

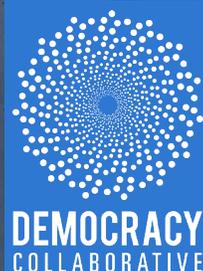


CONSTRUCTING THE **DEMOCRATIC** **PUBLIC BANK**

**A Governance Proposal
for the Los Angeles Public Bank**

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CONTENTS

Summary	1
Whats, whys and hows of a public bank	2
Proposed governance structure for the Los Angeles Public Bank	4
Background	5
Local: Divest LA and Measure B	5
State: Bills AB-857, AB-310, and AB-1177	5
Methodology	6
Federal: Municipal Liquidity Facility, Public Banking Act, and the American Rescue Plan	7
Precedents: Bank of North Dakota, Germany’s KfW, and Costa Rica’s BPDC	8
Comparing three established public banks	9
Democratic public banks	11
Banks and public money	11
Community wealth building	12
Democratic public ownership	13
Dynamic public banks	13
Principles and components of democratic public ownership	14
A new model: democratic public banks	15
Institutional design	17
Mandates	17
Missions and programs	18
Structures	19
<i>Los Angeles City Council</i>	19
Governance structure of the Los Angeles Public Bank in detail	20
<i>General Assembly</i>	21
<i>Board of Commissioners</i>	21
<i>Mandate, Operating, and Special Committees</i>	22
<i>Operational Divisions</i>	24
Sequencing	24
Conclusion	26
Appendix	27
List of eligible local financial institutions in Los Angeles	27
Endnotes	28

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SUMMARY

Instead of there being a single solution to a single problem, I argue that many solutions exist to cope with many different problems. Instead of presuming that optimal institutional solutions can be designed easily and imposed at low cost by external authorities, I argue that ‘getting the institutions right’ is a difficult, time-consuming, conflict-invoking process.

—Elinor Ostrom

In October 2019, the state of California passed AB-857, a historic law to charter 10 local public banks. Efforts to incorporate these public banks are now underway across the state. These public banks have the potential to address a host of economic, social, and ecological crises, and public banking efforts across the country are looking to California’s cities and regions to lead the way.

State and local governments need public financial infrastructure to recapture the public’s money being extracted by private banks and bond investors. The economic recovery from COVID-19 must be equitable. The ongoing housing crisis demands better tools to keep tenants and the public in control of housing and real estate development. To address the climate crisis, the financial sector must embed social values beyond profit. Economic development needs a paradigm shift toward community wealth building, especially as part of strategies for reparations for Black and Indigenous peoples.

But the success or failure of public banks in addressing these crises will depend on “getting the institutions right.” The design of a public bank is a political process with important choices to be made at every step. Banking, finance, and policymaking are intentionally obscure and technocratic terrains. Ensuring the new public banks are designed to address these crises requires ongoing popular education and engagement.

To that end, this report proposes a governance design for the Los Angeles Public Bank and a more general democratic public bank model. The aim is to provide Los Angeles’ residents, organizations, policymakers, and other community stakeholders a starting point to draw from for questions of *who* the public bank serves and *how*. The strategic framework here provides a critical method of analyzing the bank’s *functions*—its mandates, missions, programs—and *forms*—its governance structures and the political-legal sequencing to get it fully operational.

Part I of this report situates the research within existing legal and political dynamics by providing a local, state, and federal context of public banking, as well as existing precedents. Part II draws from the theoretical frameworks of public money, community wealth building, democratic public ownership, and dynamic public banks to articulate a new aspirational model of democratic public banks. Part III proposes an institutional design of the Los Angeles Public Bank based on the democratic public bank model. Part IV concludes with reflections on the future of public banking in Los Angeles and the US.¹

Whats, whys and hows of a public bank

A *democratic public bank* is a publicly owned bank that achieves economic, social, and ecological purposes through democratic multi-stakeholder governance. What the bank does and for who is determined by its:

MANDATES A political agenda of social challenges for the bank to address

MISSIONS Concrete strategic objectives for achieving the mandates

PROGRAMS Activities for operationalizing the missions

MANDATE	
Achieve cost savings	
MISSIONS	PROGRAMS
<ul style="list-style-type: none"> Reduce the amount the city spends on debt servicing to zero Reduce overall public borrowing costs by half within 10 years 	<ul style="list-style-type: none"> Debt servicing and purchasing the city and county's municipal bonds Managing public investment funds

MANDATE	
Support the city's broader infrastructure, housing, and sustainability goals, such as those in the Comprehensive Homelessness Strategy and the county's 2019 sustainability plan	
MISSION	PROGRAMS
<ul style="list-style-type: none"> Support the achievement of the city's broader infrastructure, housing, and sustainability goals. 	<ul style="list-style-type: none"> Underwriting and purchasing municipal bonds for capital projects Financing development of publicly owned land and properties Streamlining and consolidating existing financing sources and providing specialized financing for social housing development, smaller-scale affordable housing developments (less than 40 units), hotel acquisitions, and housing preservation Offering lines of credit for pre-development and acquisition for strategic affordable housing developments

MANDATE	
Achieve financial sustainability and avoid profit seeking	
MISSION	PROGRAMS
<ul style="list-style-type: none"> Act as a responsible fiduciary so that future generations of Angelenos benefit from the public bank 	<ul style="list-style-type: none"> Balancing return on investments with the success of other mandates Establishing and meeting high standards with regards to financial transparency (e.g., open books, open records, and open meetings) and auditing

MANDATE

Promote equitable recoveries from social, economic, and environmental crises

MISSIONS

- Deliver emergency services to the city's most vulnerable populations
- Preserve the baseline amount of small businesses and jobs prior to crises
- Increase Black, Indigenous, immigrant, and community ownership above the baseline prior to the crisis

PROGRAMS

- Offering flexible near-zero interest operational lines of credit in states of emergency to public entities and civil society entities provisioning public services
- Financing the conversion of distressed businesses to Black, Indigenous, immigrant, worker, public, and/or community ownership
- Financing for workers, community groups, and tenants to buy an enterprise or asset that is being targeted for acquisition by a large corporation or private equity fund

MANDATE

Build community wealth

MISSION

- Increase the number and net value of community land trusts, cooperatives, credit unions, employee stock ownership plans (ESOPs), community development corporations, public enterprises, and other forms of community-owned assets.

PROGRAMS

- Participating in loans to community wealth building institutions initiated by local lenders (and originating such loans itself when a local lender is not available)
- Utilizing a first-loss position to provide workers or tenants financing to acquire failing businesses or housing complexes
- Providing financial and technical assistance to tenant unions and associations for preventing displacement and purchasing property, including navigating public regulations and processes

MANDATE

Repair the historical harms to Black, Indigenous, and immigrant communities

MISSION

- Increase the number and net value of local Black, Indigenous, and immigrant-owned businesses and homes
- Increase the number and net value of cooperatives and community owned assets primarily owned and controlled by Black, Indigenous, and immigrant communities

PROGRAMS

- Contributing to community wealth building institutions and strategies located in or specifically focused on these communities
- Providing specialized financing for community land trusts controlled by Gabrieleño, Tongva, Kizh, Chumash, and other Indigenous communities of the Los Angeles area, especially for "land back" development strategies
- Providing technical assistance to low-income Black, Indigenous, and undocumented Angelenos for starting a business or purchasing a home
- Providing specialized financial services to street vendors and unincorporated small businesses
- Directing a percentage of bank profits into democratically controlled reparations funds

MANDATE

Promote a just transition to mitigate and adapt to the consequences of the climate and biodiversity crises

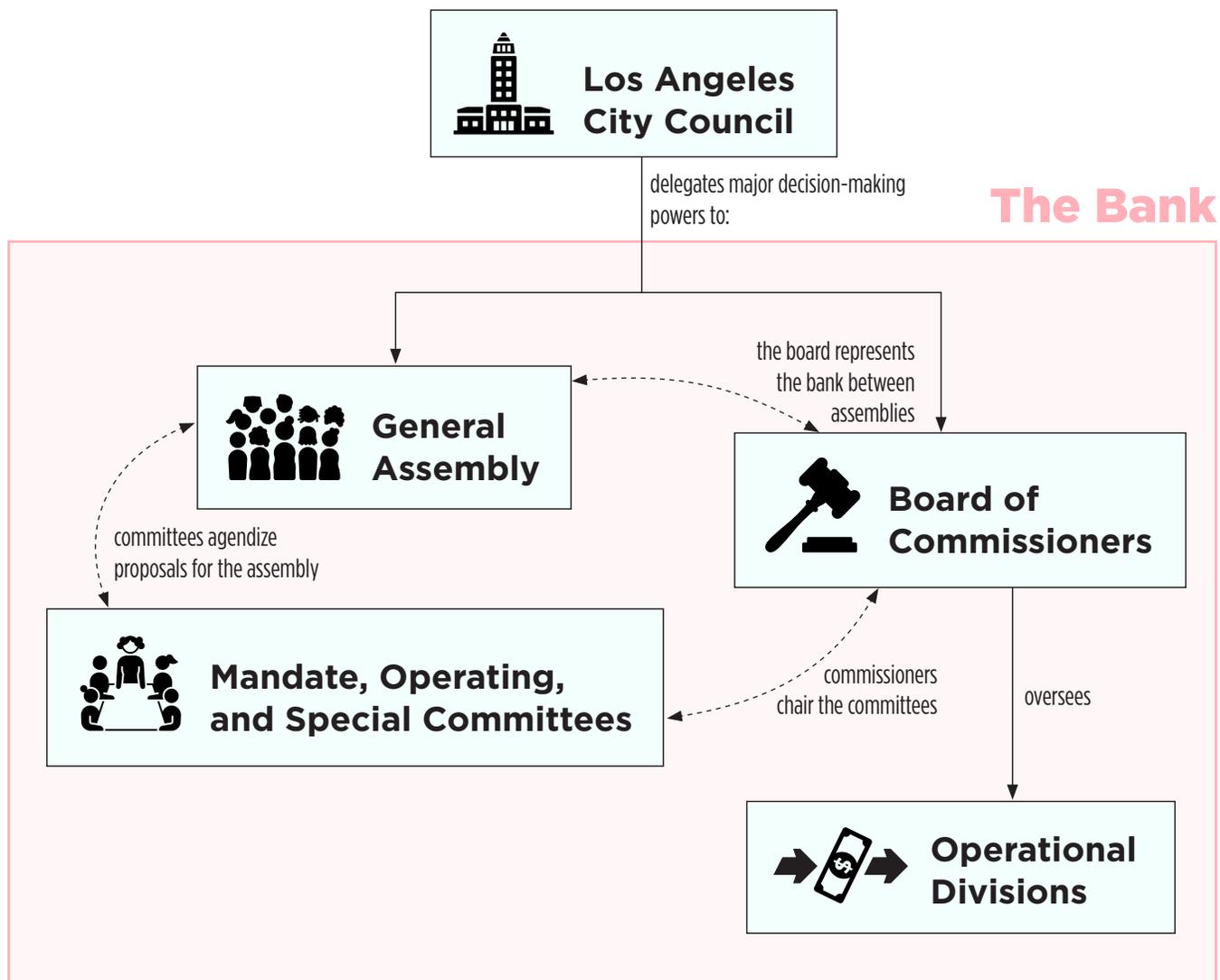
MISSION

- Achieve a carbon negative loan portfolio and a carbon negative operational footprint
- Contribute to the broader sustainability goals of the city

PROGRAMS

- Requiring borrowers to measure their environmental impact and providing relevant technical assistance
- Incorporating climate relevant time horizons in loan risk assessment
- Earning a LEED certification for the bank's physical branch
- Procuring products and services from certified sustainable vendors
- Partnering with LADWP to provide financing for energy retrofits, solar panel installation, electric vehicle charging stations, etc.

Proposed governance structure for the Los Angeles Public Bank



BACKGROUND

The Los Angeles Public Bank effort is situated on multiple scales: local, state, federal, and global. The political, legal, and regulatory terrain of public banking has developed unevenly, with significant challenges to public banking advocates to create multiscalar strategies. Understanding the context helps show the reasoning behind and what needs to happen next for a public bank in Los Angeles.

Local: Divest LA and Measure B

In 2016, following years of legal and political struggle against county, state, federal, and corporate entities advancing the Keystone and Dakota Access pipelines, Indigenous activists and supporters engaged in prolonged direct action blocking the route of the Dakota Access Pipeline (DAPL) through the Standing Rock Indian Reservation.² Solidarity campaigns emerged across the country targeting one of the pipeline's key financiers, Wells Fargo, which "was fined billions of dollars for creating illegal customer accounts, has a history of discriminating against Latino and African-American home buyers, and finances industries harmful to Angelenos."³ During and after these protests, progressive activists, especially those who previously had been involved in campaigns that incorporated an analysis around debt and finance—such as Occupy Wall Street, Black Lives Matter, and the presidential campaign of Sen. Bernie Sanders—coalesced under the umbrella group Divest LA to demand the city of Los Angeles end its relationship with Wells Fargo. In December 2017, Divest LA declared victory when the City Council unanimously approved a banking contract that would disqualify Wells Fargo for not meeting Community Reinvestment Act (CRA) standards.⁴

As the campaign developed through 2017, public banking emerged as the next logical step for the divest movement. Following the 2008 financial crisis, the Public Banking Institute (PBI) played an important role in educating the public on public banks, helping set a foundation for grassroots organizations to make public banks a political demand.⁵ In May 2017, the Bernie Sanders Brigade, PBI, Divest LA, and other progressive co-sponsors organized the "California Public Bank People's Forum" which connected the goal of public banks with important political issues.⁶

Following divestment from Wells Fargo, the Public Bank LA campaign was launched to advocate for the creation of a local public bank. In June 2018, City Councilmember Herb Wesson passed a motion to put "Measure B" on the November ballot, which would have amended the Los Angeles City

Charter to allow the city to establish a financial institution or bank.⁷ While Measure B failed to pass in 2018, the short campaign garnered 430,488 votes in support, laying the groundwork for future successes.⁸ The campaign included some early ideas on what a public bank might look like. For example, specific design elements were incorporated in Public Bank LA's advocacy video urging voters to vote yes on Measure B, which stated:

"The bank of Los Angeles will be managed by a civilian commission of Los Angeles residents from every council district. The commission will be strictly bound to maintain the bank's mission: 'To safeguard the city's assets, and materially and measurably improve the living standard for everyday Angelinos.'"⁹

State: Bills AB-857, AB-310, and AB-1177

In 2019, following the Measure B campaign, Public Bank LA shifted its focus to the state level as part of the newly created California Public Banking Alliance (CPBA). The coalition reports 10 CPBA member organizations across the state, 74 organizational endorsements, 13,847 supporters, and has secured official support for state-chartered public banks from the California Democratic Party.¹⁰

During the 2019 legislative session, CPBA was successfully able to advance legislation, AB-857, to create a regulatory framework for the state's Department of Business Oversight (now the Department of Financial Protection and Innovation, or DFPI) to issue 10 public bank charters over seven years.¹¹ This victory was lauded as the biggest win for public banks in a century, and came exactly 100 years after the founding of the Bank of North Dakota (BND) in 1919.

There are two elements of AB-857 affecting the public bank's design worth mentioning: the "partner bank" model and the FDIC insurance requirement.

First, the "partner bank" model narrows the scope of public banks' activities to public-public and public-private partnerships, largely influenced by the precedent set by the Bank of North Dakota. While a public bank that partners with local lenders serves an important purpose of supporting a flourishing local lending ecosystem, the policy choice to prevent direct competition with private sector banks hampers its potential.¹² Second, AB-857 requires public banks to maintain FDIC deposit insurance. The FDIC has thus far been

unwilling to provide deposit insurance to public banks due to general risk aversion and institutional inertia against alternative financial models. For example, the Territorial Bank of American Samoa (TBAS) is the only recently created subnational public bank under federal US law, which was established due to American Samoa's banking desert status. The bank had to create its own deposit insurance program due to years of denial by the FDIC.¹³ TBAS CEO Dave Buehler recently told Congress that, given the lack of political momentum to overcome this obstacle, they are planning to privatize the territory's public bank.¹⁴

In addition, many public banking advocates in California wanted a public option for new cannabis businesses that are unable to bank with federally regulated banks, and the FDIC requirement prevents local public banks from being able to serve these businesses since public banks will be subject to the same federal oversight. In other words, in order to receive FDIC insurance and receive their state charter, the AB-857 public banks will likely be similarly preempted from banking cannabis businesses.

All this means is that for public banks to be able to be chartered under AB-857, one of the following paths forward is likely necessary:

- The FDIC decides to change course and provide deposit insurance to public banks.
- Congress passes legislation mandating the FDIC to provide deposit insurance to public banks.
- California amends the state law to not require FDIC deposit insurance.
- California's Department of Financial Protection and Innovation (DFPI) announces its interpretation of AB-857 to more generally allow for "FDIC equivalent" deposit insurance.¹⁵

Notwithstanding these issues, with the onset of the COVID-19 pandemic, local initiatives to begin developing public banks were interrupted and CPBA pivoted to advocating for the creation of a state-level public bank. The economic crisis highlighted the inequity between subnational governments and private financial institutions, and a state

Methodology

In December 2020, The Democracy Collaborative was invited by the grassroots organization Public Bank Los Angeles (PBLA) to conduct research on the democratic governance of the emerging Los Angeles Public Bank. From February to May 2021, I employed three qualitative methodologies to co-produce knowledge about the public bank: literature review, key informant and expert feedback, and interviews with community stakeholders.

I used primary and secondary literature to orient the project, cited throughout the report. Key documents, such as those in the Los Angeles City Council file on establishing the public bank¹⁰² and PBLA organizer Naveen Agrawal's June 2020 capstone report¹⁰³, informed the context and design portions of the report.

PBLA organizers—in particular Naveen Agrawal, Ben Gordon, David Jette, and Trinity Tran—served as key informants for this research. From February 2021 through June 2021, we met weekly to discuss the project and coordinate interviews, briefings, and meetings. On February 23, 2021, PBLA hosted a virtual town hall relaunching the local public banking effort, featuring City Councilmembers Mike Bonin, Kevin de León, Nithya Raman, and Monica Rodriguez, as well as other elected, labor, and community allies.¹⁰⁴ On March 12, 2021, PBLA hosted two briefing sessions—one intended for allies and another for elected officials.

During the same period, PBLA facilitated introductions to a variety of community stakeholders. In total, I conducted 29 interviews. These were intended to serve a number of purposes, including:

- Grounding the research in local knowledge on political issues and dynamics
- Providing interviewees a structured setting to begin actively considering critical questions of the public bank's design
- Providing PBLA a point of engagement to organize with community stakeholders

Local interviewees included community organizers, policy analysts, advocacy nonprofit executives, affordable housing development executives, nonprofit finance officers, Neighborhood Council board members and candidates, and City Council legislative staffers. I also received iterative expert feedback, which informed the democratic public bank model.

In April 2021, PBLA began hosting weekly organizing meetings with the newly activated allies, which utilized and built on the knowledge co-produced in this research. In particular, the sequencing of the public bank outlined here reflects the analysis co-developed with PBLA, and, after this report is published, will need to continue to be adjusted as political and legal circumstances change.

bank was seen as a way to provide emergency lines of credit to the public.¹⁶ The group proposed converting the state's existing Infrastructure Bank (IBank), which is currently a revolving loan fund and not a depository institution, into a public bank and infusing the IBank with \$9.9 billion of capital from the state's Pooled Money Investment Account.¹⁷ The immediate focus of the bank would have been to provide below-market lending to local governments and small businesses, especially as federal support remained uncertain through 2020.

This effort proved initially unsuccessful, particularly due to opposition from State Controller Betty Yee and State Treasurer Fiona Ma.¹⁸ Both testified against the proposal and Yee wrote an opposition letter to the committee chair, Sen. Mike Maguire.¹⁹ The episode highlights how public finance officers are unique political actors to public banking due to their perceived credibility on the issue and their integration into the existing public finance paradigm. Generally public finance officials' "risk averse" preference for the status quo obscures the ongoing systemic risk, uneven social outcomes, and private capture.

In 2021, CPBA pivoted again to working with the California Reinvestment Coalition and SEIU California to sponsor legislation, AB-1177, or "BankCal," that would provide Californians a zero-fee, zero-penalty retail banking option. With nearly half of Black and Latino Californians unbanked or underbanked, the effort aims to address the "two-tier banking system" of payday lenders and cash-checking services that contributes to the racial wealth gap.²⁰ The BankCal program does not create a public bank; it instead contracts a financial institution to serve as the network administrator, which AB-857 public banks are eligible to bid for, but proponents claim it falls within the broader goal of expanding access to financial services. CPBA intends to revisit the state-level public bank proposal following the successful passage of BankCal with the goal of a state-level public bank becoming the program's administrator.

Federal: Municipal Liquidity Facility, Public Banking Act, and the American Rescue Plan

In April 2020, in response to the emergency facing the municipal bond market with the onset of the pandemic, the Federal Reserve created the Municipal Liquidity Facility (MLF) to provide, for the first time, credit directly to state and local governments. But the Fed charged a penalty for using the credit facility above the market rate to account for "moral hazard" of overuse by state and local politicians (an incorrect application of the economic concept to risk caused by the pandemic, a literal "act of God"), making the program de facto unusable.²¹ By the end of the program in

As economic, social, and ecological crises look set to intensify in the coming period, public bank advocates contend that local democratic control should be recentered.

December 2020, it had only two borrowers: the state of Illinois and New York's Metropolitan Transportation Authority (MTA).²²

Public bank advocates urged state and local governments to utilize the program to capitalize public banks, and for the Fed to make the terms more favorable for borrowers.²³ Unfortunately this was to no avail. The Fed appointed Kent Hiteshew to administer the MLF, who, in his testimony to Congress, described his previous experience as having "primary responsibility for leading the response to the economic and financial crisis in Puerto Rico and worked to enact the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)."²⁴ The fiscal austerity weaponized against the people of Puerto Rico in its debt crisis—a "textbook example" of author Naomi Klein's disaster capitalism—was practice for technocrats like Hiteshew to use a crisis to reinforce subnational governments' subservience to the pressures of unaccountable financial markets.²⁵ In 2020, state and local governments sold \$451.2 billion in municipal bonds, the highest amount on record, meaning investors profited on the public's debt at unprecedented levels while social services were not scaled up to meet the social crises resulting from the pandemic (e.g., fully funded public health centers, public transit, public education).²⁶

A key lesson from the MLF episode is that all levels of government must have the requisite financial infrastructure to manage economic crises as they come. The emergency response exposed the distributional failure of the administrative state at all levels: unemployment insurance via a patchwork of incapable state systems; the Payroll Protection Program via banks receiving applications from employers (leaving much room for fraud); stimulus checks via the unprepared IRS; and macroeconomic support via bailouts and backstopped credit markets.

The policy choices made in response to the pandemic, especially given a lack of a sufficient mandate from Congress, demonstrate the wide disparity between elite financial institutions and subnational governments. State and local governments have long deferred their finance policy to a technocracy of public finance officers, banks, and municipal bond investors; and the municipal financial market that

emerged in the wake of New Deal banking reforms made local political issues of democratic planning and community development subordinate to this overclass.²⁷ As economic, social, and ecological crises look set to intensify in the coming period, public bank advocates contend that local democratic control should be recentered. State and local governments must overcome this crippling neoliberal paradigm and develop administrative capacity by establishing their own public financial institutions.

More recently, the American Rescue Plan Act (ARPA), the COVID-19 relief package signed into law by President Biden on March 11, 2021, includes \$350 billion for state and local government aid.²⁸ The amount per jurisdiction is administered in two tranches: the first within 60 days of the passage of the bill, and the second no earlier than a year after the delivery of the first. The City of Los Angeles will receive \$1.35 billion total, or \$677.2 million in May 2021 and the same amount after May 2022.²⁹ As an unrestricted windfall to the city, the relief provides a unique opportunity for public banking advocates to organize capitalization strategies for state and local public banks.

ARPA also provided \$10 billion to reauthorize the State Small Business Credit Initiative (SSBCI), which state development finance agencies can utilize to support small business recovery. Since the onset of the pandemic, TDC and the Council of Development Finance Agencies have advanced the concept of establishing local economy preservation funds (LEPFs) to buy out distressed businesses and transition them into democratic forms of ownership.³⁰ This and other adjacent efforts to utilize federal funds could prove useful opportunities for public bank advocates to organize around local economic recoveries.

The currently debated infrastructure omnibus legislation, Biden's American Jobs Plan, similarly has key opportunities for the future prospects of state and local public banks. The proposal includes various provisions for local financial institutions and community development, which public banking advocates would likely be able to utilize for capitalizing and supporting public banks. There are a number of relevant public banking policies that are also a part of the discussion, including postal banking, "FedAccounts," a central bank digital currency, the National Investment Authority, and infrastructure and green banks.

In particular, public banking advocates are aiming to incorporate the Public Banking Act by Reps. Rashida Tlaib (Michigan) and Alexandria Ocasio-Cortez (New York) into the package, which would provide subnational governments the federal tools needed to fully develop public banks.³¹ The legislation would establish a federal-level regulatory framework for chartering public banks (leapfrogging the problem of creating individual chartering systems in each state), public bank grant programs (solving the issue of capitalizing and

scaling public banks), and Federal Reserve credit facilities for public banks (providing privileged, competitive access over private banks).³² For California, it would resolve the issue of FDIC deposit insurance outlined above and across the country it would be a comprehensive solution to the regulatory and financial problems facing public banking efforts.

Precedents: Bank of North Dakota, Germany's KfW, and Costa Rica's BPDC

Despite the ostensibly unprecedented nature of public banks in the US, around the world there are currently 910 public banks with \$49 trillion in assets (17% of all bank assets).³³ The US is an outlier in this field with only one active public bank: the Bank of North Dakota (BND).³⁴

The BND's mandate is to "to deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota."³⁵ It accomplishes this through small business and agricultural loans, mortgages, student loans, and infrastructure and disaster-relief lending to the state and local governments. It is governed by a three-member governing board, known as the Industrial Commission, made up by the state's governor, attorney general, and agriculture commissioner. The North Dakota legislature has deciding influence over the BND budget, staff and salaries, major capital projects, and BND transfers to the state budget.

In 1969, the BND incorporated a legally constituted advisory board of directors within its governance framework. The seven-member advisory board is appointed by the governor, based on expertise in banking and finance. The advisory board reviews BND operations and offers recommendations on management, services, policies, and procedures to the Industrial Commission.

The BND serves as the touchstone for the US public banking movement, providing key data points about the benefits of public banking. Following the 2008 global financial crisis, the state had the lowest unemployment rate, the lowest default rate, and highest payroll growth rate of the country—outcomes that have been at least in part attributed to the presence of the BND.³⁶ From 1995 to 2014, the BND returned \$957 million of its profit to the state general fund (\$3,300 per family) and the state budget has been in surplus since before the 2008 crisis.³⁷

North Dakota has the highest lending by local banks and most banks per capita in the US.³⁸ This is attributable to the BND's "partner" bank model, where it operates by primarily interfacing with local banks and lenders rather than directly with customers (for instance, the BND has one office location and only offers basic checking and savings accounts to individual customers), which provides local banks an im-

portant “backstop” for their lending. Because of this vibrant local banking sector, North Dakota distributed the most Payroll Protection Program (PPP) loans—forgivable loans administered by banks meant for shuttered businesses to continue paying employees’ salaries—per capita during the pandemic.³⁹

But the BND model represents a specific historical and political context, which BND President Eric Hardmeyer consistently emphasizes when educating other efforts across the US.⁴⁰ Beyond its unique origin story of being formed during a fleeting moment of US agrarian populist socialism, North Dakota’s current economy is heavily reliant on fossil fuel extraction and the BND lacks any specific social or ecological mandate. The bank’s 2015 Infrastructure Loan Fund was “capitalized through a \$50 million transfer from

the Strategic Investment and Improvements Fund,” which is funded from oil tax revenues.⁴¹ In 2016, the BND opened a \$10 million line of credit “to local law enforcement to fund their response to protests near the Standing Rock Indian Reservation and Cannon Ball, North Dakota.”⁴² Given the Standing Rock resistance’s role in activating grassroots networks toward public banks across the US, and California in particular, this point helps show how public banks are tools of the state that can be wielded better or worse. In other words, the BND reflects the political and ideological orientation of its home state, and in general, just because a bank is public does not mean that it will embrace important social values and priorities.

Germany’s Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute, or KfW), Europe’s largest public bank,

Comparing three established public banks

Close to one-fifth of the world’s bank assets are in public banks, and those banks succeed in playing prominent roles in sustaining the financial health of their communities. Here are three examples.

	 Bank of North Dakota (US)	 Kreditanstalt für Wiederaufbau (Germany)	 Banco Popular y de Desarrollo Comunal (Costa Rica)
Mandates	To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota	Improving economic, social and ecological living conditions all around the world on behalf of the Federal Republic of Germany	To serve the social and sustainable welfare of Costa Rican inhabitants
Programs	Small business and agricultural loans, mortgages, student loans, and infrastructure and disaster-relief lending to the state and local governments	Financial products and services for economic development (no branches or individual checking accounts)	Retail banking services, loans for workers, artisans, small producers, communal development associations, municipalities, cooperatives, unions, and projects that benefit “collective welfare”
Governing structures	Three-member governing board (governor, attorney general, agriculture commissioner) supported by a seven-member advisory board; state legislature decides about profit	Representative oversight in a 37-member governing board, co-chaired by two ministers of government; cooperative relations between bank and government ministries	A 290-member workers Assembly constitutes the highest decision-making body followed by a seven-member national board (four assembly and three government representatives)

Sources: Marois, T. (2021) *Public Banks: Decarbonisation, Definancialisation, and Democratisation*; bank websites.

provides a different historical and political context to draw lessons from. The post-World War II European Recovery Program, or the Marshall Plan—in which the US provided more than \$15 billion (\$130 billion in 2019 USD) to European countries to finance the recovery from the continent’s war—is a unique precedent for the ongoing economic recovery from the pandemic. The KfW was created as a key institution for administering West Germany’s reconstruction efforts.⁴³ Thomas Marois, a senior research fellow at the Institute for Innovation and Public Purpose, explains:

“Rather than directly spending the incoming US Marshall Plan funds, the German government created the KfW as a public bank designed to hold the incoming capital, magnify it, and then to redirect it towards post-war economic reconstruction and the refugee crisis. The decision had foresight. Since then, the KfW has become institutionally significant within Germany and, in the process, emerged as one of the largest and most stable national development banks in the world.”⁴⁴

Today, the KfW performs a number of different public functions, per its governing law:

- “Performing ‘promotional’ tasks (i.e., economic development), in particular financing, pursuant to a state mandate in the following areas:
 - ▶ Small and medium enterprises
 - ▶ Risk capital
 - ▶ Housing
 - ▶ Environmental protection
 - ▶ Infrastructure
 - ▶ Technical progress and innovations
 - ▶ Internationally agreed promotional programs
 - ▶ Development cooperation
 - ▶ Other areas specifically stated in laws assigned to KfW
- Granting loans and other forms of financing to territorial authorities and special-purpose associations under public law
- Financing measures with purely social goals and for the promotion of education
- Granting other financings in the interest of the German and European economy”⁴⁵

Ownership of the KfW is split between the Federal Republic of Germany (80%) and the German federal states (20%). The Board of Supervisory Directors, the bank’s 37 member governing body, functions like a corporate shareholders’ forum. It consists of “seven appointments each by the German Bundestag (Lower House) and Bundesrat (Upper House); five additional federal government ministers; one representative each from the mortgage banks, savings banks, cooperative banks, commercial banks, and business credit institutions; two industry representatives; one representative each from municipalities, agriculture, crafts, trade, and

housing; and four trade union representatives.”⁴⁶ The Board of Supervisory Directors appoints members to the Executive Board, which functions as fiduciary agents and the highest administrative unit of the bank.

In the wake of the pandemic and the ongoing crises of climate change, racism, and economic inequality, the federal aid from the ARPA can function as a kind of Marshall Plan for US states and localities to pursue their reconstructions (with more funds hopefully forthcoming). Rather than spending the aid immediately, returning back to the status quo once the money is gone, a portion of the funds can be used to capitalize the public bank—achieving public mandates and building long-term administrative capacity and an institutional legacy for the area’s economic development. The particular functions and structures of the KfW outlined above provide some texture to what this can look like.

Another example is Costa Rica’s Banco Popular y de Desarrollo Comunal (BPDC), considered by some to be the “most democratic bank in the world.”⁴⁷ Established under a special law, the BPDC is defined as a nonstate but public institution, 100% owned by the workers of Costa Rica.⁴⁸ The BPDC’s mandate is “to serve the social and sustainable welfare of Costa Rican inhabitants.” As a “universal bank,” it achieves this through retail operations (i.e. savings and payments services) and developmental programs, including loans for workers, artisans, small producers, communal development associations, municipalities, cooperatives, unions, and specific development projects that benefit “collective welfare.”

The highest governing body of the BPDC is the Workers’ Assembly, which is constituted by 290 individual representatives from 10 social and economic sectors in Costa Rica (artisanal; communal; cooperative; self-managed; independent; teachers; professional; confederated syndicates; non-confederated and solidarity syndicates).⁴⁹ Worker-owners provide strategic direction to the BPDC through the assembly. Effective control over daily operations is exercised by the National Board of Directors, the bank’s highest administrative unit, composed of seven members (four represent the assembly and three the government). The Permanent Women’s Commission makes binding recommendations on bank policy and institutionalizes women’s representation in decision-making.

To compare the scale, in 2019 Costa Rica’s population was 5 million and the city of Los Angeles’ was 4 million.⁵⁰ Costa Rica’s 2019 GDP in current US\$ was \$61.8 billion and the Los Angeles-Long Beach-Glendale metropolitan area was \$819.4 billion.⁵¹ When considering broader economic contexts of the US federal and state governments, Los Angeles has greater potential for scaling a public bank, meaning questions of democratic governance should be considered just as ambitiously for Los Angeles as they were for the BPDC.

DEMOCRATIC PUBLIC BANKS

What follows is a synthesis of the frameworks of public money, community wealth building, democratic public ownership, and dynamic public banks to create a specific conceptual model for state and local public banks: the democratic public bank.

The term “public bank” can refer to a variety of institutional forms and activities (e.g., postal banking, infrastructure banking, free retail banking, etc.) so it is important to create new language differentiating this specific policy design from others. Public banking advocates focused on state and local public banks consistently have to distinguish their proposals from these other, more typical types of public banking. This sometimes creates confusion and hesitancy even from allies, creating another layer of difficulty around departing from the status quo. When advocates in the US do introduce public banks to new audiences, they typically utilize the Bank of North Dakota precedent, which naturalizes and locks in certain design elements, such as public-private partnership and profit-seeking (even if returned to the state).

Instead, a democratic framing of public banks can differentiate from other progressive economic policies because of their unique potential to serve as localized sites of democratic participation. While progressive experts and organizations have advocated for these other policies, the grassroots of the US public banking movement has focused primarily on creating state and local commercial public banks, which offers an opportunity to formalize grassroots engagement over the long-term via robust democratic design. As new place-based sites of democratic participation, social movements can institutionalize and continue building power toward the horizon of a more democratic economy, rather than losing momentum after winning a public bank and lacking a structure to organize around. Democratic participation in public banks also signals synergy with other democratic municipalist movements: participatory budgeting, police and prison divestment, citizen’s assemblies, social housing, municipally-owned utilities, democratic businesses, etc. A democratic public bank can serve as a particularly strong center of gravity as a hub for public deliberation and democratic planning around local priorities, given its unique ability to generate credit at scale, and contribute to the adjacent development of these strategies.

Further, because finance is obscure and technocratic, a clearly contrasting democratic model provides concrete strategic guidance to the people contesting for control of emerging public banks. Rather than attempting to motivate others through technical arguments about banking and public fi-

nance, framing around “democratic public banks” can anchor efforts in a new imaginative space for bringing democratic design principles and components into specific contexts and conditions, including the critical questions for whom public banks serve, for what purposes, and how.

Banks and public money

To begin outlining the concept of democratic public banks, it is helpful to clarify the inherently public nature of banking and money. Banks are depository financial institutions that typically perform three functions:⁵²

- Extending credit
- Modulating the currency supply
- Providing payments infrastructure⁵³

While lending is what people conventionally associate with banking, the latter two functions are less well understood; they are unique privileges of banks authorized by the government through bank charters.

Money can be thought of as simply “that which pays,” or commodities that can store and transfer value.⁵⁴ Rather than there being one specific kind of thing called “money,” things can be more or less “money-like,” depending on others’ willingness to accept it as payment.⁵⁵ For example, cigarettes are “money-like” in a prison setting, because even if someone doesn’t smoke, they know their cigarettes have exchange-value and can be traded with someone else who does. The most “money-like” commodity is the national currency used for payments to and from the government, or “public money.” In the US, the national currency supply is created and destroyed (or “modulated”) in the form of bank deposits.⁵⁶

In contrast with the conventional model of “fractional reserve lending,” where banks are able to create loans by risking their reserves (typically at about a 10:1 proportion), banks create money *ex nihilo* (“out of nothing”). Cornell Law Professors Robert Hockett and Saule Omarova critically observe that a bank’s reserves as a proportion of its total assets are fundamentally a policy choice and not inherent to how banks work.⁵⁷ On March 15, 2020, in response to the economic fallout of the pandemic, the Federal Reserve demonstrated this point by “reducing reserve requirement ratios to zero percent,” dispelling the myth that banks multiply credit (from pre-accumulated funds) but they instead generate credit (“out of nothing”).⁵⁸ Importantly, this unique “credit-generation” power is something banks are authorized to do by the government via their legal charter, which

highlights the critical role of banking’s legal and regulatory regimes.

In addition to being “credit-generators,” banks have unique access to the central bank’s automated clearinghouse (ACH) and payment services, meaning all users within the financial system—individuals, firms, governments—must utilize banks as the financial infrastructure in order to make payments between accounts. The various types of payments—cash, credit and debit cards, digital payments platforms, direct deposit and wire transfers—all rely on this underlying foundation of banks (and the recognition of bank deposits as legal tender in particular) to maintain a stable monetary system where the different payment interfaces are equally “money-like,” especially for transfers to and from the government.⁵⁹

Together, these two functions—modulating the national currency supply and providing payments infrastructure—demonstrate how banks are the “franchises” of the “franchisor” federal government’s monetary system. The legal charters that authorize banks to perform these systemically important functions are essentially “licenses” to manage public money. This public-private partnership at the heart of the present arrangement gives the financial sector control over for whom, what, and how money is created and allocated.

This understanding of the inherent public foundation of banking and money motivates how and why public banks can be, and in many countries are, under public ownership and control. In particular, it highlights the role of legal bank charters in operationalizing the monetary system, making their legal-political design an important policy target for public banking advocates (as demonstrated with AB-857). Further, it shifts away from an understanding of public money as pre-accumulated “taxpayer money,” which others have pointed out underpins racist and scarcity assumptions about public finance, instead viewing money as a public utility modulated and allocated by the banking sector.⁶⁰

Community wealth building

In August 2019, the Business Roundtable, a prominent association of American CEOs, released the “Statement on the Purpose of a Corporation,” which outlined a broad intention to change the purpose of major for-profit companies from shareholder value (i.e., profit solely for the owners) to stakeholder value (i.e., “delivering value” to customers, employees, suppliers, and the communities in which the businesses work as part of a business model).⁶¹ Albeit toothless, this symbolic concession from the world’s most powerful CEOs signals an important rhetorical shift away from the “Friedman Doctrine”—economist Milton Friedman’s rejection of “corporate social responsibility” (CSR) and favoring the sole mandate of shareholder profit—that has underpinned the financialized corporate economy since the 1970s.⁶²

The inherent public foundation of banking and money motivates how and why public banks can be, and in many countries are, under public ownership and control.

This shift is due, at least in part, to the recent development of niche markets around “ethical” business frameworks, such as environmental, social, and governance (ESG), impact investing, and recently the UN’s Sustainable Development Goals (SDGs). Because of this rising demand for more socially and environmentally conscious business and investing models, dominant firms eventually had to adjust some of their marketing, corporate engagement, and philanthropic strategies to ensure they were seen to be aligning with these frameworks.

However, without broader shifts to the ownership, participation, and controlling structures of firms, these ethical values, even when adopted, are secondary components still fundamentally supportive of the bottom line of shareholder profit. Many of these efforts are widely panned as forms of signaling (e.g., “greenwashing” for environmentalism, “pinkwashing” for LGBTQ support, “purplewashing” for feminism, or generally building an image of a “woke brand”) that obscures the exploitation and harm done by the firm to customers, workers, communities, and the environment. Congressman Andy Barr recently proved this point in a hearing when he questioned the CEOs of the six largest banks—JPMorgan Chase, Citi, Morgan Stanley, Bank of America, Wells Fargo, and Goldman Sachs—on whether their companies would prioritize shareholder profit over non-owning stakeholders when the two’s interests come into conflict, given that they were all signatories to the 2019 Business Roundtable statement—all six unequivocally replied they would.⁶³

Democratic structures represent the only genuine possibility for aligning with a truly ethical business framework. Achieving economic, social, and ecological goals that serve the broader public requires all those with an affected interest to have meaningful ownership, participation, and control over what a firm does. As the Business Roundtable statement signals, these affected interests already do have a stake in the outcomes and effects of businesses. But without broad based ownership and democracy within a firm, they do not have a say in the decisions and practices that lead to those outcomes and effects. This paternalistic relationship suggests that any positive outcomes for people and the planet are the benevolent choices of the powerful, while negative outcomes, such as inequality, racism, imperialism, poverty, and

ecological breakdown, are just unintended side effects of an otherwise productive model.

Over the last two decades, The Democracy Collaborative (TDC) has started to advance an alternative to this dominant, undemocratic economic system—the democratic and reparative economy.⁶⁴ In order to advance towards this new system, TDC has developed an approach called community wealth building (CWB), defined as:

“a system-changing approach to community economic development that works to produce broadly shared economic prosperity, racial equity, and ecological sustainability through the reconfiguration of institutions and local economies on the basis of greater democratic ownership, participation, and control.”⁶⁵

CWB suggests that the transition to a democratic and reparative economy can be achieved through scaling up a variety of collectively owned and democratically governed institutions and linking them to a new political, social, and cultural movement that can develop a counter-hegemony around them and through them. In this framework, there is not one single “correct” way to build community wealth, but rather a pluralism of potentialities based on context, conditions, and possibilities.⁶⁶ Given the centrality of the need to gain control of capital in all historic and contemporary alternative economic approaches, public banks in particular can and should play a key role in CWB strategies.

Democratic public ownership

Among the variety of democratic institutions that can be part of CWB, public ownership is particularly important, especially municipal scale public enterprises. In 2018, as part of a consultation for the UK Labour Party, then under the leadership of Jeremy Corbyn and John McDonnell, TDC Research Director Thomas Hanna and University of Glasgow Professor Andrew Cumbers outlined a general institutional design for democratic models of public enterprise.⁶⁷

Hanna and Cumbers’ model of democratic public ownership poses an alternative to conventional forms of public ownership—whether under “state socialism,” “state capitalism,” or in conventional social democratic systems—that function similarly to privately owned firms in that they are “top-down, managerial, opaque, and unaccountable.” Rather, democratic public ownership provides “a great opportunity to develop forms of organization, governance, and regulation that stimulate public participation, increase accountability, and empower communities and individuals that have traditionally been excluded from economic decision-making.” Similar to the CWB framework as a whole, they note there is no one-size-fits-all or “off the shelf” model of democratic public ownership, but rather that institutional design “will diverge according to the social needs and technical require-

ments of different places, activities, and sectors.” Below are Hanna and Cumbers’ principles and components of democratic public ownership:

- Subsidiarity and decentralization: Decisions should be made at the lowest possible level of governance.
- Higher-level coordination: Local autonomy should be connected to broader societal aims, goals, and principles of social and ecological justice.
- Affected interest: Groups and individuals affected by an enterprise should have forms of democratic representation and participation in its governance.
- Democratic and participatory planning: There should be some degree of deliberative process by a body broadly representative of the enterprise’s stakeholders that is capable of both holding the enterprise’s management to account and setting broader strategies and priorities on behalf of the public.
- Professional management and effective organization: The enterprise should be run by the people who have the experience, skills, knowledge, and competence to do so and should be insulated from the day-to-day interference of politicians.
- Transparency and accountability: The public should be able to exercise oversight over the enterprise through embedded democratic structures.
- Different values: In contrast with solely seeking profit, enterprises should set goals and strategies as part of broader global responsibilities to promote democratic and sustainable societies.

Each of these principles and components should be integral to the design of public banks. Robust democratization is an important counterweight to the overwhelming tendency towards “political independence” in public banks, as apparent in broader discourse surrounding the Federal Reserve. While it is no doubt imperative to maintain professional management and effective organization, financial decisions will inherently contain political and ethical considerations and these should be accountable to meaningful democratic structures.

Dynamic public banks

Hanna and Cumbers’ model opens up space to critically consider how publicly owned enterprises can be better or worse based on their design. The complicated BND precedent helps show how public ownership and control of banks on its own is not sufficient to achieve a democratic and reparative economy.

Marois provides an alternative dynamic view of public banks:

“[This] means positioning institutional functions, which are socially contested, logically prior to ownership form. In this conceptualization, social forces shape and

Principles and components of democratic public ownership

Components	Critical Elements
Subsidiarity and decentralization	<ul style="list-style-type: none"> • Decisions should be made at the lowest possible level of governance. • Enterprises should be organized at the smallest appropriate scale.
Higher-level coordination	<ul style="list-style-type: none"> • Local autonomy should not be disconnected from broader societal goals. • Larger-scale organization is necessary in some sectors for reasons of efficiency and coordination. • Ownership should be nested within broader multiscalar relations.
Affected interest	<ul style="list-style-type: none"> • All groups and individuals affected by an enterprise should have forms of representation and participation in the governance of that enterprise. • Employees should participate in governance structures at various levels. • Publicly owned enterprises should have inclusive and expansive governance structures that involve employees and other groups (such as consumers and residents) in a multistakeholder approach.
Democratic and participatory planning	<ul style="list-style-type: none"> • Stakeholder groups and individuals should be able to have active input into the goals, methods, and practices of the enterprise. • A broadly representative deliberative body should be established to hold management accountable and set long-term strategies and priorities.
Professional management and effective organization	<ul style="list-style-type: none"> • Enterprises should be run by the people who have the experience, skills, knowledge, and competence to do so. • Enterprises should be insulated from the day-to-day interference of politicians. • Enterprises should have a commitment to the ongoing training of managers and employees in how to manage and govern effectively. • A mix of direct and representative approaches to participation and agency should be deployed. • Strong rights for labor should be established.
Transparency and accountability	<ul style="list-style-type: none"> • Democracy should be embedded within enterprises and the public should be able to exercise oversight over the enterprise. • Open meetings and records laws should be enhanced and new technologies utilized to enhance participation and oversight.
Different values	<ul style="list-style-type: none"> • Enterprises should not set their own goals, independent of broader social objectives and targets. • Enterprises should recognise their broader global responsibilities to promote democratic and sustainable societies. • The UN sustainable development goals are one place to start in determining common or shared goals

reshape the institutional functions of public banks, which in turn recurrently change the meaning of being a public bank in time and place... Public ownership bestows no essential or ultimate purpose on a bank. Public banks' functions are instead subject to the pull of public and private interests in class-divided society, each struggling to shape for whom the bank predominantly functions.⁶⁸

This view—placing public banks' institutional functions before their ownership form—shifts how we critically evaluate them. If the reason we want public banks is so that they can address social challenges (e.g., economic inequality, racism, climate change, etc.), a public bank is better or worse insofar as it is purposely constructed to achieve these goals. Rather than idealizing the BND as good simply because it is publicly owned, we can evaluate its functions (e.g., agriculture, small business, student, and housing loans, and lines of credit to state and local governments), the forms it takes to achieve that (e.g., public ownership, governance structure, public-private partnerships), and for whom it benefits as the ongoing result of the social forces that have made and will continue to remake the bank within its social, economic, and political contexts.

Marois' dynamic view is especially important for the emerging public banks in California because they will create a new path dependency of what people imagine other future public banks can and should look like. Other emerging efforts across the country, including in New York, New Jersey, Massachusetts, Colorado, Washington state, as well as at the federal level, will look to the success and failures of California public banks for new data, lessons, and credibility.

California public banks aim to pursue ambitious functions (see “Mandates” section), but are already designed by law to be formed as BND-style “partner banks.” This particular ownership and operational structure gives private interests (i.e., eligible local financial institutions) undue political and economic power over how and for whom those functions are achieved. When constructing public banks today, whether in Los Angeles or elsewhere, it is important for communities to be able to critically evaluate and evolve their design, especially for whom the bank serves in a contested localized social and political terrain.

A new model: democratic public banks

With the inherently public foundation of money and banking, the economic development and system change framework of community wealth building, the principles and components of democratic public ownership, and a dynamic theory of public banks, we arrive at a new normative model for public banks: democratic public banks, or publicly owned



A democratic public bank is a publicly owned bank that achieves economic, social, and ecological purposes through democratic multistakeholder governance.

banks that achieve economic, social, and ecological purposes through democratic multistakeholder governance.

The model should be considered through the dynamic public bank's view of functions and forms. The public bank's mandates, missions, and programs are its functions, or, in other words, how the bank serves public and private interests. The bank's structures (including the political-legal process for establishing the bank) are its ownership and governance forms used to create, review, and change the functions over time.

The mandates, missions, and programs serve as a framework for strategic planning for the bank. The public bank's mandates define the broad social and economic challenges the institution aims to address, which are bound legally by the language incorporated in the relevant public policy. Its missions are the strategic goals that are set in order to achieve the mandates. These missions allow mandates to be operationalized via the bank's programs. When assessing how successfully the bank is achieving its mandates, the public can look to the strategic objectives contained in its missions and their relevant metrics.

This formulation of mandates, missions, and programs is largely informed from the “mission policy” framework popularized by economist Mariana Mazzucato.⁶⁹ For Mazzucato, by setting out the “grand challenges” (e.g., ending poverty, the UN's Sustainable Development Goals) as part of a political agenda, the wide range of social stakeholders can define “missions” with clear and concrete objectives to address the challenge. Mazzucato uses President John F. Kennedy's “moon shot” as the archetype for the mission policy framework: by setting a concrete strategic objective of landing an American on the moon by the end of the decade, the public sector innovated the swath of programs needed to realize this goal.⁷⁰ The democratic public bank model uses the “grand challenges” as the bank's broad mandates orientation, which serves as a starting point for considering for whom and what the public bank should be for.

The structures of the democratic public bank should reflect

Hanna and Cumbers' principles and components of democratic public ownership. A deliberative body should be responsible for the bank's strategic planning by establishing missions and overseeing subsidiary decisions on programs and other policies in pursuit of the mandates enshrined in the bank's legal authority. Affected interests (e.g., community-based organizations and nonprofits, labor and tenant unions, cooperatives, local financial institutions) should be embedded into relevant decision-making structures via formal representation and procedures.

In particular, the policy establishing and governing public banks should include a requirement for the bank's management to voluntarily recognize labor unions representing bank staff. Once established, the staff should be integrated into the formal decision-making structures of the bank (similar to the "union co-op" model).⁷¹ A robust democratic design will allow professional management and staff to operate the bank in an effective, transparent, and accountable way in line with social values.

As the main site of public participation in the democratic public bank, the highest decision-making body should follow an assembly instead of a representative model.⁷² One of the primary concerns with public bank governance is how to prevent private capture and corruption of the bank's lending and operational decisions. On its own, a representative body of elected officials (whether elected directly to the position or ex officio (i.e., by virtue of the office) from other elected offices) should be a sufficient firewall between the bank's strategy and operations for this concern (when matched by clear, transparent, and accountable legal frameworks and rules). But it does not overcome the deeper problems of political economy currently pervasive in representative politics (e.g., short-term election timelines, campaign contributions, "revolving doors", informal elite networks, etc.).

One of the primary concerns with public bank governance is how to prevent private capture and corruption of the bank's lending and operational decisions.

Even if the bank is established with progressive mandates, the decisions of how to achieve those mandates over time will inherently reflect the perspectives of the political upper class. For example, if a public bank is mandated to pursue "community economic development" and the bank's decision makers are appointed by the existing political leadership of a city, how community economic development is achieved in practice will likely reflect the already dominant paradigm (e.g., public subsidies for private developers and businesses).

An assembly body selected by sortition (i.e., randomly selected from an eligible pool of constituents) would control for these problems of political economy. Just as a random sampling in a statistical analysis can help to ensure accurate reflections of a population, an assembly would serve as a direct stand-in for the public in the bank's governance. To ensure the bank's strategic decisions are informed, assembly members should undergo an intensive orientation process prior to participating and the decision-making processes should embed expertise throughout. As an important downstream effect, an assembly would serve as a pedagogical venue for democratic practice and grow a broader participatory democratic culture, which would likely result in experiments with other more radical democratic innovations (whether in the public or cooperative sectors).

INSTITUTIONAL DESIGN

This section describes and proposes an institutional design for the Los Angeles Public Bank based on the democratic public bank model.

Mandates

The public bank's mandates define the broad social challenges the institution aims to address, bound legally by the language incorporated in the relevant public policy. For Los Angeles, the language drafted by the consultant and approved by the City Council will set the initial mandates of the public bank. It can be adjusted over time by the City Council, but, importantly, this initial language will shape what reforms may look like in the future.

AB-857 created a starting point for the public banks' mandates by requiring local agencies to include the following element in their application:

“A discussion of the purposes of the bank including, but not limited to, achieving cost savings, strengthening local economies, supporting community economic development, and addressing infrastructure and housing needs for localities.”⁷³

As is, this mandate language captures much of what community stakeholders noted in interviews they want the public bank to address, albeit more vaguely. Notably, however, it lacks any reference to social, racial, or environmental justice. One approach to this would be to incorporate a “triple bottom line” framework for the mandates of the public bank, or a definition of its economic, social, and ecological purposes.

In Marois' proposed triple-bottom-line mandate, he contrasts the economic purpose of profit with financial sustainability, or “[the public bank's] ability to reproduce [itself] indefinitely in ways that allow [it] to fulfill its mandate.”⁷⁴ By specifying this logic as one of the bank's mandates, it would allow it to break even or run losses in certain areas in order to fulfill its other economic, social, and ecological mandates, so long as the public bank would be able to continue operating. This alternative mandate recognizes that public banks are nested within the broader public sphere with the potential for “outside” support to be able to more strategically balance concessionary and non-concessionary (i.e., below and at-market rate, respectively) financial products and services.⁷⁵ This would also help insulate the bank from ideologically and politically motivated attacks based on narrow financial measures, instead reaffirming the bank's achieving its broader purposes.

On a broader level, beyond the missions and programs below, the bank's mandates inform the risk models the staff utilize. For example, an environmental mandate would allow the public bank to incorporate intergenerational impacts into its lending decisions. Loan officers could utilize a more equitable (and realistic) discount rate (i.e., the accounting variable used to determine the present value of a future economic cost or benefit). A 2015 survey of economists found that “nearly half (46%) of respondents favored an approach that featured declining discount rates, while 44% favored using rates calibrated with ethical parameters.” Under the status quo, implementing declining discount rates and ethical parameters are directly in conflict with a private bank's profit mandate. This type of an approach could be better achieved via democratic governance of the public bank.⁷⁶

Further, the set of mandates create a “floor” and “ceiling” for the bank's operations. For the floor, projects and borrowers that run counter to any of the mandates will not be permissible. For example, if an affordable housing development project is aligned with the housing mandate but actively runs counter to a green transition (increasing carbon emissions), it would be ineligible for public bank support. For the ceiling, projects and borrowers that achieve multiple mandates at once would be offered more concessionary products and services. For example, a Black-owned worker cooperative serving affordable and sustainable food to a low-income community would satisfy multiple bank mandates and thus be offered more favorable terms if applying for lending. This is important for the public bank's role as a “market maker,” where public entities, businesses, and nonprofits align their decision-making with their lenders' purposes (which, in the current financial system, is usually profit maximization).

Based on the existing statute language, best practices in the theory and practice of public banks, and the stakeholder interviews, the following mandates ought to be included in the Los Angeles Public Bank charter:

The Los Angeles Public Bank is 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.

The first two are derived from the public bank mandates outlined in AB-857. The third captures the purpose of the bank to assist in the economy and social recovery from the pandemic (currently promoted by many public banking advocates) but also remains forward-looking to future social, economic, and ecological crises where the bank will serve as critical public infrastructure to provision credit when it is needed most. The fourth makes explicit the community wealth building dimension to the bank's economic development framework, which has more specific content than the AB-857 language of "supporting community economic development." The fifth addresses the important role of the public bank in climate finance, which would create a floor toward decarbonization and ecological restoration for all the bank's activities. The sixth acknowledges the integral role of finance in historical displacement and violence that the public bank is well situated to address, which opens up potential for deeper considerations around policy solutions to questions around reparations. And the seventh is Marois' proposed mandate discussed above intended to maintain the public bank as a public good.

Missions and programs

The mandates above would be achieved via missions, or the bank's strategic objectives, operationalized through the bank's programs.⁷⁷ Missions should be "SMART": specific, measurable, aspirational, relevant, and time-bound.⁷⁸ This provides a concrete and specific basis to design bank activities that are transparent and accountable to the public.

For the first mandate of achieving cost savings, for instance, the missions would be to reduce the amount the city spends on debt servicing to zero and to reduce overall public borrowing costs by half within 10 years. The bank could achieve this through operational programs such as:

- Debt servicing for the city and county's municipal bond issuers (e.g., the city's Chief Administrative Officer, Los Angeles County Development Authority, Los Angeles Housing and Community Investment Department, Housing Authority of the City of Los Angeles)
- Purchasing the city and county's municipal bonds
- Managing public investment funds (e.g., university endowments, public sector pensions)

For the second mandate of addressing infrastructure and housing needs, the missions would be the same as the city's broader infrastructure and housing goals, such as those included in the city's Comprehensive Homelessness Strategy and Los Angeles County's 2019 sustainability plan.⁷⁹ In addition, other missions that are more ambitious than those currently defined by other public entities can be created by the mandate committee (explained in the "Structures" section). The bank could achieve this through:

- Underwriting and purchasing municipal bonds for capital projects
- Financing public land and property development for public purposes
- Streamlining and consolidating existing financing sources and providing specialized financing for more equitable forms of housing development, including community land trusts (CLTs), mixed-income public housing, resident-owned communities (ROCs), and limited equity housing cooperatives
- Providing specialized financing for smaller-scale affordable housing developments (less than 40 units)
- Providing specialized financing for hotel acquisitions and housing preservation
- Offering lines of credit for predevelopment and acquisition for strategic affordable housing developments
- Offering operational lines of credit for nonprofit affordable housing developers (such as community development corporations)
- Offering operational lines of credit to nonprofits providing homelessness and transition services

For the mandate of promoting equitable recoveries from social, economic, and ecological crises, the missions would be to deliver emergency services to the city's most vulnerable populations, preserve the baseline amount of small businesses and jobs prior to disasters, and to increase Black, Indigenous, immigrant, and community ownership above the baseline prior to the crisis. The bank can achieve this through:

- Offering flexible near-zero interest operational lines of credit in times of emergency to public entities and civil society entities provisioning public services
- Financing the conversion of distressed businesses to Black, Indigenous, immigrant, and/or worker ownership
- Financing for workers, community groups, and tenants to buy an enterprise or asset targeted for acquisition by a large corporation or private equity fund

For the mandate of community wealth building, the mission would be to increase the number and net value of community land trusts, cooperatives, credit unions, employee stock ownership plans (ESOPs), community development corporations, public enterprises, and other forms of community-owned assets. The bank can achieve this through:

- Participating in loans to community wealth building institutions initiated by local lenders
- Originating such loans itself when a local lender is not available
- Utilizing a first-loss position (i.e., in the case of defaults, bankruptcy, foreclosures, etc., taking on the risk of suffering the first loss in a loan partnership) to provide workers or tenants the opportunity to acquire

failing businesses or housing complexes

- Providing free or low-cost technical assistance (such as financial literacy, bookkeeping, and audits), as well as support navigating municipal regulations and processes, to CLTs, co-ops, etc., and to community groups that are interested in going through the process of starting and expanding these institutions
- Providing financial and technical assistance to tenant unions and associations for preventing displacement and purchasing property

For the mandate of promoting a just transition to address the climate and biodiversity crises, the missions would be to achieve a carbon-negative loan portfolio, a carbon-negative operational footprint, and to contribute to the broader, already determined sustainability goals of the city. The bank can achieve this through:

- Requiring borrowers to measure their environmental impact and providing relevant technical assistance
- Incorporating climate-relevant time horizons into loan risk assessments
- Earning a LEED certification for the bank's branch and office sites
- Procuring products and services from certified sustainable vendors
- Partnering with the Los Angeles Department of Water and Power (LADWP) to provide financial incentives and loan programs for energy retrofits, solar panel installation, electric vehicle charging stations, etc.
- Financing promising early-stage companies that have a focus on addressing and mitigating the climate crises

For the mandate to repair the historical harms done to Black, Indigenous, and immigrant communities, the missions would be to increase the number and net value of Black, Indigenous, and immigrant-owned businesses and homes, and to increase the number and net value of Black, Indigenous, and immigrant-led cooperatives and other community-owned assets. The bank can achieve this through:

- Contributing to community wealth building institutions and strategies located in or specifically focused on these communities
- Providing specialized financing for community land trusts controlled by Gabrieleño, Tongva, Kizh, Chumash, and other Indigenous communities of the Los Angeles area, especially for “land back” development strategies
- Providing technical assistance to low-income Black, Indigenous, and undocumented Angelenos for starting a business or purchasing a home
- Providing specialized basic financial services to street vendors and unincorporated small businesses
- Directing a percentage of the bank's profits into dem-

ocratically controlled reparations funds

For the mandate of achieving financial sustainability and avoiding profit seeking, the mission would be to act fiducially responsible for future generations of Angelenos to benefit from the public bank. The bank can generally achieve this by balancing return on investments with the success of other mandates (rather than via a particular operational program) and establishing and meeting high standards with regards to financial transparency (including open books, open records, and open meetings to the greatest extent possible under local, state, and federal laws), and auditing.

In addition, in line with all the mandates, one specific mission of the bank should be to develop institutional knowledge and capacities to be conducted through a research and development operational unit (discussed in the “Structures” section). As a new legacy institution intended to exist as part of Los Angeles’ public ecosystem for decades into the future, the assembly members, board members, staff, and public and private partners of the bank will each be involved in the co-production of new kinds of knowledge and capacities over time. This institutional knowledge should be accountable to the mandates of the bank, in contrast with today’s technocratic institutional knowledge of municipal finance held by public finance officers, underwriters, bond investors, and their networks.

As a precedent, Marois notes that India’s National Bank for Agriculture and Rural Development (NABARD) included an explicit “knowledge” function in its legal establishment, where it “supports research, [disseminates] knowledge around questions of rural and agricultural development... produces in-house studies... participates in relevant external research projects.... [and] shares its research with the government and in collaboration with other banks.”⁸⁰ This capacity has allowed the NABARD to respond to India’s social challenges and achieve its mandates, including those related to climate change, biodiversity, and COVID-19.

Structures

In order to achieve the mandates in a transparent and accountable manner, the following organizational layers ought to constitute the public bank’s governance structure:

- Los Angeles City Council
- General Assembly
- Board of Commissioners
- Special, mandate, and operating committees
- Operational divisions

Los Angeles City Council

With the city as the charter member and controlling entity of the public bank, the City Council would implicitly retain

Governance structure of the Los Angeles Public Bank in detail

Los Angeles City Council

- Approves a business plan, charter application, and legal governance structure
- Sets and adjusts the bank's mandates
- Makes nominations to the Board



delegates major decision-making powers to:

The Bank

General Assembly

- Primary democratic decision-making forum of the public bank
- Composed of 99 members selected through a lottery process
- Members serve for a two-year term
- Convenes annually to review the proposals from board and committees (the bank's annual report, internal audit, nominations to the board and committees)



Board of Commissioners

- Vested with fiduciary responsibility for the public bank
- Composed of nine commissioners, five appointed by the General Assembly and four by the City Council
- Members serve for a five-year term
- Meets at least quarterly to receive reports from committees and senior managers
- Generates the bank's annual report
- Establishes new committees, hires and fires senior managers, designates committee chairs, and monitors the bank's operations



Mandate, Operating, and Special Committees

- Consist of five members, including a board commissioner as chair, three assembly appointees, and one bank employee

The 3 types of committees:

- Mandate committees, responsible for monitoring how the bank is achieving one of its public purposes.
- Operational committees, responsible for setting the bank's operational policy in a given area.
- Special committees, responsible for providing stakeholder representation and expertise to the bank on relevant policy.



Operational Divisions

- Management and staff developing and executing programs to achieve the missions

Recommended operational divisions:

- Lending
- Payments and Liquidity
- Technology
- Community Outreach and Education
- Research and Development
- Administrative



the board represents the bank between assemblies

committees agendize proposals for the assembly

commissioners chair the committees

oversees

ultimate authority and oversight, but the structures proposed here devolve the city’s powers to ensure democratic public ownership principles are embedded. To establish the public bank, the city council and mayor will have to approve a business plan, charter application, and legal governance structure.⁸¹ Any subsequent amendments to this initial arrangement will be possible by ordinance, but under this proposal, the city government would delegate major decision-making powers to the lower organizational layers. Within the city’s organizational chart, the bank would be organized as an ordinance department with a citizen commission, proposed here as the Public Bank Board of Commissioners (“the Board”).⁸² In line with democratic multistakeholder control, the city’s policy should require management to voluntarily recognize labor unions organized by the bank’s staff.

At this highest organizational layer, prior or subsequent to the bank’s incorporation, the city can allow Los Angeles County and neighboring charter cities to purchase non-controlling shares and adjust the governance structure accordingly. While PBLA and other advocates aspire toward a broader regional public bank, this proposed model assumes sole control by the City of Los Angeles given the present political, legal, and technical hurdles of starting a regional public bank. However, this governance design intentionally maintains the option for the bank to accept new charter members (i.e., Los Angeles County and neighboring charter cities).

General Assembly

The Public Bank General Assembly would add an additional layer of governance between the City Council and the more conventional Board of Commissioners. It would serve as the primary democratic decision-making forum of the public bank, convening annually to review, amend, and approve the proposals agendized by the board and committees, including:

- Nominations to the board and committees
- The annual report presented by the board
- Policy proposals by the committees

The General Assembly would consist of 99 members selected through a lottery process. Any person who has resided in Los Angeles for at least two years would be eligible to submit their nomination to the lottery to serve for a two-year term, or two annual assemblies. One nominated person would be randomly chosen from each Neighborhood Council jurisdiction (99 total).⁸³

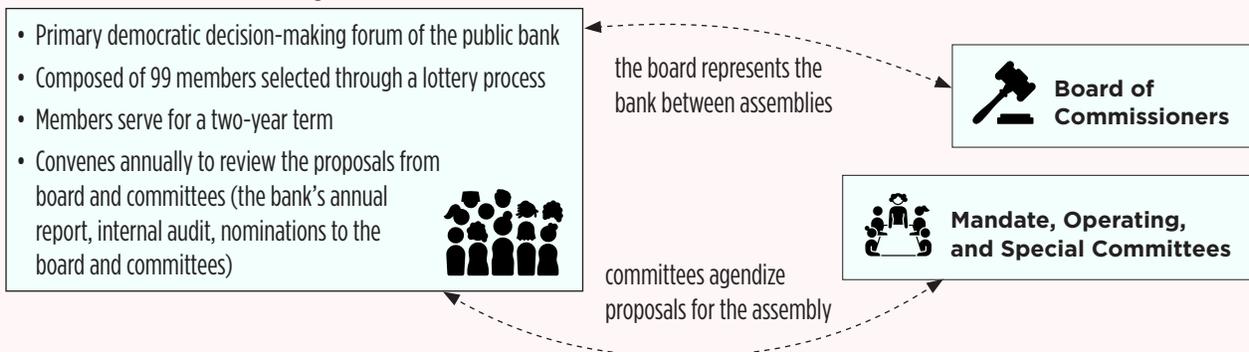
One year prior to the beginning of a term, each incoming cohort of resident members would undergo an orientation process about the bank’s decision-making structure, operations, and relevant issue areas. Half of the terms would be staggered to expire each year (alternating between 50 and 49). If a seat is vacated before the end of the term, the relevant Neighborhood Council would appoint a replacement to serve the remainder of the term, who can simultaneously participate in the orientation process with the incoming cohort. Once a resident member completes their term, they can resubmit their nomination in the lottery for a new term. The bank would partner with public entities, such as the Department of Neighborhood Empowerment, to do proactive, multilingual outreach to promote this opportunity for civic engagement, especially among low-income neighborhoods.

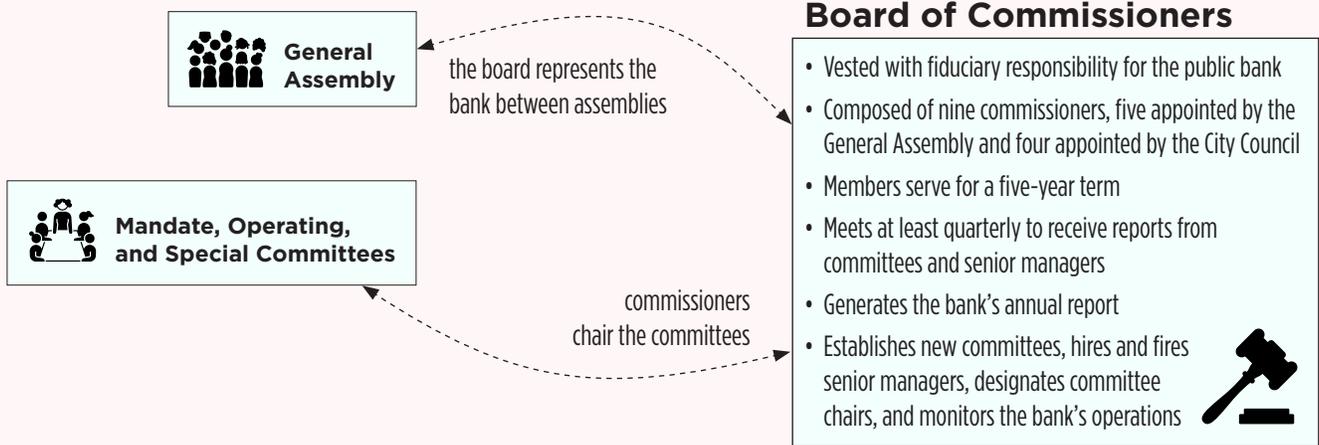
Once the bank is incorporated by the city, the General Assembly would be gradually built up to fulfill its functions after an interim four-year period. The initial Board of Commissioners would be accountable directly to the City Council during this interim period. For its first three annual meetings, the General Assembly would serve in an advisory role, providing space for public engagement and oversight as the bank gets underway.⁸⁴ In line with the precedent for representatives on other city boards and citizen commissions, all non-staff representatives serving on the General Assembly, board, and committees would be provided a \$50 stipend per meeting and training, as well as free transportation and family care services in order to ensure equitable access to participate.

Board of Commissioners

The Board of Commissioners would be vested with fiduciary responsibility for the public bank, functioning similarly to a

General Assembly





conventional bank board except that it is ultimately accountable to the General Assembly and City Council. The board would meet at least quarterly to receive reports from committees and senior managers, which would inform the annual report. There would be nine board commissioners who serve staggered five year terms with five appointed by the General Assembly and four appointed by the City Council.⁸⁵ Its responsibilities include:

- Hiring and firing senior managers
- Designating commissioners to serve as chairs of committees
- Generating the bank’s annual report
- Regularly monitoring the bank’s operations to ensure financial soundness, risk management and compliance obligations are met, and the public mandates and missions are aligned

Mandate, Operating, and Special Committees

The bank’s committees would serve as the next governance layer beneath the General Assembly and the board. They can be broken into three categories:

- Mandate committees, responsible for monitoring how the bank is achieving a given mandate
- Operational committees, responsible for setting the bank’s operational policy in a given area
- Special committees, responsible for providing stakeholder representation and expertise to the bank on relevant policy

Committees would each consist of five members:

- A board commissioner as the committee chair
- An appointee of the bank staff’s labor union (voluntary recognition of which should be mandated by the City Council as part of the bank’s enabling legislation), or in a union’s absence, a bank employee

Board of Commissioners

- Vested with fiduciary responsibility for the public bank
- Composed of nine commissioners, five appointed by the General Assembly and four appointed by the City Council
- Members serve for a five-year term
- Meets at least quarterly to receive reports from committees and senior managers
- Generates the bank’s annual report
- Establishes new committees, hires and fires senior managers, designates committee chairs, and monitors the bank’s operations

- Three appointees of the General Assembly on staggered four-year terms

For the General Assembly’s appointees, the nominating committee would convene as a permanent special committee, serving the important function of organizing nominations for the General Assembly’s annual appointments to committees. During the year, General Assembly members would be able to submit nominations for who they would like to fill the openings on the board and committees at the subsequent annual assembly. They would have to receive three nominations from General Assembly members to be eligible for consideration. The nominating committee would manage this process, including conducting transparent interviews and questionnaires, to present appointment options at the subsequent annual assembly.

Mandate committees would be established to review the bank’s operations in their designated mandate area and provide recommendations for changes to missions and programs. When conducting their annual review processes, the board, audit, and strategy committees would meet with the mandate committees, receive advisory recommendations, and incorporate their input into the bank’s annual report. The mandates described earlier would constitute the initial set of mandate committees, and the General Assembly would have the authority to create new mandate committees to explore establishing new mandates for the bank (which ultimately rests with the authority of the City Council to adjust).

In particular, the strategy committee should convene as a mandate committee every five years to facilitate the strategic planning process on behalf of the General Assembly. The board should hire a temporary strategy consultant to chair the committee, and the committee should retain whatever other experts and consultants are necessary to undertake a robust participatory planning process that will establish current community and public priorities, compare these to the bank’s current mandates, missions, and authorizing ordinanc-

es, and suggest alterations where necessary. The new strategic plan should then be presented to the General Assembly at the subsequent annual meeting for review and approval.

The operating committees would be established in accordance with the various operational aspects of the bank. They would include the relevant senior managers as non-voting members. They would provide quarterly reports to the board and collaborate with the board to generate their relevant elements of the annual report. Examples of operating committees, drawn from traditional bank board committees, include:

- Risk committee, responsible for risk management and lending policy
- Compliance committee, responsible for ensuring the bank's operations are aligned with the relevant laws and regulations to keep it in good standing
- Personnel management committee, responsible for policies overseeing internal operations, human resources, leadership development
- Audit committee, responsible for internal audits and oversight of quality control

The audit committee in particular would conduct annual financial and social impact reviews of the bank for use by the Assembly, board, and general public, including an assessment of the bank's performance related to its mandates and missions. The bank's chief financial and lending officers would provide quarterly reports to both the board and the audit committee. The city controller should serve as a non-voting member of the committee and be requested to conduct a separate external annual audit of the bank (in conjunction with an independent auditing firm and in alignment with best practices and legal requirements).

The special committees would provide formal space for particular community stakeholders and experts to the Assembly,

board, and other committees on given topics. Each would be authorized to agendize proposals to the General Assembly on relevant adjustments to the bank's strategic plan and operations. With a formal body for each stakeholders' engagement, Assembly and board members would be able to consult them on relevant governance questions throughout the year in a transparent and accountable manner. Special committees would be established on permanent or temporary bases at the discretion of the board to provide expertise and focus on an issue. For example, a temporary special committee on the 2028 Summer Olympics in Los Angeles would allow for formal space to consider in particular how the bank should achieve its missions with regard to broader economic planning around the Olympics and the relevant social issues of displacement and public subsidies.

The following three special committees should be permanently established to advise the bank:

- Special committee of community organizations
- Special committee of member organizations
- Special committee of local financial institutions

When the nominating committee is coordinating the nomination of stakeholders to these special committees, the following are potential criteria for representatives of eligible organizations:

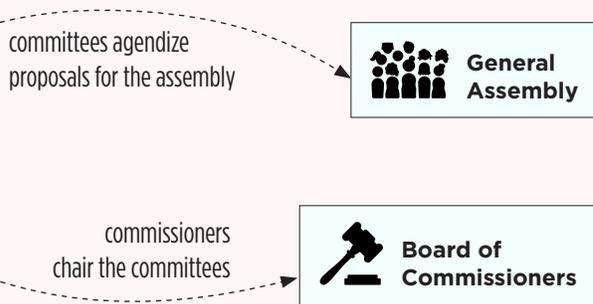
- Community organizations, nonprofits registered in the City of Los Angeles with a mission to improve the social, economic, or environmental well-being of Angelenos (e.g., faith organizations, homeless services, youth services, etc.)
- Member organizations, groups formally controlled by their individual membership and registered in the City of Los Angeles (e.g., labor unions, tenant unions and associations, community land trusts, cooperatives, etc.).
- Local financial institutions, entities eligible to partner

Mandate, Operating, and Special Committees

- Consist of five members, including a board commissioner as chair, three assembly appointees, and 1 bank employee

The three types of committees:

- Mandate committees, responsible for monitoring how the bank is achieving one of its public purposes.
- Operational committees, responsible for setting the bank's operational policy in a given area.
- Special committees, responsible for providing stakeholder representation and expertise to the bank on relevant policy.



with the public bank within AB-857 (i.e., community development financial institutions, credit unions, and local banks with less than \$2.5 billion in assets, etc.).⁸⁶

This nesting of committees within the democratic governance structures of the bank achieves the democratic public ownership principles of subsidiarity (decisions at the lowest possible level), higher-level coordination (connecting local autonomy to broader societal aims), professional management and effective organization (the people with the experience, skills, etc. running the enterprise insulated from day-to-day political interference), and transparency and accountability (oversight exercised through embedded structures).

Operational Divisions

The public bank's operational divisions would be the distinct areas of the bank's structure where management and staff will develop and execute programs to achieve the missions. These will be initially established by the public bank's business plan approved by City Council and amended by the board as needed. Adopted from Karl Beitel's conceptual framework, the bank should consist of the following operational divisions (with others created at the board's discretion):

- Lending division
- Payments and liquidity division
- Technology division
- Community outreach and education division
- Research and development division
- Administrative division⁸⁷

According to Beitel, the main two operational divisions would be the lending and payments and liquidity divisions:

“The Lending Division would oversee the Bank's underwriting and loan organization, monitor assessment of participation loans, and operate the Bank's securitization platform. The Payments and Liquidity Division will oversee cash management functions, including ensuring that the Bank can at all times make payment of all maturing liabilities (medium-term notes) and meet demands for cash withdrawal.”

The lending division should organize itself internally around specialized customer expertise for the bank's public and private partnerships, respectively. Public entities (e.g., the Chief Administrative Officer, Los Angeles County Development Agency, Housing and Community Investment Department, Housing Authority of the City of Los Angeles, Los Angeles Department of Water and Power, public universities) should have one streamlined operational interface with the bank for their particular financial products and services (e.g., municipal debt servicing, purchasing municipal bonds, emergency lines of credit, asset management). Private lending partners (i.e., CDFIs, credit unions, small and intermediate banks)

should similarly have a streamlined interface with the bank for their particular financial products and services (e.g., loan participations, streamlining financing options, etc.).

The research and development division would serve two important functions. The “research” function would consist of producing public and academic knowledge about the social, political, and economic dimensions of the public bank.⁸⁸ Researchers working for the bank or in partnership with local research institutions would pursue collaborations with other public banks and financial institutions in the US and around the world (e.g., visiting fellowships, conferences). The “development” function would consist of providing capacity-building services for community stakeholders, other public banks in California and across the US, and the bank's employees. This would include providing technical assistance to potential mission-aligned borrowers aiming to navigate the local financial ecosystem.

As other public banks emerge across California and the US, the institutional knowledge amassed through the research and development division would allow staff and researchers to advise and consult with state and local governments on the start-up process and best practices, as well as educate the broader populace on public banks via media and formal settings. The division will also manage an employee development network for the bank's staff, similar to career development services offered by other banks. This can include networking events, technical and interpersonal training, professional resources, etc.

Sequencing

At the time of publication, a motion for the city's chief legislative analyst (CLA) to issue a request for proposals (RFP) to hire a consultant to develop the business plan and charter application for the bank is pending before the City Council. The motion included the following specifications to the consultant's scope of work:

- The scope of work identified in the CLA's February 2020 report⁸⁹
- The scope of work identified in AB-857 for submitting a charter application⁹⁰
- Community stakeholder consultation, including credit access for small businesses, especially those owned by or employing residents in socioeconomically disadvantaged neighborhoods; affordable and social housing finance; climate change mitigation and green energy investment; governance and accountability; and transformative credit programs for local economic growth; worker and tenant ownership
- Viable strategies for capitalization, including source of capitalization funds, necessary to establish a public bank
- Collaborating with the city attorney to develop a governance structure

While these parameters may keep the consultant on the right track for establishing a democratic public bank, it is not a substitute for long-term community engagement with the process of designing the bank. This document aims to support this process by providing an aspirational model for stakeholders to draw from, utilize, debate, and iterate during this important process of constructing the bank. After the consultant is hired and their work is completed, the City Council would review the bank's business plan and charter application, with potential for amendments. Once approved, the city attorney would submit the necessary documents to apply for a public bank charter to the DFPI.

One particularly important sequencing question is the bank's capitalization, or identifying the source of funds for the bank's equity and operational capital costs. In order to achieve operational scale for the public bank's ambitious scope of activities, the city should aim for a \$150 million capitalization. While capitalization is always a political challenge for public banking advocates, given the required scale needed and public officials' unfamiliarity with public banks, the recently passed American Rescue Plan Act (ARPA) shifts the political context in Los Angeles for developing the public bank. As mentioned, the city will receive a windfall of \$1.3 billion in two tranches of \$677 million each in May 2021 and 2022, providing state and local governments a "generational opportunity" to consider long-term structural transformations not usually viable in the status quo of cash-strapped balanced budgets.⁹¹

As part of Los Angeles Mayor Eric Garcetti's proposed budget for the 2021-2022 fiscal year, the second tranche is initially allocated to a number of programs, including COVID response and recovery (\$40.4 million), homelessness services (\$181.1 million), justice and equitable neighborhood investments (\$132.5 million), neighborhood service enhancements (\$30 million), operational needs and efficiencies (\$30.5 million), and preserving city services (\$262.8 million).⁹² Given the support for the city programs, this budget proposal anticipates a \$696.1 million reserve fund, which is 9.49% of the general fund (significantly above the 5% city policy goal). Since a public bank would be able to fulfill the function of a reserve fund (i.e., providing emergency liquidity to the city) and sustainably provide vital funding for city priorities over the long term, utilizing a portion of the currently uniquely strong reserve fund to capitalize the public bank would be a wise use of funds.

As part of the start-up sequencing of the bank, the consultant's scope of work includes developing a phased process, which should be frontloaded and pursued more actively by the City Council to ensure the timeline matches up properly. In particular, the City Council and city attorney should establish an interim corporation that can begin lending operations prior to receiving the state bank charter. This should take the form of a nondepository loan fund.

The Democracy Collaborative's local economy preservation fund (LEPF) model—publicly owned holding companies that would buy stakes in distressed businesses to convert them into democratic enterprises—would be compatible with the mandates and operations of an eventual public bank, as well as the corporate form (a public or mutual benefit corporation).⁹³ In the interim period when the LEPF would be established and capitalized with reserve funds but prior to receiving the public bank charter, it could offer credit enhancement, letters of credit, loan guarantees, and other financial services and products to community wealth building strategies. Keeping the fund mostly liquid via these kinds of "backstop" financial products and services is preferable because lending the money out is a direct trade-off with the goal of an eventual infusion of equity capital in the public bank. This interim period would have the benefit of prefiguring the bank's lending operations, including hiring personnel, initiating a democratic governance framework, and building institutional relationships between the LEPF, lending partners, borrowers, and public entities.

Over the long term, the LEPF could be an adjacent community wealth building institution to the public bank (or a subsidiary of it), functioning as a public asset manager that directly controls equity in local enterprises with financing support from the public bank. This is similar to the design of the recently proposed National Investment Authority, which includes a national investment bank and a national capital management corporation to function as the dual financing and controlling arms of the NIA's investments, respectively.⁹⁴ A local public bank and public holding company could similarly provide the institutional means to set out industrial policy via democratic planning.

Two other outstanding timeline questions, identified in Los Angeles Chief Legislative Analyst Sharon Tso's February 2020 report, are whether voter approval is needed for:

- The charter provision preempting "purely commercial enterprises"
- The option for the treasurer to deposit public funds into the public bank⁹⁵

When the consultant's process is complete, these questions will need to be addressed head-on in the political-legal setting of the City Council. It is our opinion that neither of these would require voter approval given provisions in AB-857. That law authorizes California charter cities to apply for public bank charters for the purposes mentioned earlier (such as "achieving cost savings, strengthening local economies," etc.), which are explicitly different from a "purely commercial" purpose (i.e., for profit). AB-857 also explicitly permits city treasurers to deposit public funds in public banks and invest in public bank-issued debt, which is already consistent with the city charter deferring the choice of where to deposit public funds to the treasurer.



CONCLUSION

Over the last decade, the US public banking movement has built a national presence; campaigns are advancing across the country with California leading the way. But in order for public banks to address the economic, social, and ecological crises we face, advocates must begin to critically consider the questions of institutional design. Absent robust democratic participation in public banks' governing structures, they risk becoming new tools within the neoliberal paradigm of public finance and economic development.

This report has been an attempt at advancing these questions in a more systematic way and will hopefully serve as a starting point for others to do the same.

There are other fields of inquiry beyond the scope of this report that ought to be investigated further, including:

- Exploring more specific operational connections between the Los Angeles Public Bank and city departments (e.g., Office of Finance, Department of Water and Power, public universities)
- Democratic institutional design for other emerging California public banks (e.g., San Francisco, East Bay, San Diego)
- Experimenting with and expanding various forms of assembly governance in Los Angeles
- Dialogues between public bank practitioners (e.g., the Bank of North Dakota, Germany's KfW, Costa Rica's BPDC, the State Bank of India) and Los Angeles community stakeholders
- Connecting public banks and other democratic municipalist efforts, especially police and prison divestment and participatory budgeting
- Connecting democratic public banks to community wealth building institutions, especially social housing, co-operatives, local economy preservation funds, and public holding companies
- Connecting democratic public banks to progressive proposals for federal financial infrastructure (e.g., a National Investment Authority, postal banking)

Lastly, public banks are not a panacea. They have a specific role to play in strategies for the social challenges outlined—namely credit generation—but they should not be a replacement for other critically important economic policies.⁹⁶ Building a democratic and reparative economy of universal basic services means being clear-eyed about where public credit should stop and direct public spending should step in to provision free goods and services for all.

Democratic public banks are only one tool of a larger emerging institutional and policy toolkit. They have unique potential today as transformative financial institutions to bring about this better future and to facilitate the growth of a more participatory democratic culture, but only if the public wins them.



APPENDIX

List of eligible local financial institutions in Los Angeles

Under AB-857, local financial institutions are eligible to partner with public banks if they are:

- Community development financial institutions (CDFI)
- Credit unions
- Small or intermediate small banks as defined in Section 25.03 of Title 12 of the Code of Federal Regulations (meaning a bank that had assets of \$2.5 billion or less in four of the previous five calendar quarters)⁹⁷

Community development financial institutions:⁹⁸

Acelera Financial Corp.
Broadway Federal Bank
Episcopal Community FCU
Genesis LA Economic Growth Corp.
Inclusive Action for the City
Local Initiatives Support Corporation (LISC LA)
PACE Finance Corp.
RBB Bancorp
Royal Business Bank
Salas & Company
Sustainable Communities Fund
USC CU
Vermont-Slauson LDC, Inc.

Credit unions:⁹⁹

20th Century Fox Federal Credit Union (FCU)
ABE FCU
Actors FCU
American Airlines FCU
BCU
Cal State LA FCU
California Bear Credit Union
California Credit Union
Credit Union of Southern California
Federal Employees West FCU
Firefighters First FCU
First City Credit Union

First Entertainment Credit Union
First Financial Credit Union
Hanin FCU
Jacom Credit Union
Justice FCU
Kinecta FCU
LA Financial FCU
LA Healthcare FCU
Los Angeles Lee FCU
Los Angeles Police FCU
Maryknoll of Los Angeles FCU
MWD FCU
Northrop Grumman FCU
NuVision FCU
Peoples Independent Church FCU
Polam FCU
Premier America Credit Union
Priority One Credit Union
SAG-AFTRA FCU
San Fernando Valley Japanese Credit Union
SCE FCU
Schools FCU
SchoolsFirst FCU
Self-Help FCU
Southland Credit Union
The Golden 1 Credit Union
Unify Financial Credit Union
University Credit Union
VA Desert Pacific FCU
Vons Employees FCU
Water And Power Community Credit Union
Wescom Credit Union
Western States Regional FCU

Small or intermediate small banks:¹⁰⁰

Commonwealth Business Bank
Eastern International Bank
First Credit Bank
GBC International Bank
Malaga Bank F.S.B.
Open Bank
Pacific City Bank
State Bank of India (California)¹⁰¹
The Bank of New York Mellon Trust Company, National Association

ENDNOTES

- 1 Acknowledgements: I want to thank Naveen Agrawal, Ben Gordon, David Jette, and Trinity Tran for their contributions to this project and their ongoing leadership; the California public banking movement for laying the foundation through years of grassroots organizing; Thomas Marois for his critical insights; Thomas Hanna for his extensive edits and supervision; and The Democracy Collaborative's support to make this project happen
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84 For clarity on this timeline: in the bank's first year of operations, the first cohort of representatives would undergo training. In year 2, the second cohort would undergo training and the first cohort would take part in the first annual General Assembly in an advisory role. In year 3, the third cohort would undergo training to replace the first and the General Assembly would appoint committee members to bring forward proposals for the following year's assembly. In year 4, the General Assembly would be able to fully convene to fulfill its functions on an ongoing basis from then on.

85 If the bank opens to additional charter members joining (i.e., Los Angeles County and neighboring charter cities), the Board can be expanded to offer each new charter member's legislative body an appointed representative. However, the distribution should be amended to always maintain a majority appointed by the General Assembly.

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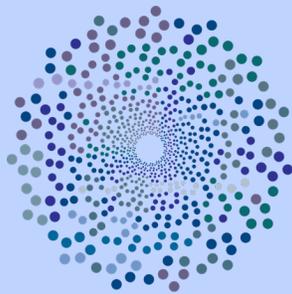
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