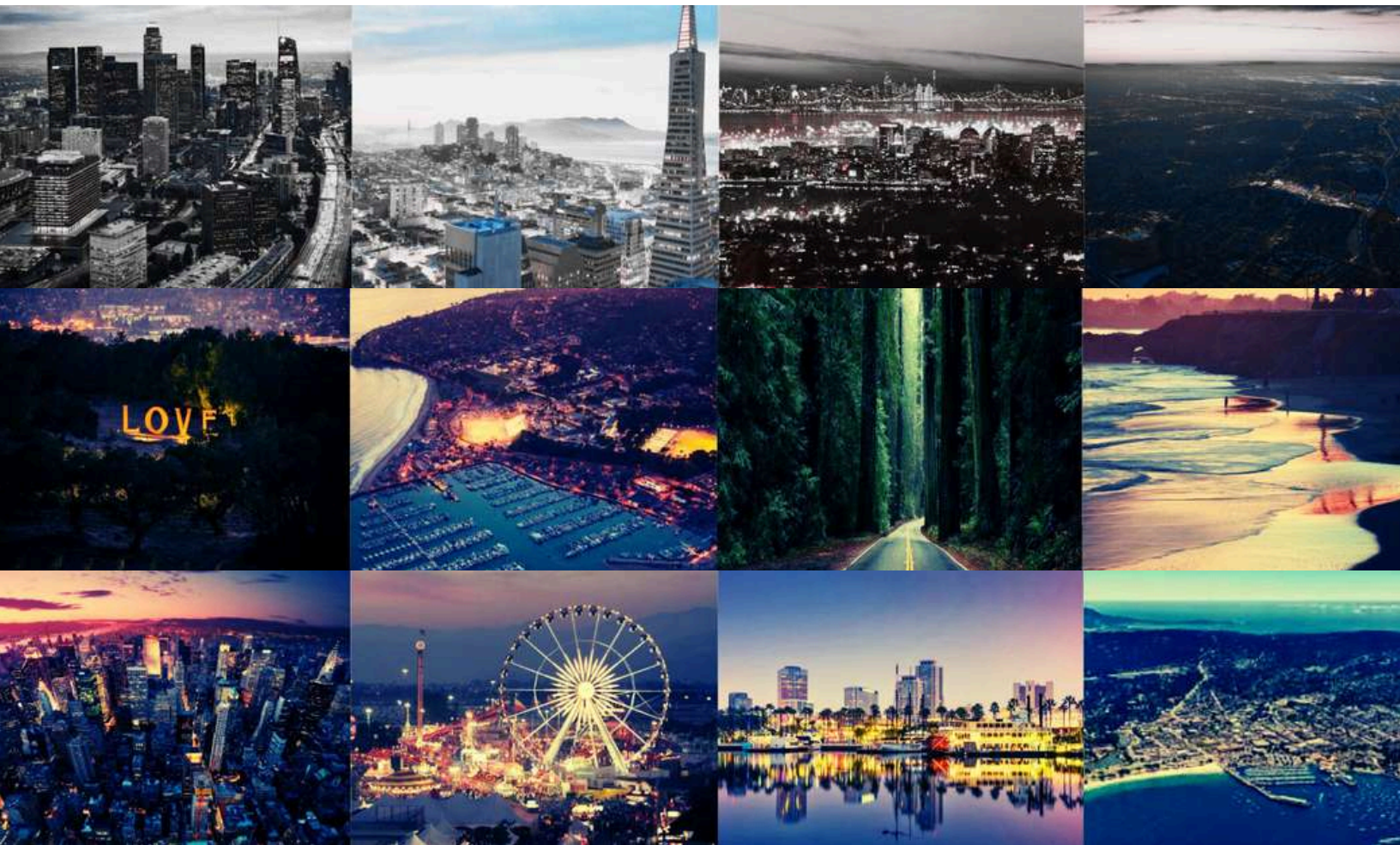


CALIFORNIA PUBLIC BANKING ALLIANCE

ADVANCING SOCIALLY AND
ENVIRONMENTALLY RESPONSIBLE
PUBLIC BANKS

2024
RESOURCE
BOOKLET





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](#)

Sacramento — [Public Bank Sacramento](#)

San Diego — [Public Bank San Diego](#)

San Francisco — [SF Public Bank Coalition](#)

Created in 2023 by the California Public Banking Alliance.
calpba@gmail.com

This Resource Booklet by California Public Banking Alliance is licensed under a Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License.



TABLE OF CONTENTS

- 04** FAQ Table of Contents
- 05** Alliance Cities, Counties & Regions
- 06** California Public Bank Alliance (CPBA) Mission
- 07** About CPBA
- 09** What's a Public Bank?
- 10** Benefits of a Public Bank
- 11** California Public Banking Act (AB 857)
- 12** Mandate and Mission
- 13** Why Public Banks?
- 14** How Public Banks Function
- 15** We Need Public Banks Now
- 18** California Public Banking Option Act - CalAccount (AB 1177)
- 19** FAQ
- 31** Acknowledgments, Resources & Contacts



FAQ TABLE OF CONTENTS

- 19** Can residents use public banks for individual banking needs?
- 19** Who are typical customers for a public bank?
- 20** Why have public banks if credit unions exist?
- 21** How do public banks aid with economic redevelopment and affordable housing?
- 23** How do public banks aid with green energy infrastructure and development?
- 24** How will public banks support racial equity?
- 25** How will public banks be governed?
- 26** Where does funding for the creation of public banks come from?
- 27** How will public banks be insured?
- 27** Will public banks be able to serve cannabis businesses?
- 28** Is it risky to have politicians manage banks?
- 29** Do progressives, conservatives, or both support public banking?
- 30** Are there precedents for public banking in the US?



CALIFORNIA PUBLIC BANKING ALLIANCE

Cities, Counties & Regions Advancing Public Banks:

City of Los Angeles

City of Sacramento

City of San Diego

City and County of San Francisco

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

East Bay Regional Public Bank:

Alameda County

City of Oakland

City of Richmond

City of Berkeley

Humboldt County Regional Bank:

City of Eureka

City of Arcata

North Coast Regional Public Bank:

Sonoma County

Mendocino County

Humboldt County

Pomona Valley Regional Public Bank:

City of Pomona

City of La Verne

City of Claremont

City of San Dimas



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 is a powerful tool that helps to keep taxpayer dollars within local communities. Currently, cities and counties hold billions of dollars of public money in large corporate banks. These banks are legally allowed to control this money and legally required to use it for profit-driven purposes, regardless of the environmental, social, or economic consequences. They often prioritize investments in harmful industries – private prisons, immigrant detention centers, weapons manufacturers, and fossil fuel pipelines – rather than supporting small local businesses, regional infrastructure such as public housing and recreation, and sustainability. These too-big-to-fail banks have a history of engaging in risky and fraudulent practices, similar to or worse than those that caused the global financial crisis in 2008. Given the numerous issues posed by large corporate banks, public banks emerge as a vital solution that prioritizes investing in the needs and interests of the communities they serve.

The California Public Banking Alliance (CPBA) was founded in 2018 by a group of public banking advocates in California who are committed to establishing socially and environmentally responsible city and regional public banks. In 2019, members from Los Angeles, San Francisco, the East Bay, the South 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](#). This law made California the first state in the country to formally allow the chartering of municipal public banks.

Since the passage of the California Public Banking Act, several local governments, including San Francisco, Los Angeles, Oakland, Berkeley, Richmond, and the Central Coast, have passed legislation that will help establish public banks in their areas. We now have the opportunity to build a new, alternative banking system through locally controlled, socially and environmentally responsible public banks. This will allow cities and counties to reclaim our public dollars and have a say in the financing of our communities.

In addition to supporting the development of public banks for municipalities, the CPBA is also working to provide essential financial services to nearly 10 million unbanked or underbanked Californians. In October 2021, Governor Newsom signed the [Public Banking Option Act](#) into law.

(continued)

ABOUT CPBA

This legislation will enable the offering of fee-free and penalty-free debit cards to all Californians, providing access to basic financial services such as check cashing, deposits, and bill paying. AB 1177, also known as [CalAccount](#), will help to improve financial inclusion and address the challenges faced by those who lack access to traditional banking services.

In 2022, the 9-member [CalAccount Blue Ribbon Commission](#) was established, with State Treasurer Fiona Ma serving as chair. This commission is tasked with evaluating the scope, feasibility, and costs of the CalAccount program. The California Public Banking Option Act has received widespread support, with over 250 racial justice groups, faith-based organizations, financial advocacy groups, labor unions, and cities backing the CalAccount program.

The CalAccount [market analysis report](#) was published on July 1, 2024, and states that the program is feasible and necessary to address the financial inclusion of unbanked and underbanked Californians. The final report will incorporate public testimony on the impact of unfair banking practices gathered from a series of statewide town halls held in February and July 2024. Once completed, the report will return to the Legislature for approval. The CalAccount Community Coalition intends to introduce legislation to implement CalAccount in the 2025-26 session, making CalAccount the first state-administered universal banking program in the nation.

In addition to our efforts at the local and state levels, the CPBA also actively supports federal public banking legislation. The [Public Banking Act](#), co-sponsored by Congresswomen Rashida Tlaib (D-MI) and Alexandria Ocasio-Cortez (D-NY), seeks to make it easier for states and local governments to establish public banks and could help to expand the reach and impact of public banking in the United States.

WHAT'S A PUBLIC BANK?

Public banks are financial institutions owned and operated by a government entity, such as a city or county, with a mandate to serve the local community's needs. They provide a variety of lending and depository services, such as affordable housing, small business loans, and infrastructure modernization, that are tailored to the unique characteristics of the local community. Unlike private banks, whose primary goal is to increase profits for shareholders, public banks prioritize serving the public good and supporting their region. As a result, public banks can use their deposit base and lending power to benefit local residents and businesses, rather than focusing on profits for private shareholders. This focus on the public good allows public banks to play a vital role in supporting local communities' economic and social well-being.

BENEFITS OF A PUBLIC BANK

Public banks offer a range of benefits to local communities, including:

- **Investing public money locally:** Public banks help stimulate the local economy and create jobs by investing in local projects and initiatives, keeping public funds circulating within the community rather than these monies being funneled to external investors.
- **Returning profit and interest to local communities:** Unlike private banks, which maximize profits for shareholders, public banks can return profits and interest to the community through various means, such as lower fees for banking services, lower interest rates on loans, or funding for community projects.
- **Reducing banking costs:** Public banks can offer lower fees and interest rates on banking services to participating agencies, such as municipalities or school districts, which can help to free up more revenue for other priorities.

(Continued)

BENEFITS OF A PUBLIC BANK

- **Investing in community priorities and values:** Public banks can align their investment decisions with the values and priorities of the local community rather than being driven solely by financial considerations. This allows them to support projects and initiatives that reflect the community's needs and values.
- **Supporting democracy and transparency:** Public banks are accountable to the public and operate with greater openness, allowing for more community oversight and participation in decision-making. This ensures that public funds are used responsibly and with clear accountability.
- **Using a bank's leverage to benefit the public:** Through their ability to leverage money, public banks can amplify the impact of public funds and achieve greater returns for the community, allowing them to make a bigger difference in infrastructure development, economic development, and community revitalization.
- **Cutting infrastructure construction costs significantly:** Public banks can help reduce overall construction costs by providing low-interest loans for infrastructure projects, making improvements more affordable for local governments and agencies.
- **Strengthening local banks and credit unions:** Public banks can support and strengthen local banks and credit unions by partnering with these institutions to back their loans and letters of credit, helping them access the capital they need to grow and serve their communities.
- **Creating a multi-generational source of capital:** By investing in long-term projects and initiatives, public banks can create a source of capital that benefits residents and local businesses for generations to come and helps create a more sustainable and resilient local economy.



CALIFORNIA PUBLIC BANKING ACT AB 857

The California Public Banking Act (AB 857) was enacted in 2019 and allows cities and counties to establish their own banks. Public banks under the California Public Banking Act:

- 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 offer "local agency banking," including accepting deposits, making loans, and extending credit to public agencies.
- Can engage in infrastructure, wholesale, or participation lending for other public entities.
- Must partner, rather than compete directly, with existing local financial institutions that have assets under \$1 billion; instead, the public banks can partner with local banks, credit unions, and community development financial institutions (CDFIs) to offer services and make loans.
- If no local financial institutions offer the same services with comparable features, benefits, and terms within the public bank's jurisdiction, public banks can provide retail services such as accepting deposits and making loans to other public entities.

AB 857 outlines a clear and structured process for municipalities to establish public banks. The main steps in this process are as follows:

- A local agency must conduct a study to assess the viability of a public bank and develop a business plan for the proposed bank.
- The business plan and governance proposal must be approved by the local government agency. Non-charter cities require voter approval.
- State and federal regulators, the Department of Financial Protection and Innovation (DFPI), and the FDIC, must review and approve the application to establish a public bank.

In January 2022, the DFPI established the legal code and regulations for public banks. With these regulations in place, advocates are now collaborating with local governments to implement city- and region-owned public banks that cater to the specific needs of their communities.



MANDATE AND MISSION

California public banks will be designed to support the economic development of its region and adhere to transparent, ethical, sustainable, and regenerative investment guidelines. Public banks may use a mandate/mission structure or alternative approaches but their primary focus will be strengthening existing financial institutions through partnerships with local community banks, credit unions, and CDFIs. They will strive to meet the needs of their communities by ensuring that underserved residents have the opportunity to participate in their operations.

The public bank mandates will define the broad social challenges each institution aims to address, bound legally by the language incorporated in the relevant public policy. Michael Brennan, a 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.” By operating in this way, public banks will help to create a more inclusive and equitable financial system that serves the needs of all members of the community.

WHY PUBLIC BANKS?



1. Divest from Wall Street.

Public banks can prioritize social justice, racial and economic equity, and environmental protection by divesting our treasuries from fossil fuel and pipeline investments and investing using socially responsible standards.



2. Cut infrastructure costs dramatically.

Public banks can provide low-interest funding for public infrastructure and affordable housing. Local governments can positively impact their communities while also reducing costs and promoting long-term sustainability.



3. Safer than private megabanks.

Public banks are safer than corporate banks because they do not engage in risky investment strategies driven by profit. The Bank of North Dakota has successfully navigated economic crises while prioritizing the community's welfare and preserving prosperity through policies that prioritize human needs, such as limiting farm foreclosures.



4. Spur economic growth and create new jobs.

Public banks can support local economies by making countercyclical investments and providing loans to aid in recovery. This commitment to the economic stability of their communities allows public banks to drive economic growth and create new jobs, even during challenging times.



5. Save money and generate revenue.

Public banks can keep overhead costs low by eliminating the need for advertising, ATMs, and high salaries or bonuses. With local community banks serving as their front offices, public banks also do not require branches. The lack of shareholders demanding dividends or executives seeking exorbitant salaries allows public banks to save on operational costs. These cost-saving measures enable public banks to increase municipal revenue without raising taxes, and any profits made from loans can be returned to the General Fund.



HOW PUBLIC BANKS FUNCTION

- The California Public Banking Act allows municipalities to have the option to deposit their funds into public banks, in addition to or instead of depositing them into private banks. Government departments, such as a treasurer's office or finance director's office, can deposit taxes, fees, fines, and funds from state and federal programs into the public bank.
- Public banks offer low-interest loans for community improvements like affordable housing, climate-resilient infrastructure, and small business support due to their lower overhead.
- Public banks will act as a “mini-Fed” for their region by providing assistance and guarantees to local banks in partnership with community banks and credit unions. By operating as “banker’s banks,” public banks will increase the lending capacity and stability of local banks.
- Partnering with small banks, credit unions, and CDFIs, public banks can fund local projects at a lower cost. Public banks' are self-funding and self-sustaining and do not risk state funds or tax dollars.
- Public banks will be managed by experienced bank professionals and governed by independent boards of directors to ensure they are not subject to political influence or captured by special interests.
- Public banks will be able to establish citizen advisory committees to monitor investments and ensure community concerns are represented.

WE NEED PUBLIC BANKS NOW

1

SAVE MONEY

Investing public tax dollars in publicly-owned and accountable financial institutions allows cities and municipalities to keep their money within their own regions, create credit from their own revenue, and stop supporting socially and environmentally harmful projects chosen by the banking industry, such as petroleum pipelines, armaments, and private prisons.

Currently, almost half of the cost of all public infrastructure projects goes towards paying bank interest and fees, and that money flows to projects and stockholder dividends that are not in line with our community's priorities. By using a public bank to fund projects, local governments can significantly reduce the cost of improving our infrastructure and increase our ability to invest in our own priorities. The fees and interest payments on loans from public banks will be reinvested back into our communities instead of going to Wall Street banks.

The Bank of North Dakota (BND) is currently the only state-owned and operated bank in the nation. California municipal banks, modeled in many respects after the BND, will be carefully regulated and prohibited from unsafe and unsound banking practices. The BND has a strong record of success, with nearly 17% return on investment in some years, a better credit rating than JPMorgan Chase, and a history of avoiding high-risk financial schemes. In addition, the BND has helped reduce the cost of student debt to both state residents and students attending higher-education institutions in North Dakota. North Dakota was able to effectively dodge the 2008 subprime mortgage crisis and disburse more Paycheck Protection (PPP) loans per capita than any other state during the COVID-19 pandemic, thanks to partnerships with local financial institutions.

WE NEED PUBLIC BANKS NOW

2

COMMUNITY DEVELOPMENT

Public banks will prioritize the long-term prosperity of communities by funding initiatives that promote affordable and supportive housing, green energy infrastructure and conservation measures, worker and customer co-ops, land trusts, and other critical community needs. Public banks can guarantee loans for locally-directed economic development, public works financing, and job creation by partnering with local financial institutions.

Small and medium-sized businesses are the backbone of California's economy, and local public banks can convene loan participation through partnerships with community banks, credit unions, and community development financial institutions (CDFIs). Investing in small businesses helps to keep money within the local economy and builds wealth at the community level.

Public banks will be able to fund various local projects:

- Public banks can lower housing costs by providing credit lines to local lenders for affordable housing projects without maximizing profits. They can also assist local financial institutions to expand their operations and improve housing development financing.
- The German Sparkassen/KfW public banking network has financed over 70% of the country's renewable energy infrastructure, leading to increased use of renewable energy as a primary source, with one-third of electricity now derived from wind and solar.
- Public banks can support enterprises that alleviate wealth inequality by making capital available to marginalized communities and businesses, worker cooperatives, and non-traditional forms of home ownership that corporate banks often exclude.
- Low-interest loans, or interest-free loans, for students to invest in education and stimulate the economy.

WE NEED PUBLIC BANKS NOW

3

ETHICAL INVESTMENT PRACTICES

The California public banking movement supports the creation of municipal banks that are chartered with mandates to prioritize social and environmental responsibility. These banks will be governed by a transparent and inclusive structure to ensure that they maintain an anti-corruption ethos, with substantial built-in guardrails, and operate in a sustainable and ethical manner. Each bank's lending activities will be subject to strict mandates, requiring the Board of Directors and staff to adhere to the founding principles and fulfill public policy goals.

4

LOCAL AUTONOMY

Cities often pay large sums to corporate banks for their services. For example, the City of Los Angeles pays \$3.14B in debt servicing (the cost of borrowing money) annually to Wall Street banks, which uses this money to invest in harmful initiatives like fossil fuel production. A public bank allows cities to keep public funds within the community, giving residents a say in how the funds are used. Public banks prioritize community well-being over profit, and return revenue and profits to the public, increasing their lending capacity for the local economy. This enables cities to reinvest in their own communities and make informed financial decisions.

5

STRENGTHENS LOCAL GOVERNMENTS

California's local governments have been struggling with increased needs and reduced revenues due to the COVID-19 pandemic and have been forced to cut essential services such as education and food programs while increasing spending on public health. These cuts disproportionately impact marginalized communities. Public banks in California can provide affordable banking services to municipal governments (including cities, counties, water districts, transportation districts, and more) and generate additional revenue, enabling them to fund essential services and provide support during crises.



CALIFORNIA PUBLIC BANKING OPTION ACT AB 1177

Governor Gavin Newsom signed the California Public Banking Option Act (AB 1177) into law on October 4, 2021. This legislation, co-sponsored by the California Public Banking Alliance, establishes a commission of financial experts, community representatives, and officials from the Treasurer's office and the Department of Financial Protection and Innovation (DFPI) to conduct a market analysis and oversee the development and implementation of the CalAccount program. The program aims to provide affordable financial services and promote economic growth in California by providing greater access to financial services for Californians.

The CalAccount program, if approved by the legislature in 2025-26, will provide all Californians with an accessible, affordable, and inclusive state-sponsored banking option offering zero-fee debit account and card, direct deposit, automatic bill pay, recurring payments, and credit-building infrastructure.

10 million Californians, or nearly 25% of the population, are unbanked or underbanked and rely on predatory financial services. The CalAccount program aims to reduce costs and improve access to savings accounts and credit-building opportunities to promote economic growth and reduce the disproportionate impact on low-income and minority communities. 80.7% of unbanked Californians earn less than \$15 per hour, and nearly half of Black and 41.1% of Hispanic households in California are unbanked or underbanked.

The CalAccount program is designed to help close the racial wealth gap, eliminate predatory alternatives to traditional banking, and reduce the risk of debt for Californians by providing a public option for essential financial services. A study by HR&A Advisors found that this program would result in \$3.3 billion in savings for low-income households, create 22,000 jobs and boost the California economy by \$4.2 billion by redirecting spending away from costly interest and fees.



FAQ

CAN RESIDENTS DO THEIR BANKING AT A PUBLIC BANK?

There are two main reasons why California's local public banks will not receive deposits from individuals. Firstly, per AB 857, they are not meant to compete with existing local banking services and will instead support community banks and credit unions by backing loans and evaluating local projects for investment. Secondly, these banks will not have brick-and-mortar retail branches and will only handle the funds of municipal agencies.

WHO ARE TYPICAL CUSTOMERS FOR A PUBLIC BANK?

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

WHY HAVE PUBLIC BANKS IF CREDIT UNIONS EXIST?

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 with 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.



FAQ

HOW DO PUBLIC BANKS AID IN ECONOMIC REDEVELOPMENT AND AFFORDABLE HOUSING?

California is facing a severe shortage of affordable housing, with many residents paying over 50% of their income on rent and utilities. This is one reason the state has among the highest numbers of unhoused people in the nation. Public banks can help alleviate this crisis by providing loans to develop affordable housing, including construction loans and long-term bond and mortgage loans for multi-unit housing developments. By partnering with local community banks, credit unions, and community development financial institutions (CDFIs), public banks can potentially become significant suppliers of long-term affordable housing credit through partnership loans. Public banks could also fund property acquisition programs to acquire existing rental properties and place them into permanently affordable cooperative housing arrangements and land trusts.

In *Establishing the Municipal Bank of Los Angeles: A Conceptual Framework*, Karl 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 "Developers have to put together a jigsaw puzzle of funding from government agencies and private investors before they can build. They say that process can take up to a decade." This observation is supported by the research done for

(Continued)



FAQ

HOW DO PUBLIC BANKS AID IN ECONOMIC REDEVELOPMENT AND AFFORDABLE HOUSING?

the Public Bank East Bay viability study and the HR&A Team Lending Gaps and Priorities Analysis report for the San Francisco Public Bank task force. Public banks offer a smooth pathway to funding and 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 the extremely common widespread displacement of residents in predominantly African-American, Asian, and Latino working-class neighborhoods. Public banks can also contribute by co-lending with local private banks and encouraging and back-stopping investments in socially responsible local housing initiatives.



FAQ

HOW DO PUBLIC BANKS AID IN GREEN ENERGY INFRASTRUCTURE AND DEVELOPMENT?

A city or region-owned public bank could play a significant role in addressing the environmental crisis and reducing 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 transition to a green energy economy, with 73% of investment in renewable energy coming from the public bank sector. This has contributed to renewable energy accounting for 41% of energy production and consumption in Germany (compared to only 11% in the US). German public banks offer interest rates as low as 1% on loans, significantly lower than commercial bank rates.

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

Learn more about how public banking can support climate justice: [Public Banking for Climate Justice](#).



FAQ

HOW WILL PUBLIC BANKS SUPPORT RACIAL EQUITY?

California public banks, as mission-driven institutions, will prioritize racial equity and serve the needs of underrepresented communities by including these commitments in the bank’s mission statement and charter. In part, public bank directors will be chosen based on their understanding and support for racial equity and combating systemic racism. Boards of directors whose ethnicity, gender, and class backgrounds reflect the communities they serve are a rarity in the traditional banking industry—public banks can buck that trend.

Public banks aim to support racial equity by using their lending capabilities to contribute to affordable housing projects in a targeted and impactful way which could include making loan approval contingent on plans for tenant diversity and community involvement in decision-making during construction. Loans for small businesses can be evaluated with consideration for the specific needs of BIPOC business owners and the importance of their connections to the community. Public banks could also focus on supporting green infrastructure projects in neighborhoods that would benefit the most from them.

All of these initiatives—housing, business loans, and green infrastructure—contribute to the goal of building long-term wealth for BIPOC communities within the public bank’s city or region. This is well-documented to positively impact the health, education, and overall well-being of marginalized communities and their neighborhoods.



FAQ

HOW WILL PUBLIC BANKS BE GOVERNED?

Each public bank will be governed by a board of qualified directors selected based on their reputation, financial knowledge, and commitment to advancing the mission and soundness of the bank. Unlike private banks, where board members are typically the largest investors and can earn millions of dollars for their time, public banks are owned by the public. As a result, elected representatives will choose a board of qualified individuals who will be held to a higher standard of accountability and transparency in their management decisions and receive reasonable compensation for their work. This is one guardrail to help ensure that public banks are managed in the community's best interests and not solely for the benefit of a select group of investors.

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

- governed by independent boards of directors composed of community residents and experts in public finance, banking, affordable housing, and climate change mitigation.
- strictly regulated by the state of California and the FDIC and will operate under strict mandates to safeguard and grow municipal assets.
- operate for the benefit of the community instead of individual shareholders or executives.

Elected officials, banking experts, and community members can provide input on the structure of local public banks within guidelines, ensuring the bank meets the needs of the local area and upholds its social and environmental mandate, while also maintaining financial stability. This guarantees the bank aligns with the specific needs and goals of the region by involving the community in its formation and management.



FAQ

WHERE DOES FUNDING FOR THE CREATION OF PUBLIC BANKS COME FROM?

Investing in the start-up of municipal public banks is an investment in the future of our communities and local businesses. Public banks amplify the impact of public funds by returning money to our communities.

There is a range of options for funding 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 approval by citizens, grants from the federal government, and voluntary contributions by supporters of public banking.

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



FAQ

HOW WILL PUBLIC BANKS BE INSURED?

The California Public Banking Act (AB 857), which permits cities and counties to found their own banks, requires California public banks to obtain Federal Deposit Insurance Corporation (FDIC) insurance before the state approves their charters. Public deposits at public banks will be collateralized according to the same rules as public deposits at private banks. Public banks must comply with all regulations that apply to private financial institutions and will receive the same deposit protection benefits.

WILL PUBLIC BANKS BE ABLE TO SERVE CANNABIS BUSINESSES?

Providing banking services for the millions of dollars spent on cannabis in California is a highly examined issue. Many legal distributors have no reliable means for the normal financial services needed to run a business. While public banks are often discussed as a potential solution for cannabis businesses, as long as cannabis remains a Schedule 1 federally prohibited drug, public banks are unlikely to be able to offer services to these businesses due to the difficulty of gaining approval from the FDIC and the Federal Reserve System. Federal law will have to change to protect those public banks that choose to serve cannabis businesses from potential prosecution. In addition, public banks are not chartered as banks to private businesses.



FAQ

IS IT RISKY TO HAVE POLITICIANS MANAGE BANKS?

Professional bankers, not politicians, will manage public banks. Public bankers will operate the banks with a primary focus on serving the community rather than maximizing profits for personal gain. This approach aligns with the mission and mandates of the institution and decreases motivations to generate revenue through unethical means.

While public officials will help establish the bank's structure within the legal framework of controlling legislation, professional bankers guided by accountable boards of directors will oversee all operations. In addition, state and federal banking regulators will be vigilant in overseeing banking operations, especially for the first three years each bank is open. This ensures that the bank is run efficiently and effectively by experienced professionals.

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 puts deposits at unacceptable risk. It can lend at lower than market rates because its costs are very low. It does not pay bonuses or commissions, has no high-paid executives, and no 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.

While rare in the US, public sector banks are common globally. Recent reports have shown that they are more profitable, safer, less corrupt, and more accountable than private banks.



FAQ

DO PROGRESSIVES, CONSERVATIVES, OR BOTH SUPPORT PUBLIC BANKING?

North Dakota, a predominantly Republican state, is home to the nation's only state-run bank, the Bank of North Dakota. The conservative state leader expressed widespread support for the BND because it has helped sustain the state's economy over the last century by providing low-cost loans to farmers, businesses, homeowners, and college students. Conservatives also appreciate that the BND returns its profits to the state treasury, reducing the need for tax increases.

California, a largely Democratic state, is the first state to pass legislation in the 21st century authorizing the chartering of municipal public banks. Californians see public banks as institutions that can help solve the state's most pressing problems, such as 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 majority of residents' preferences and consider the concerns of all political persuasions, from conservative to progressive. This makes public banking a viable option for people of all political leanings.



FAQ

ARE THERE PRECEDENTS FOR PUBLIC BANKING IN THE US?

The Bank of North Dakota (BND) is a profitable public bank established in 1919. In 2021, the state-owned BND achieved a healthy 15% return on investment. It has a history of weathering economic downturns, including the Great Depression, the Great Recession, and the COVID-19 pandemic. During COVID-19, BND provided the largest per capita Paycheck Protection Program (PPP) loans to small businesses in all 50 states, helping them to recover quickly and efficiently. The Bank of North Dakota offers low-interest loans to small businesses and start-ups and below-market student loans. The BND works with private banks to provide a secondary market for mortgages and supports local governments by purchasing municipal bonds.

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 formulating public bank business plans. Many cities and states are pursuing the formation of public banks. Advocates in New Mexico are working with legislative officials to create a state public bank, as are activists in New York, New Jersey, Illinois, Maryland, Massachusetts, Mississippi, Ohio, and Washington. The cities of Seattle, Denver, Chicago, Philadelphia, and the District of Columbia all have active public banking campaigns. Support for public banks transcends political divides. Democratic and Republican lawmakers in Michigan have jointly introduced legislation to establish a state public bank. Also, it's important to note that the only state-wide public bank currently in the United States is in the state of North Dakota, which is traditionally a Republican-leaning state, with no Democratic state legislators.



ACKNOWLEDGMENTS, RESOURCES & CONTACTS

We are grateful to the following individuals for their contributions to this booklet's research, writing, design, and editing. The contributors are listed alphabetically:

Brett Garrett - People for Public Banking Central Coast

Rick Girling - SF Public Bank Coalition

Ben Gordon - Public Bank LA

David Jette - Public Bank LA

Debbie Notkin - Public Bank East Bay

Steve Sittig - Public Bank Pomona Valley

Trinity Tran - Public Bank LA

Resources

[East Bay Public Bank Viability Study](#)

[Establishing the Municipal Bank of Los Angeles: A Conceptual Framework](#)

[Constructing the Democratic Public Bank: A Governance Proposal for Los Angeles](#)

[Public Banking for Climate Justice](#)

[The Public Bank Alternative](#)

Contacts

capublicbanking.org

Email: info@capublicbanking.org

Social Media

Twitter [@capublicbanking](#)

Facebook [@capublicbanking](#)

Instagram [@capublicbanking](#)