CALIFORNIA PUBLIC BANKS

INTRODUCTION

California public banks will support regional economic development by following transparent, ethical, and sustainable investment guidelines.

Public banks are lending and depository institutions owned by a local agency, such as a city or county, that serve a non-profit public purpose and are governed by a mandate responsive to local needs. These 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 traditional financial institutions in that they prioritize serving the needs of the communities they are accountable to, rather than maximizing profits for private shareholders.

California public banks will provide municipal governments with cost-effective depository services and cash management while also supplying funding that supplements government spending. This frees up money for crucial services and reduces the billions of dollars in interest payments that local governments currently pay to private banks, many of which continue to profit during crises like the COVID-19 pandemic. By accepting deposits and handling banking services for local governments and agencies, California public banks also enable these institutions to move their money away from private megabanks that finance activities such as fossil fuel projects, which many cities and counties have voted to divest from. The result is more customized service at a lower cost, while keeping our money local and aligning with our values.

BENEFITS OF PUBLIC BANKS

- Keeps public money invested within the local community
- Returns a significant portion of profits and interest to local residents and businesses
- Aligns with community values and prioritizes investments in community-identified projects
- Significantly reduces the cost of infrastructure creation and repair by half, making funds available for affordable housing, climate change infrastructure, and other pressing needs such as repairing crumbling streets and building parks and schools
- Promotes transparency and democratic control in the management of public funds
- Leverages the bank's resources to increase local lending and meet community needs in partnership with local financial institutions such as community banks, credit unions, and CDFIs
- Supports local banks and credit unions by backing their loans and letters of credit
- Establishes a long-term source of capital that benefits current and future generations of residents and businesses

A public bank has the ability to lend up to ten times the amount of capital it holds, allowing it to start making loans as soon as it opens its doors. The charter, directors, and management of California public banks will be chosen with a focus on a triple bottom line philosophy, which prioritizes preserving the capital of government depositors, meeting the needs of residents, and protecting the environment.

CALIFORNIA PUBLIC BANKS
SUPPORT AFFORDABLE HOUSING

Public Banks: Supporting Affordable Housing and Community Economic Development through Strategic Lending and Funding

California public banks will play a vital role in addressing the affordable housing crisis by providing low-cost, high-impact credit to cities and counties for socially beneficial and economically just forms of development. These banks will support the development of affordable housing through a variety of loans, including construction loans, bond loans, and mortgage loans, which will be made in partnership with local community banks, credit unions, and CDFIs.

In addition to providing financing for new housing developments, public banks will also support the preservation of existing affordable housing by offering flexible terms and extensions on lines of credit to affordable housing developers, enabling them to acquire properties and place them into permanently affordable cooperative housing arrangements and community land trusts.
Public banks will also support working-class neighborhoods by creating loan instruments to finance rental assistance programs that help those left out of current assistance programs and ensure that future housing development linked to publicly funded transit investments supports people of color to stay in and improve their neighborhoods.

In times of crisis, public banks will be able to make capital available to localities immediately and fund tax-credit-based rental assistance programs to prevent evictions and foreclosures, ultimately reducing the costs associated with homelessness. These banks will also provide long-term multi-unit mortgage financing, allowing local governments and nonprofits to acquire thousands of units of existing housing and permanently remove them from the for-profit segment of the local housing market.

STREAMLINING AND CENTRALIZING AFFORDABLE HOUSING FINANCING TO ADDRESS THE STATE'S HOUSING CRISIS

Public banks in California will offer a cost-effective and efficient solution for financing affordable housing projects, providing a lower cost of capital compared to bond financing. This will enable local governments to recapture funds that would otherwise be paid to outside investors, and instead invest them in local services. With a public mandate and lower cost of capital, public banks will allow under-resourced regions to create additional credit to spur the development of affordable housing, while also generating a long-term, sustainable funding stream for high-cost areas. This will help to address the state's affordable housing crisis by streamlining and centralizing the financing process, making it more accessible and efficient for local communities and developers.

CALIFORNIA PUBLIC BANKS
SUPPORT FISCAL RESPONSIBILITY

Public Banks: Offering Reliable and Stable Financial Services with Minimal Risk

LED BY EXPERIENCED PROFESSIONALS

Like the 100-year-old Bank of North Dakota, California public banks will be led by a team of professional bankers and governed by accountable boards of governors who are answerable to their respective communities. Local governments that invest in these public banks will have a say in selecting the banks' boards of directors and shaping policy. The day-to-day operations of the banks will be carried out by seasoned professionals with substantial commercial banking experience, ensuring efficient and effective management.

STATE AND FEDERAL OVERSIGHT OF PUBLIC BANKS

The California Public Banking Act (AB 857), mandates that all California public banks be chartered within the state by the Department of Financial Protection and Innovation (DFPI). The DFPI, which is responsible for chartering banks and businesses across the state, will follow the same procedures for public banks as it does for private banks. This includes a thorough review of the bank proposal, an assessment of financial projections, loan models, and the qualifications and history of the bank’s board of directors, and upper management. The DFPI will provide strict oversight and regulation for the first three years of the bank's operation. After that, annual reviews will continue as long as the bank exists. In case an annual review reveals potential financial trouble, the DFPI will resume stricter oversight.

AB 857 also mandates that every California public bank be insured by the FIDC which has rigorous criteria for all banks' financial and management plans, including requirements for minimum initial capital, minimum ongoing capital maintenance, fidelity bond insurance coverage, and financial statement audits. The FDIC insures bank deposits up to $250,000.

ENSURING INTEGRITY AND FINANCIAL STABILITY IN CALIFORNIA PUBLIC BANKS

DDespite government oversight, many Wall Street banks have had significant failures in terms of integrity and financial management. California public banks, however, will have the advantage of community involvement in their operations. Unlike many commercial banks, whose boards of directors are solely focused on profitability, California public banks will bring together leaders from various community sectors and perspectives. This diversity of backgrounds, expectations, and opinions will broaden the perspective of each local public bank and strengthen the banks' internal accountability for success.

CALIFORNIA PUBLIC BANKS

SUPPORT THE GREEN NEW DEAL

Public Banks: A Solution for Financing a Just Transition and Mitigating Climate Change

Governments around the world are facing the urgent need to fund the development and implementation of new green technologies to combat climate change. One effective solution is using public banks, as demonstrated by Germany's successful efforts to build a green economy through public bank financing. California can also take advantage of this approach by creating a network of public banks to invest in our future.

Public banks can lend up to ten dollars for each dollar of capital, making them an ideal solution for providing the necessary funding for green initiatives. A public bank, with a charter, directors, and management focused on a triple bottom line philosophy, could start making loans as soon as it opens its doors. This would ensure that the bank's priorities align with preserving government depositors' capital, helping residents in need, and safeguarding the planet.

DIVESTING FROM FOSSIL FUELS TO INVEST IN A SUSTAINABLE FUTURE

Wall Street banks have invested billions of dollars in technologies that harm the planet, such as fossil fuel extraction, processing, and transportation. Public banks have the opportunity to take a different approach, by divesting from these harmful industries and instead investing in clean resources, regenerative projects, and climate-conscious infrastructure support.

These investments in sustainable infrastructure projects and green initiatives, such as solar power for homes and businesses, electric car and bicycle charging stations, and more, benefit the environment and create jobs and economic opportunities for local communities. Financing these projects through public banks will bring well-paying jobs to local residents, improve the quality of life for our communities, and strengthen our economies at every level.

PIONEERING A NEW APPROACH TO TACKLING THE CLIMATE CRISIS

Governments pay millions in interest to private banks, whose profit-driven policies often impede progress toward a sustainable future. Depositing tax revenues in public banks can fund public projects at lower costs and support local financial institutions. This can significantly reduce infrastructure project costs, effectively doubling the power of investment in communities.

As the world faces the unprecedented challenges of the climate crisis, a new approach is needed. Public banks have the potential to anchor the necessary changes to mitigate current and future impacts. By creating a new paradigm for addressing the climate crisis, public banks can play a crucial role in achieving a sustainable future.

CALIFORNIA PUBLIC BANKS

SUPPORT WORKERS

Public Banks: Strengthening Local Economies Through Support of Local Businesses and Job Creation

California public banks will work with community banks and credit unions to expand access to credit in underserved areas, supporting economic development in disadvantaged neighborhoods. Public banks can provide essential services and create local jobs by purchasing municipal and local government bonds. They will also boost local lending to aid recovery efforts, fund capital projects like hospitals and community clinics, and drive long-term growth through infrastructure, education, and housing investments. By depositing tax revenue into local public banks, cities and counties can finance vital public projects and reduce infrastructure costs, freeing up funds for investments in their residents.

LEVERAGING LOCAL FUNDS TO EMPOWER WORKING COMMUNITIES

California public banks can leverage capital up to ten times, providing significant funding for public projects such as affordable housing, climate change infrastructure, hospitals, and schools. By partnering with community banks and credit unions, public banks can increase the availability of credit in areas that private banks often overlook, supporting economic development in disadvantaged neighborhoods.

Public banks can require that projects financed by public funds be done by union labor, thereby boosting wages and promoting a more equal distribution of power among workers. This benefits the workers and stimulates local economies by creating jobs and supporting local businesses. Leveraging public funds through public banks will also provide opportunities for worker training, apprenticeship programs, and upskilling of the existing workforce. This will empower working people to become homeowners and enhance the quality of life in their neighborhoods for themselves and their families.

KEEPING MONEY IN OUR COMMUNITIES

California public banks will prioritize investment in California-based projects, using California labor and resources to improve our communities. Unlike large, private banks that seek to maximize profits and often funnel money out of the state, public banks will keep our tax dollars within the community to support the public good and the working people of our cities and regions.

CALIFORNIA PUBLIC BANKS

SUPPORT LOCALISM & AGROECOLOGY

Public Banks: Promoting Sustainable and Compassionate Local Development through Strategic Lending and Funding

A sustainable and self-sufficient local economy is crucial in the face of the increasing challenges posed by climate change and global uncertainty. Food, water, and energy needs can be effectively addressed by treating each local region as an ecological system and utilizing agroecological principles. The United Nations Food and Agriculture Organization has identified several key values for sustainable food and water resources, which are also essential for a just and sustainable energy supply. These include:

- A focus on equity, inclusion, and justice in labor practices, with food production seen as a shared and enjoyable task that strengthens connections with nature, the environment, and the community.
- Responsible and accountable governance at all levels.
- Resilience in agricultural practices and the energy grid, allowing for recovery from climate-related disasters.
- Linking producers and consumers to ensure that production meets a need, reducing food waste and increasing food value, freshness, and variety while providing adequate support for farmers.
- Respect for culture, and food traditions, promoting a healthy food supply, and rejecting industrial and monocultural farming techniques, as well as exploitative and unjust labor practices.

The current profit-driven food and energy supply chains often overlook these values, leading to dependence on chemical additives, factory farming, inattention to waste or recycling, antibiotic resistance, monoculture crops, animal abuse, and soil depletion. The current energy grid also favors the wealthy and damages the environment by promoting short-term financial incentives, allowing the profit motive to drive pricing and distribution, and exploiting our natural resources. Public banks in California can promote sustainable and compassionate local development by implementing these principles in their lending and funding strategies.

A banking system that is tailored to the unique needs and capabilities of each local community will support sustainable and compassionate local development through agroecology. Public banks, with their longer-term focus on profitability, can provide funding for projects that align with the principles of agroecology, such as promoting equity, inclusion, and justice in labor practices, responsible and accountable governance, and resilience in agricultural practices. This will not only support local food, water, and energy needs, but also encourage local wealth and resources to stay within the community, promote awareness of local values and needs, and foster a deeper understanding of the community as an ecological system.

CALIFORNIA PUBLIC BANKS
SUPPORT LOCAL FINANCIAL INSTITUTIONS

Public Banks: Partnering with Community Banks, Credit Unions, CDFIs, and Supporting Local Government Deposits

California public banks will partner with community banks, credit unions, and community development financial institutions (CDFIs) to enhance their lending capabilities and increase access to affordable credit for local residents and businesses. This collaboration will promote economic revitalization and community development by providing local banks with the funding and resources they need to expand lending and support sustainable initiatives.

Through these mutually supportive relationships, public banks will be able to pool and redistribute credit risk among loan participants, reducing the cost of credit and increasing access to affordable housing and sustainability initiatives. Public banks will also accept local government deposits, providing a secure and stable source of funding for public services and infrastructure projects.

In contrast to the trend of declining community banks and credit unions in most states, North Dakota's state-owned bank, the Bank of North Dakota, serves as a successful example of how public banking can support local financial institutions and promote economic stability. The bank's efficient and equitable distribution of Paycheck Protection Plan money during the COVID-19 pandemic further demonstrates the benefits of public banking.

A SHARED PURPOSE AND ETHOS

Public banks, credit unions, and community banks share a common goal: serving the needs of local communities. Public banks will be owned by local governments and return profits to the state, while credit unions are owned by members and community banks are locally managed and staffed. Together, these financial institutions prioritize the well-being of their communities over maximizing profits for shareholders. Community development financial institutions (CDFIs) also share this ethos of supporting local communities.

INVESTING IN LOCAL COMMUNITIES

Public banks will prioritize the needs of local communities by investing in California projects through partnerships with community banks, credit unions, and CDFIs. Public banks will play a crucial role in strengthening California cities and counties by keeping money within the state and investing in projects that benefit residents, such as affordable housing, schools, and infrastructure for addressing climate change. Public banks have the ability to leverage their capital, allowing for a greater impact on local issues. For every dollar of capital, public banks can enable up to ten dollars in loans to address pressing local problems.

CALIFORNIA PUBLIC BANKS
SUPPORT LOCAL GOVERNMENTS

Public Banks: Investing Directly in Local Governments and Small Businesses To Create More Resilient Local Economies

California 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 with inexpensive depository services and cash management, but they will also be able to supply funding that supplements government spending, freeing up money for essential services.

INVESTING IN LOCAL COMMUNITIES, CREATING CLEAN JOBS

Small and medium-sized businesses remain the core economic driver for California. Working with local financial institutions (community banks, credit unions, and community development financial institutions), public banks will provide these businesses with access to capital to develop and scale. By aligning with union standards for wages and working conditions, public banks can promote fair and equitable job opportunities for all members of the community.

PROVIDING STABLE FINANCING FOR LOCAL BUSINESSES AND COMMUNITIES

Public banks will provide stable financing options for local governments and agencies by offering customized banking services at a lower cost and aligning with our cities' and counties' values and priorities. By moving money away from large Wall Street banks and prioritizing local investments, public banks will support the growth and stability of our communities.

STRENGTHENING LOCAL ECONOMIES

California public banks will provide a cost-effective solution for local governments to finance infrastructure projects and other necessary expenses. Instead of paying hundreds of millions of dollars per year in interest to private banks, who continue to be profitable during the worst of the COVID-19 pandemic and are reaping huge rewards now, local governments can deposit their tax revenues in public banks and cut infrastructure creation and repair costs by half. This is possible because public banks can leverage capital up to ten times, with every dollar deposited representing up to ten dollars available to loan, allowing them to fund much-needed projects. Public banks will make funds available for affordable housing, climate change infrastructure, and other community needs while providing extra cash to address smaller but pressing issues such as keeping illegally dumped trash off the streets or building a basketball court for underserved teens.

CALIFORNIA PUBLIC BANKS
SUPPORT SMALL BUSINESSES

Public Banks: Providing Lending and Funding for Small Businesses and Community Economic Development in Underinvested Neighborhoods

California's public banks, both at the city and regional levels, will play a crucial role in supporting small businesses and driving economic development in underinvested communities. By providing loans and funding for small businesses and microenterprises, these banks can help to address the credit challenges faced by small businesses, particularly those owned by Black and other underrepresented groups. These banks can act as sole originators of loans or work in partnership with community banks and credit unions to drive small business lending.

Small and medium-sized businesses are a vital part of California's economy, but they have been disproportionately impacted by the COVID-19 pandemic. Federal support has often been directed towards larger firms with established banking relationships, leaving many small businesses struggling to access credit. Black-owned small businesses have been particularly hard hit, with twice as many facing closure due to restrictive credit standards and high borrowing costs.

Public banks can help to address these challenges by prioritizing lending in low-income, economically deprived neighborhoods. By providing seed money for small-scale initiatives, non-exploitative microenterprises financing, and worker-owned cooperatives, these banks can help to build wealth locally and support sustainable economic development.

The success of North Dakota's public bank during the pandemic serves as an example of the impact that these institutions can have. The Bank of North Dakota helped small businesses secure more Paycheck Protection Plan (PPP) funds than any other state by workforce numbers and quickly launched an emergency COVID relief loan program for small businesses.

EMPOWERING ENTREPRENEURS OF COLOR THROUGH SMALL BUSINESS LENDING

Public banks in California will focus on providing targeted lending and funding for microbusinesses in underserved communities, particularly those owned by women, indigenous people, and people of color who have historically faced barriers to accessing credit. By providing below-market loans to these businesses, public banks can help to reduce the financial burden on these entrepreneurs and support the economic development of vulnerable communities. This strategic approach to lending will help to level the playing field for these microbusinesses and promote inclusive economic growth in California.

KEEPING MONEY LOCAL

Public banks can support local economies by providing lending and funding for small businesses, creating jobs and stimulating economic growth. They can also increase local business tax revenue by fostering a supportive environment for new and existing businesses, ultimately benefiting the community.