

# CALIFORNIA PUBLIC BANKING ALLIANCE

ADVANCING SOCIALLY AND ENVIRONMENTALLY  
RESPONSIBLE PUBLIC BANKS

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**2021 – 2022  
RESOURCE  
BOOKLET**

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## **CALIFORNIA PUBLIC BANKING ALLIANCE**

Los Angeles — [Public Bank Los Angeles](#)

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

East Bay — [Public Bank East Bay](#)

Central Coast — [People for Public Banking  
Central Coast](#)

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

Pomona Valley — [Public Bank Pomona Valley](#)

North Coast — [Public Bank North Coast](#)

Long Beach — [Public Bank Long Beach](#)



## **CALIFORNIA PUBLIC BANKING ALLIANCE**

### **Advancing city and regional public banks in:**

City and County of San Francisco  
County of Los Angeles  
City of Los Angeles  
County of San Diego  
City of San Diego  
City of Long Beach  
City of San Jose

#### **Central Coast Regional Public Bank:**

Santa Cruz County  
Santa Barbara County  
Monterey County  
City of Santa Cruz  
City of Seaside  
City of Scotts Valley  
City of Capitola  
City of Watsonville  
City of Del Rey Oaks  
City of Marina

#### **East Bay Regional Public Bank:**

Alameda County  
City of Oakland  
City of Berkeley  
City of Richmond

#### **North Coast Regional Public Bank:**

Sonoma County  
Mendocino County  
Humboldt County

#### **Pomona Valley Regional Public Bank:**

City of Pomona  
City of La Verne  
City of Claremont  
City of San Dimas



# Mission

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

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



# ABOUT CPBA

Public banking serves as a powerful tool to keep taxpayer dollars in local communities. Cities and counties hold billions of dollars of public money in Wall Street banks. Legally, these corporate banks own and control this money which they use to finance harmful industries including: private prisons, immigrant detention centers, weapons manufacturers, fossil fuel pipelines, and other investments that prioritize corporate profit over the people and the planet. These too-big-to-fail banks are also engaged in risky and fraudulent practices similar to or worse than those that crashed the global economy in 2008.

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

We have the opportunity now to build a new alternative banking system through locally-controlled socially and environmentally responsible public banks, enabling cities and counties to recapture public dollars and have a say over the financing of our own communities.

CPBA is working to bring banking services to the 25% of California's population that is unbanked or underbanked. [AB 1177](#), the Public Banking Option Act (BankCal) will begin the process of offering fee-free and penalty-free debit cards to all Californians, which will provide basic financial services such as check cashing, deposits and bill paying.

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

# WHAT IS A PUBLIC BANK?

A public bank is a bank owned by a government entity (“local agency”), like a city or county, with a non-profit public purpose and governed by public mandate. Unlike private commercial banks, the interest and profits of a public bank belong to the community.

## BENEFITS OF A PUBLIC BANK

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



# AB 857 CALIFORNIA PUBLIC BANKING ACT

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

Public banks under AB 857 must be:

- Non-profit mutual benefit corporations or public benefit corporations.
- Owned and controlled exclusively by cities, counties, or a Joint Power Authority (JPA).
- Can provide banking services and credit to any public entity, such as cities and counties, water districts, transportation agencies, and public housing authorities.
- Cannot compete directly with existing local financial institutions (<\$1B) but enables them to partner to provide services and make loans.

AB 857 lays out a straightforward process for municipalities to establish public banks.

The 3 key elements are:

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

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

# MANDATE AND MISSION

The public bank's mandates define the broad social challenges the institution aims to address, bound legally by the language incorporated in the relevant public policy.

Michael Brennan, research fellow for the Democracy Collaborative, in his [Governance proposal](#) for the Los Angeles Public Bank, recommends the following sample mandate language for the LAPB charter:

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

Brennan distinguishes between general mandates and more specific missions ("missions should be "SMART": specific, measurable, aspirational, relevant, and time-bound"). He divides each of his proposed 7 mandates into sample SMART missions.

Whether or not it employs the mandate/mission structure, each California public bank will support the economic development of its region and follow transparent, ethical, sustainable, and regenerative investment guidelines; strengthen existing financial institutions through partnerships with local community banks and credit unions; and serve the needs of its entire community by ensuring the meaningful participation of their underserved members.

# WHY PUBLIC BANKS?



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

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



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

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



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

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



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

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



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

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

# HOW PUBLIC BANKS WILL WORK

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

# WE NEED PUBLIC BANKS NOW

## 1

### SAVE MONEY

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

Like the Bank of North Dakota, California municipal banks will be carefully regulated and prohibited from unsafe and unsound banking practices. The Bank of North Dakota is the nation's only state-owned and operated bank. It shows a nearly 17% return on investment — more than Goldman Sachs — with a better credit rating than JPMorgan Chase. The state of North Dakota thrived during the economic crash of 2008 because the BND does not engage in high-risk financial schemes as do the large private banks. The BND reduces the cost of student debt to both state residents and students in higher-education institutions in the state. During the COVID-19 pandemic of 2020, North Dakota disbursed the most PPP loans per capita of any state, through partnerships with local financial institutions.

# WE NEED PUBLIC BANKS NOW

## 2

### COMMUNITY DEVELOPMENT

With a public bank, we can focus on the long-term prosperity of our community through affordable and supportive housing, green energy infrastructure and conservation measures, co-ops, small businesses and other badly needed community improvements. Public banks will be “banker’s banks,” partnering with local credit unions and community banks, guaranteeing their loans for locally-directed economic development, public works financing and jobs creation. They will be able to fund a variety of local projects:

- Affordable and supportive housing and neighborhood stabilization efforts by extending credit lines through the public bank’s loan portfolio. In partnership with local lenders, a public bank can bring down the cost of financing housing developments; unlike private banks, they won’t be bound by a need to maximize profit margins.
- Small business and cooperative ownership structure support by increasing the lending capabilities of local credit unions, community banks, and CDFIs.
- Finance transition towards decarbonization and renewable energy. The German Sparkassen/KfW public banking networks have funded over 70% of the investment in renewable energy infrastructure. Renewables are now Germany’s primary source of energy, with one-third of the nation’s electricity derived from wind and solar.
- Alleviate wealth inequality by making capital available to those that corporate banks often exclude: black and brown households and businesses, women-owned businesses, single-parent households, the LGBTQ community, worker cooperatives and non-traditional forms of home ownership.
- Low-interest loans, or interest-free loans, for students to invest in education and stimulate the economy.

# WE NEED PUBLIC BANKS NOW

3

## **ETHICAL ALLOCATION OF MONEY**

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

4

## **LOCAL SELF-DETERMINATION**

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

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

5

## **SERVE THE UNBANKED AND UNDERBANKED**

One out of four Californians do not have adequate access to financial services such as checking or savings accounts. Therefore, they cannot build credit and are susceptible to the predatory practices of financial predators such as payday lenders. A public bank would help meet the financial needs of the unbanked and underbanked population, largely composed of minority, working-class communities and immigrant households, by partnering with local community banks and credit unions enabling them to expand their credit lines and offer free or low-cost financial services.



# AB 1177

# CALIFORNIA PUBLIC

# BANKING OPTION ACT

CPBA, together with Service Employees International Union (SEIU) California, and the California Reinvestment Coalition, are now working to bring banking services to Californians that are unbanked or underbanked. AB 1177, the Public Banking Option Act, will begin the process of offering fee-free and penalty-free debit cards to all Californians, which will provide basic financial services such as check cashing, automatic deposits and bill paying.

Nearly 1 in 4 Californians are unbanked, meaning they lack a bank account altogether, or are underbanked, meaning they have a bank account, but still rely on alternative financial services such as payday lenders, prepaid debit cards, and pawn shops. Unbanked or underbanked households pay proportionally more for their financial services, lack savings accounts, have fewer opportunities to build credit, and face increased rates of loan rejection.

Limited access to financial services is a problem disproportionately impacting low-income communities and communities of color. Californians earning less than \$15 per hour comprise 80.7% of the unbanked in the state. Nearly half of all Black-identifying households in California and 41.1% of all Hispanic-identifying households are unbanked or underbanked. Despite efforts by large banks, credit unions, community banks, and programs like BankOn, the problems of banking the unbanked and underbanked have not been adequately addressed.

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

# FAQ

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

The start-up money to open municipal public banks is an investment in the future of our communities and local businesses — public banks amplify the effectiveness of funds collected as taxes, fees and fines paid to the municipality, bringing money back to our communities.

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

Once the bank receives a California State Public Bank Charter, as authorized under the Public Banking Act, it will be eligible to receive deposits from municipal departments, neighboring municipalities, pension funds, socially responsible mutual fund investment vehicles, and other institutional investors.

# FAQ

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

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

## WHO WOULD BE A TYPICAL CUSTOMER?

Public banks will start as “bankers’ banks.” Municipalities will be the primary customers, lending to areas of greatest public demand, such as affordable housing, green infrastructure, and small business support. The bank will work in partnership with local community banks, credit unions, and Community Development Financial Institutions (CDFIs).

Banks will initiate investment programs that align with the economic development plans of their municipalities. For example: housing lending (especially affordable housing), enterprise lending (small and medium size businesses), and infrastructure spending will be determined by municipal goals that are financially feasible. Public money will be recycled locally and not sent to distant shores.

# FAQ

## HOW WILL PUBLIC BANKS BE GOVERNED?

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

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

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

# FAQ

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

California currently faces a huge shortage of affordable housing. Many residents are forced to pay over 50 percent of their paycheck for rent and utilities resulting in our state having one of the highest numbers of unhoused people in the nation.

Public banking expert Karl Beitel believes public banks can help alleviate this crisis by making "loans to support affordable housing development, in the form of both construction loans and long-term bond and mortgage loans for multi-unit housing developments. A Municipal Bank could, over time, be expanded to become a significant supplier of long-term affordable housing credit. A Municipal Bank could fund a property acquisition program that would acquire existing rental properties and place them into permanently affordable cooperative housing arrangements and land trusts."

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

# FAQ

## HOW WILL A PUBLIC BANK HELP WITH ECONOMIC REDEVELOPMENT, INCLUDING AFFORDABLE HOUSING? (CONT.)

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

# FAQ

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

NO. First, the bank will not be run by politicians, but by bankers.

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

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

The governing structure of the public bank will not put politicians in charge — public officials will help set up the structure within the legalities allowed under the controlling legislation but professional bankers, directed by accountable boards of governors, will handle all operations.



# FAQ

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

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

The Sparkassen network of regional public banks in Germany has been instrumental in Germany's green energy transformation. According to Wolfram Morales, its Chief Economist, 73 percent of investment in renewable energy came from the German public bank sector. Renewable energy accounts for 41% of energy production and consumption in Germany (and only 11% in the US). German public banks offer interest rates as low as 1% on loans, considerably lower than commercial bank rates.

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

# FAQ

## HOW WILL THE BANKS BE INSURED?

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

## IS PUBLIC BANKING FAVORED BY CONSERVATIVES OR PROGRESSIVES?

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

(Cont.)

# FAQ

## **IS PUBLIC BANKING FAVORED BY CONSERVATIVES OR PROGRESSIVES? (CONT.)**

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

Public banks are accountable to the communities they serve, so investment decisions will reflect the desires of the majority of residents, conservatives or progressives. Conservatives and progressives alike have reasons to support public banking.

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

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

# FAQ

## ARE THERE PRECEDENTS FOR PUBLIC BANKING IN THE US RIGHT NOW? (CONT.)

It partners with local private banks to provide a secondary market for mortgages and supports local governments by buying municipal bonds.

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

Since the passage of the California Public Bank Act (AB 857), multiple municipalities and regions in California including San Francisco, the East Bay, Los Angeles, and the Central Coast have begun the process of formulating their public bank business plans. Many cities and states across the nation are pursuing formation of their own public banks. Advocates in New Mexico are working with legislative officials to create a New Mexico State Bank, as are activists in New York, New Jersey, Illinois, Maryland, Massachusetts, Mississippi and Washington. The cities of Seattle, Denver, and Chicago, and the District of Columbia all have active public banking campaigns.

Support for public banks has also transcended political divides. Democratic and Republican lawmakers in the State of Michigan filed a bipartisan bill to create a state public bank. North Dakota, the only state with a state public bank at this time, is a red state with not a single registered Democrat as a state legislator.

# ACKNOWLEDGEMENTS AND CONTACT

**We would like to thank the following people for the research, writing, design and editing that went into producing this booklet.**

Brett Garrett – People for Public Banking Central Coast

Rick Girling – SF Public Bank Coalition

Ben Gordon – Public Bank LA

David Jette – Public Bank LA

Debbie Notkin – Public Bank East Bay

Steve Sittig – Public Bank Pomona Valley

Trinity Tran – Public Bank LA

## **Excerpts from:**

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

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

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