank:

Sonoma County

Mendocino County

Humboldt County

Humboldt County Regional Bank:

City of Eureka

City of Arcata



# Mission

To encourage and support the development of socially and environmentally responsible city, county, and regional public banks in California.

Each of these public banks will support the economic development of its region and follow transparent, ethical, sustainable, and regenerative investment guidelines; strengthen existing financial institutions through its partnership with local community banks and credit unions; and serve the needs of its entire community by ensuring the meaningful participation of their underserved members.





# ABOUT CPBA

Public banking serves as a powerful tool to keep taxpayer dollars in local communities. Cities and counties currently hold billions of dollars of public money in Wall Street banks. Legally, these corporate banks control this money and can use it for strictly profit-motivated purposes, without regard for environmental impacts, social good, or betterment of the local economy that provided the funds. Their investments prioritize harmful industries including private prisons, immigrant detention centers, weapons manufacturers, fossil fuel pipelines, and other investments that place profit over small local businesses, regional infrastructure such as public housing and recreation, and care for the planet. These too-big-to-fail banks engage in risky and fraudulent practices similar to or worse than those that crashed the global economy in 2008.

The California Public Banking Alliance (CPBA) is a coalition of public banking activists in California founded in 2018 to create socially and environmentally responsible city and regional public banks. Public banking advocates in Los Angeles, San Francisco, the East Bay, South SF Bay, Santa Rosa, Santa Barbara, Humboldt-Eureka, the Central Coast, and San Diego worked together to write and pass AB 857, the California Public Banking Act, in 2019. This legislation made California the first state in the nation to authorize the chartering of municipal public banks.

Since the passage of AB 857, multiple local governments including San Francisco, Los Angeles, the Central Coast, and the East Bay, have passed legislation to move forward with implementing public banks in their localities. We have the opportunity now to build a new alternative banking system through locally-controlled socially and environmentally responsible public banks, enabling cities and counties to recapture public dollars and have a say over the financing of our own communities.

Beyond banking municipalities, CPBA is also working to bring essential financial services to the 25% of unbanked and underbanked Californians. AB 1177, the Public Banking Option Act (CalAccount), signed into law by Governor Newsom in October 2021, will begin the process of offering fee-free and penalty-free debit cards to all Californians making available basic financial services such as check cashing, deposits and bill paying.

In addition to our work at the local and state-level, CPBA is also involved with federal legislation to support public banking. The Public Banking Act, a 2021 bill co-sponsored by Congresswomen Alexandria Ocasio-Cortez (D-NY) and Rashida Tlaib (D-MI) would make it easier for states and local governments to form public banks.

# WHAT IS A PUBLIC BANK?

Public banks are lending and depository institutions owned by a government entity (“local agency”), like a city or county, with a non-profit public purpose governed by a public mandate responsive to local needs. Public banks leverage their deposit base and lending power to benefit residents with affordable housing, small business loans, modernization of public infrastructure and other community needs. They differ from existing financial institutions in that the purpose of public banks is to serve the needs of the communities to which they are accountable rather than seeking the greatest profits for private shareholders.

## BENEFITS OF A PUBLIC BANK

- Keeps public money invested locally.
- Returns profit and interest to local communities.
- Reduces cost of banking to participating agencies, which increases available revenue to spend on other priorities.
- Reflects community values and invests in community-identified priorities.
- Brings democracy and transparency to banking and investment of public funds.
- Uses a bank's ability to leverage money to benefit the public instead of private shareholders.
- Cuts infrastructure construction costs significantly by providing low-interest loans.
- Strengthens local banks and credit unions by backing their loans and letters of credit.
- Creates a multi-generational source of capital that invests long term to benefit residents and local businesses.



# AB 857 CALIFORNIA PUBLIC BANKING ACT

Passed in 2019, AB 857, the California Public Banking Act, is the law that permits cities and counties to form their own banks. Public banks under AB 857:

- Must be non-profit mutual benefit corporations or public benefit corporations.
- Must be owned and controlled exclusively by cities, counties, or a Joint Powers Authority.
- Can provide “local agency banking,” defined in AB 857 as accepting deposits, making loans and extending credit to cities, counties, or other public agencies.
- Can do infrastructure lending, wholesale lending, or participation lending for other public entities.
- Cannot compete directly with existing local financial institutions (<\$1B) though they are able to partner with local banks, credit unions and community development financial institutions (CDFIs) to provide services and make loans.
- Can provide retail services like accepting deposits and making loans to other public entities if there are no local financial institutions that provide the same service with the same features, benefits, and terms in the AB 857 bank's jurisdiction.

AB 857 lays out a straightforward process for municipalities to establish public banks. The key elements are:

- A local agency must conduct a study to assess viability and develop a business plan for the proposed public bank.
- The business plan and governance proposal requires approval from the local government agency. Non-charter cities require voter approval.
- Approval of an application from the California Department of Financial Protection and Innovation (DFPI) must be granted.

With the legal framework for public banks now established in California, the various regional authorities must complete the key elements above to implement the law.

# MANDATE AND MISSION

The public bank mandates define the broad social challenges the institution aims to address, bound legally by the language incorporated in the relevant public policy. Michael Brennan, research fellow for the Democracy Collaborative, in his Governance Proposal for the Los Angeles Public Bank, recommended the following sample mandate language for a public bank charter:

“[The Bank will be] established for the purposes of (1) achieving cost savings, (2) addressing infrastructure and housing needs, (3) promoting equitable recoveries from social, economic, and ecological crises, (4) developing community wealth building institutions and approaches, (5) promoting just transitions to address the climate and biodiversity crises, (6) repairing the historical harms to Black, Indigenous, and immigrant communities, and (7) achieving financial sustainability while avoiding profit seeking.”

Brennan suggests that general mandates should be aligned with more specific missions. These “missions should be ‘SMART’: specific, measurable, aspirational, relevant, and time-bound”.

Each California public bank will support the economic development of its region and follow transparent, ethical, sustainable, and regenerative investment guidelines. Whether or not public banks employ the mandate/mission structure, they will be structured to strengthen existing financial institutions through partnerships with local community banks and credit unions. They will strive to serve the needs of their communities by ensuring the meaningful participation of members underserved by Wall Street banks.

# WHY PUBLIC BANKS?



## **1. Divest from Wall Street.**

To divest our state and local treasuries from fossil fuel and pipeline investments and invest using socially responsible standards favoring social justice, racial and economic equity, and environmental protection.



## **2. Cut infrastructure costs dramatically.**

To provide funding for public infrastructure, and housing for low-income and the unhoused at low interest rates. Public banks allow for greater planning and coordination of local investment to meet community needs.



## **3. Safer than private megabanks.**

Public banks are safer than corporate banks because they do not condone speculative investment strategies driven by profit motives. The Bank of North Dakota survived the Great Depression and the Great Recession of 2008 with humane policies, such as severely limiting foreclosures on farms, that put community welfare above maximizing profits while preserving the state's prosperity.



## **4. Spur economic growth and create new jobs.**

Public banks can prop up local economies suffering from financial downturns. Corporate banks withhold investment dollars during downturns due to their demands for excessive profits. Public banks promote the economic stability of their communities with countercyclical investment, making loans to build back economies that have been harmed by unfortunate circumstances.



## **5. Save money and generate revenue.**

Public banks can operate with very low overhead: no advertising, no ATMs, no huge salaries or bonuses, and no branches because local community banks serve as their front offices. Also, they have no shareholders demanding dividends or executives demanding exorbitant salaries. Public banks provide a means of expanding municipal revenue without increasing taxes. Profits made from loans can be returned to the General Fund.

# HOW PUBLIC BANKS WILL WORK

- The California Public Banking Act allows municipalities to deposit their funds into public banks, thus removing those dollars from private banks. Government departments, such as the treasurer's office, can deposit taxes, fees, fines and funds from state and federal programs that they receive into the public bank.
- Public banks lend for needed community improvements such as affordable housing, climate-resilient infrastructure, and small business support at low interest rates due to their lower overhead, with the added advantage that profits earned can be returned to the municipality's general fund.
- Public banks will act as a “mini-Fed” for their region, assisting local banks and guaranteeing loans. They will be established as “banker's banks” meaning that they will offer loans in concert with community banks and credit unions. When there are public banks, local banks will have greater lending ability and solvency.
- Due to the partnership with small banks, credit unions and CDFIs, public banks will enable funding of local projects at lower cost. The self-funding and self-sustaining nature of public banks means they will not imperil state funds or tax dollars.
- Public banks will have experienced bank managers and boards of directors independent from political control to assure that they are not captured by special interests.
- Public banks will establish citizen advisories to monitor investments and ensure community concerns are represented.

# WE NEED PUBLIC BANKS NOW

## 1

### SAVE MONEY

By depositing our public tax dollars into publicly owned and accountable financial institutions, Californians will keep our money in our cities, creating credit from our own revenue, instead of giving that power to Wall Street to finance petroleum pipelines and production, armaments and private prisons, among other socially and environmentally harmful projects—projects chosen by the banking industry, not public representatives. Nearly 50% of the cost of all public infrastructure projects currently goes towards paying bank interest and fees. If we fund public projects through a public bank, we can dramatically reduce the cost of improving infrastructure, increasing our power to invest in our own communities. In addition, banking fees and interest payments servicing public bank loans could be reinvested into our communities, instead of being siphoned out by Wall Street banks.

The Bank of North Dakota is currently the nation's only state-owned and operated bank. California municipal banks, like the Bank of North Dakota (BND), will be carefully regulated and prohibited from unsafe and unsound banking practices. The BND shows a nearly 17% return on investment—in some years more than Goldman Sachs—with a better credit rating than JPMorgan Chase. The state of North Dakota thrived during the economic crash of 2008 because the BND does not engage in high-risk financial schemes as do the large private banks. The BND reduces the cost of student debt to both state residents and students attending higher-education institutions in the state. During the COVID-19 pandemic, North Dakota disbursed the most PPP loans per capita of any state, through partnerships with local financial institutions.

(Cont.)

# WE NEED PUBLIC BANKS NOW

## 2

### COMMUNITY DEVELOPMENT

Public banks will focus on the long-term prosperity of communities by funding local economic development initiatives including: affordable and supportive housing, green energy infrastructure and conservation measures, co-ops, and other critical community improvements. By partnering with local financial institutions, public banks will be guaranteeing their loans for locally-directed economic development, public works financing and jobs creation.

Small and medium-sized businesses remain the core economic driver for California. Local public banks can serve as sole originators, or convene loan participations, driving small business lending through a partnership relationship with community banks, credit unions, and community development financial institutions (CDFIs). Money spent at small businesses stays in the local economy and builds wealth locally.

Public banks will be able to fund a variety of local projects:

- Affordable and supportive housing and neighborhood stabilization efforts by extending credit lines through the public bank's loan portfolio. In partnership with local lenders, a public bank can bring down the cost of financing housing developments because they won't be bound by a need to maximize profit margins.
- Working with local financial institutions, California public banks will provide access to capital assisting their development and increasing their ability to scale up their operations.
- Transition towards decarbonization and renewable energy. The German Sparkassen/KfW public banking networks have funded over 70% of the country's investment in renewable energy infrastructure. Renewables are now Germany's largest source of energy, with one-third of the nation's electricity derived from wind and solar.
- Enterprises that alleviate wealth inequality by making capital available to those that corporate banks exclude: Black and Brown households and businesses, women-owned businesses, single-parent households, the LGBTQ community, worker cooperatives and non-traditional forms of home ownership.
- Low-interest loans, or interest-free loans, for students to invest in education and stimulate the economy. (Cont.)

# WE NEED PUBLIC BANKS NOW

3

## **ETHICAL ALLOCATION OF MONEY**

The municipal public banking movement advocates for banks to be chartered with socially and environmentally responsible mandates. Each bank's Board of Directors will be held to an ethos of transparency and anti-corruption to ensure the bank operates under sustainable and ethical guidelines. The bank's lending activities would be subject to strict mandates which will require the Board and staff to adhere to the founding principles and fulfillment of its public policy goals.

4

## **LOCAL SELF-DETERMINATION**

Cities often pay large sums to corporate banks for their services. For example, the City of Los Angeles annually pays \$3.14B in debt servicing (the cost to borrow money). That money goes to Wall Street banks which often invest it in distant places and harmful initiatives such as fossil fuel production.

A municipal public bank enables city residents to recapture public dollars by keeping the money in our communities and having a voice in deciding which projects are financed. A chartered public bank maximizes public good within the community rather than maximizing profits for a small group of investors. Public bank revenue and profits are returned to the public, expanding lending capacity for the benefit of the local economy.

5

## **STRENGTHENS LOCAL GOVERNMENTS**

California's local governments face increased needs and revenue shortfalls exacerbated by the COVID-19 pandemic. With the federal government in deadlock, local governments are being forced to cut critical services such as schools and food programs, and spend far more on public health than could have been anticipated before 2020. Limitations in these services disproportionately harm communities of color and poor communities.

Public banks will not only provide California's municipal governments (city, county, water district, transportation district, JPA, and more) with inexpensive depository services and cash management, they will also supply revenue to supplement government spending, freeing up money for crucial services.



# AB 1177

# CALIFORNIA PUBLIC

# BANKING OPTION ACT

On October 4, 2021 Governor Gavin Newsom signed into law AB 1177, the California Public Banking Option Act co-sponsored by CPBA, SEIU CA, and the California Reinvestment Coalition. AB 1177 authorizes a commission of financial access experts, community members, and representatives from the Treasurer's office and the Department of Financial Protection and Innovation (DFPI) to oversee a market analysis for implementing the CalAccount program.

The program, once approved by the legislature, will create a state-sponsored retail banking option for every Californian, offering a zero-fee, zero-penalty debit account and debit card enabling direct deposit from employers and public benefits, automatic bill pay to registered payees, recurring payments and donations to account holders' organizations or charities of choice, and an infrastructure to support account holders in building credit.

Nearly 1 in 4 Californians are unbanked, meaning they lack a bank account altogether, or are underbanked, having a bank account, yet still relying on predatory financial services such as payday lenders, pink slip loans, and pawn shops. Unbanked or underbanked households pay proportionally more for financial services, lack savings accounts, have fewer opportunities to build credit, and face increased rates of loan rejection.

Limited access to financial services is a problem disproportionately impacting low-income communities and communities of color. Californians earning less than \$15 per hour comprise 80.7% of the unbanked in the state. Nearly half of all Black-identifying households in California and 41.1% of all Hispanic-identifying households are unbanked or underbanked.

Providing Californians with a public option for essential financial services will help close the racial wealth gap, eliminate the need for exploitative alternatives to traditional banking, and reduce Californians' risk of falling into catastrophic debt. According to a 2021 study conducted by HR&A Advisors, universal access to essential financial services will result in approximately \$3.3 billion in cumulative savings to California's neediest households. By redirecting household spending away from costly interest and fees, AB 1177 will result in the creation of over 22,000 jobs while boosting the California economy by \$4.2 billion.

# FAQ

## HOW WILL A PUBLIC BANK HELP WITH ECONOMIC REDEVELOPMENT, INCLUDING AFFORDABLE HOUSING?

California currently faces a huge shortage of affordable housing. Many residents are forced to pay over 50 percent of their paycheck for rent and utilities resulting in our state having one of the highest numbers of unhoused people in the nation. Public banking expert Karl Beitel believes public banks can help alleviate this crisis by making "loans to support affordable housing development, in the form of both construction loans and long-term bond and mortgage loans for multi-unit housing developments. A Municipal Bank could, over time, be expanded to become a significant supplier of long-term affordable housing credit . . . and fund a property acquisition program that would acquire existing rental properties and place them into permanently affordable cooperative housing arrangements and land trusts."

Beitel notes, "The primary advantage offered by a Municipal Bank is the creation of a dedicated, multi-purpose entity that combines a multitude of capacities required to identify, underwrite, and originate low-cost, high-impact credit, enabling the City to pursue more socially beneficial and economically just forms of economic development."

A July 2021 NBC Bay Area special explained one aspect of the glacially slow process of building affordable housing as "Developers have to put together a jigsaw puzzle of funding from government agencies, private investors before they can build. They say that process can take up to a decade." Public banks offer a smooth pathway to funding, as well as an alternative to reliance on private investors and the private, for-profit housing market. They can help ensure that future housing development linked to publicly funded transit investments does not result in widespread displacement of residents that almost always occurs in predominantly African-American, Asian, and Latino working-class neighborhoods. This could also be done by co-lending with local private banks, as well as encouraging and back-stopping their investments in local housing initiatives.

# FAQ

## WHY DO WE NEED PUBLIC BANKS IF WE ALREADY HAVE CREDIT UNIONS?

Credit unions are great alternatives to the Big Bank Bullies, as the National Association of Federally-Insured Credit Unions characterizes Wall Street Banks. We strongly encourage people to do their banking with credit unions and local community banks. Credit Unions are owned by defined customer members, not private shareholders. Customers join because they know that their credit union is focused on providing them the best services, not on maximizing profits for distant shareholders. Credit unions are accountable to their depositors, and not the general public.

On the other hand, public banks are owned by governments so they are accountable to elected representatives. Public banks support credit unions and community banks by making joint participation loans, providing them credit, purchasing their mortgages and cooperating in other ways that make more capital available to them to provide low-cost consumer services. North Dakota, with its state public bank, has more credit unions and community banks per capita than any other state.

As public banks are banks, they are not restricted by rules governing credit unions enabling them to gain access to capital at lower rates with fewer restrictions on their lending than credit unions. States and municipalities have large revenue streams and reserves that can be invested most efficiently by public banks for affordable housing, climate-resilient infrastructure and support of small and medium sized locally-owned businesses.

# FAQ

## HOW WILL A PUBLIC BANK HELP WITH GREEN ENERGY INFRASTRUCTURE AND DEVELOPMENT?

A city-owned bank could address the environmental crisis and reduce the impacts of climate change by financing clean energy infrastructure, increasing renewable-energy lending, and incorporating sustainability investment goals into city redevelopment plans.

The Sparkassen network of regional public banks in Germany has been instrumental in Germany's green energy transformation. According to Wolfram Morales, its Chief Economist, 73 percent of investment in renewable energy came from the German public bank sector. Renewable energy accounts for 41% of energy production and consumption in Germany. In 2020, renewable energy sources accounted for about 13% of total U.S. energy consumption and about 20% of electricity generation. German public banks offer interest rates as low as 1% on loans, considerably lower than commercial bank rates.

Costa Rica's worker-owned Banco Popular is another example of a publicly controlled bank funding environmentally friendly projects. The bank has financed sustainable water supply systems, residential solar energy panels, hydroelectric energy generation, and energy-efficient retrofitting. Banco Popular also is a socially responsible investor, working with co-ops and public institutions, as well as unbanked and underbanked populations providing financial services to those neglected by the huge multinational banks operating in Costa Rica.

# FAQ

## ARE THERE PRECEDENTS FOR PUBLIC BANKING IN THE US RIGHT NOW?

The Bank of North Dakota (BND) is a public bank founded in 1919 with over a century of profitable operation. The state-owned BND has returned record profits with a nearly 17% return on investment. It withstood the economic crash of 2008 because it does not engage in risky or unsound investments and lending practices. The Bank of North Dakota makes low interest loans to existing small businesses and start-ups, as well as below-market student loans. It partners with local private banks to provide a secondary market for mortgages and supports local governments by buying municipal bonds.

Not only did the nation's only public bank survive the Great Depression and the Great Recession, during the COVID-19 pandemic, BND provided the largest per capita payout of Paycheck Protection Program (PPP) loans to small businesses of all 50 states. BND deployed capital quickly and efficiently to help small businesses get back on their feet.

Since the passage of the California Public Bank Act (AB 857), municipalities and regions in California including Los Angeles, San Francisco, the East Bay, San Diego, and the Central Coast have begun the process of formulating their public bank business plans. Many cities and states across the nation are pursuing formation of their own public banks. Advocates in New Mexico are working with legislative officials to create a New Mexico State Bank, as are activists in New York, New Jersey, Illinois, Maryland, Massachusetts, Mississippi and Washington. The cities of Seattle, Denver, and Chicago, Philadelphia, and the District of Columbia all have active public banking campaigns. Support for public banks has also transcended political divides. Democratic and Republican lawmakers in the State of Michigan filed a bipartisan bill to create a state public bank. North Dakota, the only state with a state-wide public bank at this time, is a red state with not a single registered Democrat as a state legislator.

# FAQ

## WHERE WILL THE MONEY COME FROM TO START MUNICIPAL PUBLIC BANKS?

The start-up money to open municipal public banks is an investment in the future of our communities and local businesses — public banks amplify the effectiveness of public funds by returning money to our communities.

A variety of sources can be tapped to start a public bank. Each municipality will determine which sources are most appropriate for the size and scope of its bank. Possibilities include appropriations from the local government's budget, earnings from investment pools directed toward the public bank, bonds issued after a vote of citizens authorizes sales, grants from the federal government, and voluntary contributions by supporters of public banking.

Once the bank receives a California State Public Bank Charter, as authorized under the California Public Banking Act, it will be eligible to receive deposits from municipal departments and neighboring municipalities. AB 857 public banks will be able to accept funds from pension funds, socially responsible mutual fund investment vehicles and other institutional investors or in partnership with a local financial institution.

# FAQ

## **CAN RESIDENTS DO THEIR BANKING AT A PUBLIC BANK?**

For at least two reasons, California local public banks will not receive deposits from individuals. First, AB 857 prevents competition with local banking services. Public banks will support the efforts of community banks and credit unions as they provide services by backing loans and vetting local projects for investment value. Secondly, public banks will not have brick-and-mortar retail outlets to service individuals. These banks will only manage municipal agency funds.

## **WHO WOULD BE A TYPICAL CUSTOMER?**

Municipal service providers, such as school districts and public utility commissions, will be the primary customers of public banks. The bank will also partner with local community banks, credit unions, and CDFIs by lending for projects the public demands. Banks will initiate investment programs that align with economic development plans of their municipalities. For example: housing lending (especially affordable housing), enterprise lending (small and medium size businesses), and infrastructure spending will be determined by municipal goals that are financially feasible and environmentally sound. Public money will be recycled locally and not sent to distant shores.



# FAQ

## HOW WILL PUBLIC BANKS BE GOVERNED?

The public bank will be governed like any bank, by a board of qualified directors chosen according to their reputation, financial knowledge, and their adherence to a fiduciary duty to advance the mission and soundness of the bank. In private banks, board members chosen are the largest investors and often earn millions of dollars for their time. In public banks, the ownership is the public, so elected representatives will play a role in selecting a board of qualified individuals with reasonable remuneration who will face far more accountability and transparency in their management decisions.

The governance of each public bank will be informed by input during the creation of the business plan, based on the following principles:

- The banks will be run by independent boards of governors made up of community residents together with experts in public finance, banking, affordable housing and climate change mitigation.
- By law, they will be strictly regulated by the state of California and the FDIC, and will operate under strict mandates to safeguard and grow municipal assets.
- They will be accountable to policies requiring them to act in the interest of the region and its people, and not individual shareholders or executives.

Within those guidelines, it will be up to each region's elected representatives, banking experts, and the people to provide their input on what structure will be most conducive to financial soundness, while being sensitive to needs of the bank's local area and upholding the social and environmental responsibility mandate of its mission.

# FAQ

## **ISN'T IT TOO RISKY TO PUT MANAGEMENT OF BANKS IN THE HANDS OF POLITICIANS?**

No. The bank will not be run by politicians, but by bankers. The governing structure of the public bank will not put politicians in charge—public officials will help set up the structure within the legalities allowed under the controlling legislation, but professional bankers, directed by accountable boards of governors, will handle all operations.

The Bank of North Dakota (BND), the only publicly owned state bank, is extremely profitable – more profitable than Goldman Sachs and JP Morgan Chase, according to the Wall Street Journal. It is very risk-averse, lends conservatively, does not gamble in derivatives, or put deposits at unacceptable risk. It is able to lend at lower than market rates because its costs are very low. It does not pay bonuses or commissions, has no high paid executives, nor shareholders bleeding off profits in the form of dividends. It does not compete with local banks, but partners with them, allowing them to become the front office dealing with customers and keeping the public bank's costs low.

Public sector banks, while rare in the US, are common in other countries and recent studies have shown that they are actually more profitable, safer, less corrupt, and more accountable than private banks.

# FAQ

## **WILL PUBLIC BANKS BE ABLE TO SERVE CANNABIS AND OTHER CASH-BASED BUSINESSES?**

There is a great deal of interest in providing banking services for the millions of dollars spent on cannabis in California. Many legal distributors have no reliable means for the normal financial services needed to run a business. While public banks are often mentioned as a solution to cannabis business banking, as long as cannabis remains a Schedule 1 federally prohibited drug, they will likely not provide services to these businesses as it would be an impediment to gaining approval from the FDIC and Federal Reserve System. Federal law will have to change in order to protect those public banks who choose to serve cannabis businesses from potential prosecution. In addition, public banks are not chartered as banks to private businesses.

## **HOW WILL THE BANKS BE INSURED?**

The California Public Banking Act (AB 857), the law that permits cities and counties to found their own banks, requires California public banks to obtain Federal Deposit Insurance Corporation (FDIC) insurance before the state will approve their charters. Public deposits will be collateralized according to the same rules that apply to all banks. Public banks will have to abide by all regulations that private banks are subject to and will receive the same benefits of deposit protection offered to private financial institutions.

# FAQ

## IS PUBLIC BANKING FAVORED BY CONSERVATIVES OR PROGRESSIVES?

People of all political persuasions have reason to support public banking. North Dakota, home to the nation's only state-run bank, is a red state. Most of the state leaders are Republicans, yet there is overwhelming support for the Bank of North Dakota because it has helped sustain the state's economy for over a century by providing low-cost loans to farmers, businesses, homeowners and college students. Conservatives also like the fact that the Bank of North Dakota contributes its profits to the state treasury reducing the need for tax increases.

California, a largely Democratic state, is the first state to pass twenty-first century legislation authorizing the chartering of municipal public banks. Californians see public banks as institutions that can help solve the state's most pressing problems: preserving and creating affordable housing, supporting small businesses and financing infrastructure improvements that can address the climate crisis.

Public banks are accountable to the communities they serve, so investment decisions will reflect the desires of the majority of residents taking into account concerns of all, ranging from conservative to progressive.

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## **Excerpts from:**

Karl Beitel, Establishing the Municipal Bank of Los Angeles: A Conceptual Framework

Michael Brennan, Constructing the Democratic Public Bank: A governance proposal for Los Angeles

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