# THE CASE FOR A LOS ANGELES MUNICIPAL PUBLIC BANK

JFI/Berggruen *Introductory Report: A Municipal Public Bank for Los Angeles* Brief

## Introduction

The case for a Los Angeles municipal public bank is, at its heart, very simple.

The City and the people of Los Angeles generate tremendous economic value, but the growing wealth of the city comes with significant inequality. BIPOC communities and working-class families face persistent issues of unaffordability and financial insecurity. The people of LA deserve a mechanism to ensure that the economic value they create is allocated towards democratically determined objectives that distribute wealth across the city, repair historical harms of underinvestment, and prioritize the public interest over profit motives.

The Los Angeles City Council seeks to build a city-owned and community-driven financial institution with a mission to achieve substantial cost savings, support the city's infrastructure goals, build community wealth, increase affordable housing, repair historical harms to BIPOC communities, and support just climate mitigation—all while achieving financial sustainability.

No single bank can solve all these challenges, but the Municipal Bank of Los Angeles (MBLA) can make a positive impact even in its opening years. The MBLA can harness a growing slice of Los Angeles' financial and economic strength, directing it towards socially productive and public benefit projects that private, for-profit commercial banks have historically avoided.

The MBLA aims to achieve several objectives, including expanding and protecting the city's affordable housing, supporting the transition to clean energy infrastructure, and promoting financial justice. The MBLA can work in partnership with Community Development Financial Institutions (CDFIs) and in wholesale markets to amplify these bank's financial programs on the public's behalf.

## Why a Municipal Public Bank?

In recent years, there has been an unprecedented surge of interest and advocacy for state and municipal public banking in the United States. Yet the idea, and the practice, are far from new. Publicly owned regional banks are important parts of both the retail and investment banking systems in the US and in many industrialized countries, holding over an estimated 20 percent of all assets worldwide.

In the US, the Bank of North Dakota (BND) is a well-known example of a public bank, founded in 1919 to provide loans to farmers. Over time, the BND evolved to become an essential lender to businesses, offering limited checking, savings, and foreign exchange services. Its mandate prioritizes public initiatives rather than profit-making. A more recent example is the Territorial Bank of American Samoa, founded in 2012 as a government-owned, full-service commercial bank with access to the Federal Reserve.

In addition, there are numerous specialized public financial entities in the US that provide targeted benefits. One example, the Texas General Land Office, governs land and mineral rights and is tasked with funding education at all levels in Texas. It does this through the Texas Permanent School Fund, a sovereign wealth fund with a larger endowment than Harvard University's. The Fund underwrites many of the educational bonds in Texas at a AAA rating, substantially reducing borrowing costs for the state's public schools and universities.

Germany has one of the world's most well-established public banking systems. Municipal banks in Germany hold approximately forty percent of all household deposits. These local institutions are part of state-run banks, which serve as both clearing houses and commercial banks, enhancing the lending power of the municipal banks.

With the passage of the California Public Banking Act (AB 857) in late 2019, California's local governments have the opportunity to create their own public banks. This brings the benefits of public banking to Los Angeles and its residents.

## MBLA: A Unique Player in the Broader Financial Ecosystem

Public banks are mission-driven institutions within the financial system. They steer financial and governmental actors towards public-defined goals, not just profit, as determined by the public. The bank's financial products and partnerships align with these objectives whenever possible.

A mission-driven institution can influence the financial system through monitoring, market formation, and syndication.

| Monitoring | Market Formation | Syndication |
|---|---|---|
| Public banks will approve loan applications and collaborate with private entities, transforming public lenders into warehouses of formal and informal knowledge. This knowledge becomes a valuable resource that can be shared with clients and other government entities. | Public banks can create markets where they didn't previously exist. For example, the Green Bank of Connecticut made it possible for nonprofits and small businesses to access loans for solar projects when it was challenging before. Essentially, a public bank can lead the way in developing new markets. | Public banks partner with multiple lenders via syndication and participation agreements, attracting investments into underserved communities. This collective amplifies financial capacity, while the bank's balance sheet facilitates lending and payment networks, benefiting small and community banks by managing reserves and expanding lending capabilities. |

MBLA could use several key tools to execute these functions, such as seed funding, risk insurance, and loan aggregation.

**Key Tools of the Municipal Bank of Los Angeles**

| Seed funding | Risk insurance | Loan aggregation |
|---|---|---|
| Provide initial capital to scale small projects that private debt markets may not fund, making them more attractive to larger private investors. | Establish loan loss reserve funds to insure private lending on mission-driven projects. | Offer warehousing services by consolidating small loans, underwriting them, and holding them until they can be combined into a marketable loan product for other lenders. These loans would be consistent with the public mandates and mission of MBLA. |

MBLA could partner with CDFIs to deepen community engagement and achieve mutually beneficial efficiencies. CDFIs hold a specific designation Under the Community Reinvestment Act (CRA), and receive federal grants and liquidity support for their lending focus on disadvantaged communities. However, CDFIs are still financial institutions that must generate profits and have limited balance sheets due to their small size.

By collaborating with existing CDFIs, the MBLA can create advantageous outcomes for both parties and the public. Under California Law AB 857, a public bank cannot engage in retail banking, such as taking individual deposits or providing direct loans to individuals. Instead, a public bank can work with community banks, credit unions, and CDFIs to provide saving and checking services. These partnerships can allow the public bank to sponsor low-cost banking services previously found on a local financial institution's balance sheets. MBLA could also act as a warehouse for CDFI loans. This means that the public bank can act as an aggregator, purchasing small loans issued by CDFIs, which might be challenging to place on the secondary market individually, and restructuring them into larger tranches for resale.

## Capitalizing the MBLA

Given the MBLA's status as a mission-driven institution, JFI/Burggruen recommends innovative blended finance strategies involving philanthropic funds. One promising opportunity is philanthropic credit guarantees, which could serve to backstop major transactions at little or no cost to philanthropists. Consolidating new forms of "risk philanthropy" would lower the capital costs for business lines selected by the public and its elected representatives, expanding the MBLA's positive impacts while supporting accountable private giving.

## Governance

To ensure true democratic representation, the MBLA must go beyond being answerable only to public representatives. Active citizen participation is crucial, considering existing inequalities.

In addition to a board of governors, which, like any bank, will handle MBLA's operational divisions, JFI/Berggruen proposes a bank design with five governance features:

1. A people's assembly that establishes investment mandates.

2. Standing commissions to ensure compliance with the bank's mission.
3. Exploratory juries for researching new areas.
4. People's investment boards to oversee fund allocation.
5. People's review panels issuing public-facing reports.

Such governing, oversight, and planning assemblies of residents have been implemented in Paris, Brussels, Bogota, Toronto, and elsewhere as part of a growing movement to empower the public to directly and deliberatively provide its input, and thereby influence policies and investments that will serve it. By implementing such democratic processes, the MBLA can avoid influence from private and commercial interests, and truly represent the will and needs of the people of Los Angeles, aligned with its goals and mandates.

# PUBLIC BANK LA: AFFORDABLE HOUSING

JFI/Berggruen *Housing Solutions and Portfolio Options* Brief

The Municipal Bank of Los Angeles (MBLA) will support the city's broader infrastructure, housing, and sustainability goals. In the report, Municipal Bank of LA: Housing Solutions and Portfolio Options, the Jain Family Institute (JFI) and the Berggruen Institute outline the capacity of the proposed Municipal Bank of Los Angeles (MBLA) to increase affordable housing, pursue parallel mandates to build community wealth and repair historical harms to underserved communities while achieving cost savings for the city and long-term financial sustainability for the bank.

The California Public Banking Act (AB 857) requires the MBLA to work with existing financial institutions and community development organizations to address gaps in affordable housing finance.

## Present Context of Affordable Housing: Challenges & Opportunities

Los Angeles faces a severe affordable housing crisis; almost half of households spend more than 30% of their income on housing. Despite the need to add over 250,000 affordable homes by 2029, the city is only on track to add 51,000.[1] Today, numerous challenges need to be overcome to finance new affordable housing production and preservation. To bridge the shortfall, the city must radically accelerate the pace of housing production by reducing the complexity and difficulty in assembling capital stacks that add up to fully funded projects. The Municipal Bank of Los Angeles could play a significant role in addressing these challenges.

## The Role of the MBLA: Solutions & Recommendations

There are several ways that the MBLA could facilitate the production and preservation of additional affordable housing:

1. **Developer Pre-Underwriting & Construction Contractor Prequalification:** Most affordable housing projects don't move beyond the predevelopment stage, meaning no construction even takes place. It's a well-known gap that the market has been unable to bridge. The MBLA is uniquely positioned and equipped to establish organizational-level underwriting ahead of each individual project with a trusted set of local developers to reduce timelines and minimize duplications. Expanding upon the California Public Works model for contractor pre-qualification could mitigate risks involved in construction lending.

2. **Rapid Acquisition Fund:** Establishing a revolving rapid acquisition fund to provide short-term (1-5 year) financing for the acquisition and preservation of land and housing for affordable housing development

1. When specific data for the City of Los Angeles is unavailable, county-level statistics are used to provide a comprehensive overview.

would allow affordable housing developers to compete in the current rapid pace of real estate transfers. This type of fund has broad support among housing advocates in Los Angeles. With an initial rapid acquisition fund of $13.5 million, this loan product could finance $129 million in acquisition-rehabilitation projects, quickly preserving 471 affordable units per year.

1. **New Construction Loans:** Offering construction period loans to housing developers or to partner public agencies developing new affordable housing at a lower interest rate than private equity investments (reducing risk through developer pre-underwriting or contract prequalification) would significantly reduce construction costs and expand total affordable housing production. With an initial fund of $18 million, this loan product can fund over $170 million in new construction projects, or 404 new affordable housing units annually, based on three-year loan terms.

2. **Recapitalization of Existing Subsidized Multifamily Housing:** Homes lose their affordability status if the necessary upkeep repairs aren't made. Offering recapitalization loans to affordable housing developers to fund the needed repairs and upgrades to their properties would prevent the displacement of affordable units. With an initial investment of $2.25 million, this loan product could fund over $21 million for at least 707 affordable units per year.

3. **Low- and Moderate-Income Homebuyer Mortgage Assistance**: Taking over, scaling, and expanding the City's low- and moderate-income home purchase assistance program would help more qualified residents buy homes and prevent displacement.

4. **Homeowner Accessory Dwelling Unit (ADU) Creation Assistance:** Offering shared appreciation loans to homeowners to help them finance the construction of ADUs would increase the housing supply.

### Affordable Housing Solutions

| Pre-Underwriting & Contractor Prequalification | Rapid Acquisition Fund | New Construction Loans |
|---|---|---|
| The MBLA can facilitate affordable housing development by establishing organizational-level underwriting with local developers. By prequalifying contractors and streamlining timelines, this approach minimizes delays and optimizes project efficiency. | To address the rapid pace of real estate transfers, the MBLA could create a revolving rapid acquisition fund. This fund would provide short-term financing for the acquisition and preservation of land and housing, ensuring that affordable housing developers can compete effectively in the current market.<br><br>With an initial investment of $13.5 million, this fund could finance $129 million in acquisition-rehabilitation projects, preserving 471 affordable units annually. | Offering construction period loans at lower interest rates than private equity investments would significantly reduce construction costs and increase total affordable housing production.<br><br>With an initial fund of $18 million, this loan product could fund over $170 million in new construction projects annually, creating 404 new affordable housing units. |

| Recapitalize Existing Housing | Homebuyer Mortgage Assistance | ADU Creation Assistance |
|---|---|---|
| To prevent the displacement of affordable units, the MBLA could provide recapitalization loans to fund necessary repairs and upgrades to existing subsidized multifamily housing.<br><br>With an initial investment of \$2.25 million, this initiative could fund over \$21 million for at least 707 affordable units per year. | Expanding the city's low- and moderate-income home purchase assistance program would enable more qualified residents to purchase homes, thereby preventing displacement and promoting community stability. | Providing shared appreciation loans to homeowners for the construction of accessory dwelling units (ADUs) would increase the housing supply and contribute to affordable housing solutions in Los Angeles. |

These proposals do not replace additional actions Los Angeles can take to address this urgent crisis. Enacting the City of Los Angeles Department of Housing and Community Investment's proposals for legislative changes, establishing a housing finance agency, expanding the Housing Crisis Act of 2019, and recapitalizing housing development programs like the Affordability Housing Managed Pipeline to pilot new affordable housing programs would further increase the impact of the MBLA.

## Projected Outcomes

Together, the proposed products and initial capitalization level can facilitate projects at **more than double** the level that the City currently funds annually.[2] Better terms and capital with lower interest rates will reduce the overall cost of housing projects, helping to close the financing gap and allowing City dollars to go further. The proposed products and programs could create or preserve **over 1,700 affordable housing units annually,** reversing the trend of declining affordable housing production in Los Angeles since 2017.

2.Assumes 45% of overall MBLA portfolio is dedicated to its affordable housing mandate.

# PUBLIC BANK LA: SMALL BUSINESSES AND FINANCIAL JUSTICE

JFI/Berggruen *Financial Justice Portfolio Options* Brief

*"[...] a public bank in Los Angeles could [...] build community wealth and repair historical harms to Black, immigrant, and other working and communities of color. While many banks and financial institutions focus on financial inclusion, a public bank would focus on financial and economic justice as a broader effort to build financial security and wealth among historically marginalized groups." - Jain Family Institute, MBLA's Role in Financial Justice*

## Expanding Credit for Financial Justice

The Municipal Bank of Los Angeles (MBLA) aims to advance financial justice, particularly for marginalized groups, by addressing systemic issues like income inequality and discriminatory lending practices. Unlike traditional financial inclusion efforts, MBLA's approach goes beyond improving access to banking services, aiming to directly reduce persistent wealth disparities and enhance financial stability. Through initiatives targeting small business ownership and student loan financing, MBLA seeks to promote higher wages and wealth creation in under-financed communities, particularly those inhabited by people of color.

| Small business empowerment | Financial inclusion | Affordable education | Business transition |
|---|---|---|---|
| The MBLA seeks to offer new small business lending products and related alternative credit evaluations, low-cost student loans, and longer-term options for retail banking, all of which can open real credit opportunities to more credit-worthy businesses especially in South and East Los Angeles. | The MBLA could support no-cost bank account services through other financial institutions including through CalAccounts.<br><br>CalAccount (AB 1177) was signed into law in 2021. The program, upon implementation, partners with financial institutions to provide a zero-fee debit account and card for all Californians. | The MBLA could provide for low cost student loans to residents, mitigating the high cost of education and reinvesting in the productivity and well being of its young residents. | An impending wave of retirements from small business owners, termed the 'Silver Tsunami', highlights the crucial role MBLA could play. The MBLA could reshape LA's economy by transitioning retiring businesses to employee ownership, boosting wages, security, community wealth, and productivity. |

## Financing Worker Ownership Transitions

The "Silver Tsunami" refers to the anticipated wave of retirements from small business owners. MBLA could supercharge worker ownership by making employee ownership transitions a core part of its financial justice lending portfolio. This could grow wages for thousands of workers across Los Angeles and increase community wealth through shared ownership of small businesses.

The MBLA could provide financing and guidance for all forms of employee transitions via regulated lending institutions like banks, CDFIs, or loan funds. MBLA's lending to employee ownership (EO) transitions could incentivize other financial institutions to purchase seasoned EO loans, seeding a viable secondary market for EO lending. The MBLA's transformative approach to financial justice and its strategic response to the 'Silver Tsunami' prioritize community wealth, financial security, and economic justice. By offering new lending products, supporting worker cooperatives, and potentially offering low-cost student loans, the MBLA could make a significant impact on historically marginalized communities in Los Angeles.

1. With an initial capital allocation of $4 million, this loan product can fund almost $40 million worth of employee ownership transitions.
2. An annual interest rate of 3 - 4.5% will be attractive for a variety of intermediary lenders that finance employee ownership transitions, while creating incentives for lenders (and philanthropy) to invest in pipeline efforts within the Los Angeles market.
3. In the first ten years, we anticipate this level of funding from MBLA can support nearly 1,500 Angelenos to be on a path to becoming business owners through employee ownership, assuming a mix of over 30 small and mid-sized businesses making an EO transition.
4. These loans will be provided to intermediary institutions providing EO loans, with separate pools of funds available to
    1. Independent transitions (smaller, $250K - $1M per transition),
    2. Capital forward transitions (larger, $2M - $10M per transition) and
    3. CDFI or Community Bank funds ($2M - $5M per transition).

## Low-Cost Student Loans

At a future stage of MBLA’s development, the bank could operate a student loan program that would closely mirror the Bank of North Dakota program. MBLA could solve some of the issues related to higher costs of education and ballooning student debt burdens by mitigating the debt burden through lower-cost student loans and debt refinancing programs.

1. Student loans would range from $500 to $50,000 loans to Los Angeles residents.
2. Option of either a 6.29 percent fixed interest rate or a 6.44 percent variable interest rate with a zero percent loan fee. The variable interest rate would be capped at ten percent, and repayment plans are flexible for up to 25 years.
3. The loans may be utilized for living expenses and are not limited to tuition, room, and board.
4. Applicants who are US citizens may apply using the FAFSA. Undocumented applicants will be required to fill out the California Dream Act Application (CADAA), in keeping with the process used across the state.
5. Non-residents may apply for a similar loan, but with the added charge of a loan fee of 3.75 percent, and a higher fixed interest rate (7.29 percent) or variable interest rate (7.44 percent).

# PUBLIC BANK LA: ENVIRONMENTAL JUSTICE

JFI/Berggruen *Clean Energy Portfolio Options* Brief

## Expanding Credit for Environmental Justice

The Municipal Bank of Los Angeles (MBLA) can play a significant role in advancing utility- and community-scale power projects. While rooftop solar creates major savings for homeowners on utility bills and improves household resilience against climate change, most electrical power in Los Angeles will come from larger utility-scale projects. These projects require substantial financing, and MBLA can help fill the funding gap. MBLA, private power developers, and the Los Angeles Department of Water and Power (LADWP)—the largest municipal utility in the United States—can work together to achieve the city's LA100 goal of becoming carbon neutral by 2045.

California already has various programs to help low-income communities and multifamily properties go green such as offering incentives for installing solar panels, supporting energy efficiency, and letting homeowners sell extra energy. Federal programs like production tax credits encourage renewable energy project development, but gaps prevent development at the pace we need. MBLA is uniquely positioned to support clean energy financing by filling gaps in existing programs by addressing the following:

**Community-Scale Solar Development:** Community solar projects enable individuals and households to access solar energy without installing panels on their rooftops. They offer an affordable and accessible option for low-income households and renters. Recent legislation, AB 2316, is expected to expand and improve the regulation of community solar in California, setting criteria for utilities to initiate community solar projects. MBLA's financing can create a larger market for loans in community projects and provide an opportunity for community groups and nonprofits to lead solar initiatives.

**Residential and Commercial Solar and Retrofit Programs:** MBLA can engage in lending programs targeting residential and commercial solar customers. While California already promotes rooftop solar, MBLA can play a role in expanding access and raising tax equity financing, a powerful incentive to increase the development of green energy projects.

**Utility-Scale Financing:** Utility-scale renewable energy projects are essential for meeting clean energy goals but require significant financing. These projects encompass a range of technologies, including wind, solar, geothermal, and more. MBLA is positioned to support utility-scale projects by providing financing to cover remaining costs as well as bridging financing for tax credits and capital raised through municipal bonds.

**Transmission:** Transmission is an essential part of LA’s clean energy future. We need to be able to move the power generated from solar and wind farms to millions of homes on the grid. California's environmental regulations and land use laws can make securing rights of way for transmission lines a time-consuming and uncertain process, leading to higher financing costs. Federal and state programs aim to address these issues, providing grants and low-rate financing for transmission projects.

**Utility-Scale Debt Financing for Renewable Energy:** Utility-scale projects require larger loans and cover diverse technologies like onshore and offshore wind and large solar power plants. MBLA's lending can reduce the cost of energy for these projects and provide significant savings to consumers.

**Solar PPA Bridge Loans:** Power Purchase Agreements (PPAs) are long-term renewable energy contracts where property owners lease their rooftops or properties to install solar equipment. This allows them to buy energy generated by this equipment or sell it to the grid, reducing energy costs without the hassle of maintaining the solar equipment. At the end of the lease, property owners can typically choose to buy the solar equipment at a predetermined price. PPAs provide property owners the opportunity to benefit from solar equipment without installation costs. MBLA can lower credit risks by creating a fund for PPA loans, attracting other lenders and private investors.

**Blending Efficiency Retrofits and PPAs in Low-Income Multifamily Developments:** MBLA can support efficiency retrofits by combining them with solar PPAs. This blended approach ensures a cash flow from both retrofits and PPAs, reducing loan burdens for property owners and making projects more financially viable.

**CPACE Secured Loan Programs:** Commercial Property Assessment Clean Energy (CPACE) programs enable property owners to secure loans based on property value increases due to improvements. MBLA can use alternative credit metrics to expand eligibility for CPACE loans, targeting small and minority-owned businesses.

| Community Solar Development | Residential Commercial Solar Retrofit Programs | Utility Scale Financing | Transmission |
|---|---|---|---|
| Facilitates solar energy access without rooftop panels through legislation and financing. | Expands solar access and tax equity financing. | Supports large-scale renewable projects financially. | Facilitates power movement to meet clean energy goals. |

| Utility Scale Debt Financing Renewable Energy | Solar PPA Bridge Loans | Blending Efficiency Retrofits PPAs Low Income Multifamily Developments | CPACE Secured Loan Programs |
|---|---|---|---|
| Provides significant loans for various renewable projects. | Lowers credit risks for solar equipment leasing. | Combines retrofits and solar leases for financial viability. | Utilizes property value for clean energy loans. |

Los Angeles and California are leaders in the transition to clean energy. The Municipal Bank of Los Angeles' role is pivotal in reducing energy costs, supporting new energy projects, and ensuring the viability of renewable energy initiatives in a complex financing landscape.