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.