

## POLICY BRIEF: Municipal Banking

### Public Banking 101

According to the Public Banking Institute, "A Public Bank is a chartered depository bank in which public funds are deposited. A Public Bank is owned by a government unit—a state, county, city, or tribe—and mandated to serve a public mission that reflects the values and needs of the public that it represents."<sup>1</sup>

According to [Ellen Brown](#), public ownership of a bank is distinct from state-socialism in that the latter is government ownership of the means of production, whereas public banking involves government oversight of the credit & debit system that facilitates economic exchange, including of free markets<sup>2</sup>.

### Who is doing what with public banks?

**Minneapolis** – In December 2016, the City Council directed city staff to develop potential scenarios to meet the city's banking needs, while not doing business with financial institutions that invest in the fossil fuel industry. The direction requested staff to explore the possibility of establishing a municipal bank:

*"The potential scenarios review shall include a series of options to meet the City of Minneapolis' banking needs including but not limited to exploring the possibility of establishing a municipal bank or participating in a publicly-owned banking operation."<sup>3</sup>*

In response, Finance and Property Services staff reported to the City Ways & Means Committee in June 2017<sup>4</sup>. [The presentation](#) included relevant info on the city's major banking activities, including an accounting of the banking fees the city paid out in 2016.

Staff concluded that a municipal bank that takes public deposits is not feasible, given the following:

- Requires special legislation from State of MN
- Regulatory approval not guaranteed
- Taking deposits from public is typical bank requirement
- Requires enormous up-front investment in capital, technology, underwriting expertise, specialty staff
- Highly competitive Twin Cities market means City must subsidize costs with little assurance of future profit.

Staff suggested that elements of public banking services already exist and could be expanded where the private market is not adequately serving public. They noted the City is a lender in the following areas:

- Common Bond Fund: Fills market niche of long-term real estate financing, resulting in City surplus revenues
- Housing Improvement Areas: Fills unmet market for associations but no City surplus
- Street special assessments: Offers convenient option
- Gap financing for affordable housing
- Single family deferred loans
- CPED loans & NRP loans

Staff also noted that:

- The City participates in public banking in public facilities authority loans for water projects.
- City has started to lend itself money
- City council approved NOAH strategy in 2016, partnering with Freddie Mac

<sup>1</sup> What's the Definition of a Public Bank?". *Public Banking Institute*. Retrieved July 14, 2018.

<sup>2</sup> Brown, Ellen (2013). *The Public Bank Solution*. Third Millennium Press. p. 3.

<sup>3</sup> [City Council Adjourned Proceedings Dec. 7, 2016 \(minneapolismn.gov\)](#), Page 1313

<sup>4</sup> Response to Staff Direction on Banking Services [PowerPoint Presentation \(minneapolismn.gov\)](#). June 26, 2017

To expand municipal banking, staff suggested the City could:

- pass special legislation for community needs not met by market like HIAs
- support non-profit or private entities to meet goals of access to banking services for all

Staff presented three forward looking options (i.e., scenarios), recommending Option B, as follows:

- Keep lowest cost, service delivery, and security as primary criteria for selecting banking firms
- Enhance supplier diversity in broader sense of term to utilize minority owned firms and smaller institutions for smaller contracts where there is competition
- Increase number of firms as eligible institutions for banking and investments
- Continue and incrementally expand municipal banking services on a case-by-case basis

The Minneapolis City Council, Ways and Means Committee adopted Option B as recommended, noting:

*“...the city will choose larger banking contracts based on the lowest cost, breadth and quality of services and security with the existing responsible banking ordinance lens and additionally break apart some contracts when feasible with an emphasis on supplier diversity and elements of municipal banking.”<sup>5</sup>*

The City Council directed staff to:

- Develop a timeline and process for drafting a Socially Responsible Procurement and Contracting Policy for all goods and services procured by the City, including banking services.
- Return to the Ways & Means committee by Sept. 15, 2017<sup>6</sup>, *“with recommendations for a timeline and costs for completing a study of the feasibility of establishing a publicly-owned banking operation, include a review of the intergovernmental, financial, legal, and technological considerations in relation to establishing a public bank serving state, regional, or municipal interests, with consideration of different scopes of services, including a smaller operation to serve targeted needs.”*

**State Owned Bank of North Dakota** - A populist movement in North Dakota renounced the high fees farmers were charged by out-of-state financiers and pushed for a local bank tasked with “promoting agriculture, commerce and industry.” In response, the state-owned Bank of North Dakota was established in 1919.

The State Bank of North Dakota has built on partnering with banks, not competing with them. The state-owned bank does not compete for municipal deposits — leaving those to local banks. The Bank has no branches, and more than 98 percent of its deposits come from the state government, which is required by law to deposit all its taxes, fees and other revenues in the state-owned bank<sup>7</sup>.

The State Bank is required by state legislature to make a profit and takes a conservative approach to lending.

- The only loans the State Bank makes directly to individuals are student loans and some home mortgages in the most rural parts of the state, with the backing of the state’s banking associations. The Bank’s economic development loan programs are done with local banks, meaning local banks originate the loan and sell a portion to the state Bank.
- The Bank does provide affordable loans for small businesses (albeit not for individual consumers), but “roughly 50 percent of the bank’s loan portfolio consists of loan participations and loan purchases from community banks,” rather than regular loans.

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<sup>5</sup> <https://lms.minneapolismn.gov/Download/CommitteeReport/127/WM-06262017-CommitteeReport.pdf>

<sup>6</sup> We were not able to locate subsequent reporting from city staff (following this direction).

<sup>7</sup> State-Owned Banks and the Promise of an Equitable Financial Sector, Elias van Emmerick, Pomona College 2021. [https://www.brownjppc.com/\\_files/ugd/1ac8d1\\_1356eb0cc09747cebfa5b26c9f793e4.pdf#page=65](https://www.brownjppc.com/_files/ugd/1ac8d1_1356eb0cc09747cebfa5b26c9f793e4.pdf#page=65)

Benefits:

- Since inception, the state-owned bank has paid more than a billion dollars into the state's budget<sup>8</sup>.
- Community banks hold a higher market share of deposits in North Dakota than in any other state, according to an analysis of FDIC data by the Institute for Local Self-Reliance. That is important for small businesses: in states where community banks have more market share, more Paycheck Protection Program loans went out to businesses. North Dakota was far and away the leader in making Paycheck Protection Loans, as of data from June 2020<sup>9</sup>.
- During downturns and financial crises, the bank helps maintain liquidity in the markets, by purchasing loans from smaller banks (rather than actively extending loans).
- There has been little to no political involvement with the public bank maintaining independence<sup>10</sup>.

**Germany's** commercial financial sector consists of three "pillars": commercial banks, cooperative banks, and public banks, "Sparkassen". Sparkassen (public banks) are owned by the cities or regions in which they operate but backed by a national organization. The Sparkassen were founded in 1778 by merchants hoping to support communities. Today, the Sparkassen have over fifteen thousand branches and control over €2 trillion in assets.

Sparkassen are mandated by law to serve the public interest and promote regional development. Their success is measured not by returns or profit, but by their impact on the communities they serve. About 70% of Germany's small & medium enterprises (SMEs) obtain their financing from a Sparkasse. About 60% of all Germans interact with these banks in some way, with low-income families making up the largest part. Sparkassen's are mandated to not deny anyone a savings account and provide the same rate of return for each customer. Political involvement in the day-to-day operations of the Sparkassen banks remains an area of concern<sup>11</sup>.

### **Recent proposals and plans: US cities and states**

In 2021, eighteen public banking bills were introduced at local, state, and federal level (including Vermont, New Jersey, Oakland, Philadelphia, Los Angeles, San Francisco, etc.). In 2022, East Bay, California completed phase one to establish a regional public bank; Los Angeles moved forward with a Municipal Public Bank RFP; and Philadelphia's City Council passed a resolution to form a Philadelphia Public Finance Authority. In 2023, five states introduced public bank legislation — Massachusetts, Oregon, New York, Washington, and New Hampshire — and San Francisco submitted a phase one business plan<sup>12</sup>.

In 2019, Gov. Gavin Newsom of California signed a state law<sup>13</sup> that allows all cities and counties to establish public banks.

**San Francisco** — In July 2023, City leaders accepted a plan to create what may be the first municipally owned bank in the country. The San Francisco Public Bank would be tapped to:

- finance construction of low-income housing,
- fund initiatives to combat climate change, and
- support small businesses.

The Public Bank is envisioned to provide low-interest financing in projects with social benefit where traditional

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<sup>8</sup> Ibid

<sup>9</sup> <https://nextcity.org/urbanist-news/three-states-and-two-cities-are-getting-serious-about-public-banking>

<sup>10</sup> State-Owned Banks and the Promise of an Equitable Financial Sector, Elias van Emmerick, Pomona College 2021.

[https://www.brownjpe.com/\\_files/ugd/1ac8d1\\_1355eb0cc09747cebfa5b26c9f793e4.pdf#page=65](https://www.brownjpe.com/_files/ugd/1ac8d1_1355eb0cc09747cebfa5b26c9f793e4.pdf#page=65)

<sup>11</sup> Ibid.

<sup>12</sup> [The Promising Model of Public Banking | Green America](#)

<sup>13</sup> [Public banks can be formed in California: Newsom signs new law - Los Angeles Times \(latimes.com\)](#)

banks have fallen short. For instance, businesses are often unable to secure small loans due to commercial banks' desire to limit overhead ("the amount of time it takes a bank to loan \$10,000 is the same as a loan for \$1 million").

A public bank could fill this gap by providing:

- short-term loans to potential affordable housing developers for planning work such as engineering.
- smaller loans, between \$50,000 and \$100,000, for nascent businesses that would struggle to secure one from a traditional bank.
- financing to building owners trying to electrify their properties<sup>14</sup>.

As outlined by the City Reinvestment Working Group's [San Francisco Public Bank, Summary of Proposed Approach](#), the public bank would be professionally run, with public oversight, and independent of political influence. The city would deposit its money into the public bank, reinvesting any profits earned back into the community. The bank would not provide personal checking and savings accounts<sup>15</sup>.

In 2019, the San Francisco Office of the Treasurer published a feasibility study. The study estimated appropriation required for the bank to break even between \$184 million and \$3.9 billion, but highlights " that the length of time a model projects depends on expenses, revenue, and growth rates. Adjusting any of these levers can shorten or lengthen the time it takes for the bank to break even. See: [San Francisco Municipal Bank Feasibility Task Force Report, March 2019](#); [San Francisco Public Bank Coalition](#)

*Next Steps:* The process to create a public bank in San Francisco is likely to take years due to state and federal regulatory hurdles. Before San Francisco can create a public bank, it must pass an ordinance to create a *municipal financial corporation (MFC)* to serve as a city-owned, non-depository lending corporation. The MFC would provide loans but not accept deposits and would not be federally insured. The City Supervisor is working with the city attorney to create the MFC in 2024.

The MFC would essentially serve as proof of concept for a public bank, enabling the City to make the case to regulators that it is ready to accept deposits and be insured by the Federal Deposit Insurance Corporation (FDIC). Converting the MFC into a public bank, will require approval from the FDIC and California Dept of Financial Protection and Innovation.

To financially kickstart the bank, city leaders are exploring state grants, philanthropy, and federal funds from the Inflation Reduction Act. The plan supposes amassing \$90 million in assets by its third year of operations. The Inflation Reduction Act presents an "opportunity to start a green bank" with funds from the federal government for its public bank ambitions. The San Francisco MFC would function as a "green bank," as it plans to use public funds to make climate-related investments<sup>16</sup>.

**Los Angeles** - The City Council voted in Oct 2021 to study the viability of forming a city-owned bank and create a business plan. In July 2023, the city devoted \$460,000 toward the study's first phase. The LA Bank is envisioned as a mechanism to partner with local financial institutions to create opportunities for affordable housing, green energy and wealth creation.

In May 2023, [the Jain Family Institute and the Berggruen Institute released a report](#) laying out what a public bank could look like, how it might benefit L.A., and what its limitations might be. The study garnered attention

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<sup>14</sup> [San Francisco public bank inches closer to city approval | Politics | sfexaminer.com](#)

<sup>15</sup> Ibid.

<sup>16</sup> <https://www.axios.com/local/san-francisco/2023/09/12/public-bank-plan-next-steps>

from advocates and council members, who have become more open to the idea.

The report suggests initiatives through a public bank could:

- build or preserve over 17,000 affordable housing units in Los Angeles within 10 years.
- assist with construction loans, convert multifamily housing into affordable housing stock, provide mortgage assistance, and create accessory dwelling units.
- set up a fund to purchase existing affordable housing before private developers swoop in and convert units into more upscale homes.
- help employees purchase small businesses to prevent outside buyers from taking over.
- reduce wrongful foreclosures, predatory lending and unchecked fees<sup>17</sup>.

Using the city controller's 2022 report, [Public Bank LA](#) estimated that Los Angeles pays \$621 million in debt services and middleman fees. A public bank could redirect those funds toward social projects and "simplify the complex web of affordable housing finance."

The report suggests that a Public Bank could find alternative ways to score credit, enabling access to lower-cost debt and free banking, especially important to low-income communities of color. The Report stresses that the public bank be run by competent professionals, a bit hands off the City Council. The envisioned public bank would enable customers to take out loans for specified activities, but not set up savings or checking accounts. Deposits would come from the city, pension funds and green mutual funds. The city of L.A. can then borrow directly from a public bank without private middlemen.

To ease the startup process, the city would probably set up a municipal finance corporation that manages public funds and loans. Once the municipal finance corporation shows it can manage funds, it would transition into a public bank. A spokesperson for Councilmember Hugo Soto-Martínez, said the next step is to build broad support among the public<sup>18,19</sup>.

**Philadelphia** – The City Council voted in March 2022 to create the Philadelphia Public Financial Authority<sup>20</sup> — in alignment with the State's [Economic Development Financing Law](#), which allows municipalities to form an agency that can borrow money to provide residents with loans and letters of credit. Municipalities in Pennsylvania are prohibited from forming their own municipal banks, so this is a way around that rule<sup>21</sup>.

The public bank was championed by former councilmember and current mayoral candidate Derek Green, with an eye towards boosting commercial development for Black and brown entrepreneurs. The authority "will have the ability to provide [letters of credit as well as guarantees for businesses](#), especially Black and brown businesses... that have not traditionally had this type of financial product," said Councilmember Derek Green, who introduced the bill<sup>22</sup>. Current Mayor Jim Kenney does not support the idea and hasn't moved it forward. Public banking is expected to be an issue of note in the 2024 mayoral election<sup>23</sup>.

See: [Philadelphia Public Bank Feasibility Study Released | City Treasurer's Office | City of Philadelphia](#); [Philadelphia Public Banking Coalition](#)

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<sup>17</sup> [Los Angeles moves forward on creation of a public bank - Los Angeles Times \(latimes.com\)](#)

<sup>18</sup> [Los Angeles moves forward on creation of a public bank - Los Angeles Times \(latimes.com\)](#), July 2023

<sup>19</sup> [Editorial: A public bank would be risky, expensive and a potential waste of taxpayer dollars](#)". Los Angeles Times. March 27, 2019

<sup>20</sup> See ordinance [City of Philadelphia - File #: 210956-A \(legistar.com\)](#)

<sup>21</sup> [Philadelphia City Council moves toward starting nation's first municipal bank | PhillyVoice](#)

<sup>22</sup> Ibid.

<sup>23</sup> [Kenney doesn't want Philly to have a public bank -- but the next mayor might \(billypenn.com\)](#)

### **Potential Benefits of Public Banking:**

Public banks have the potential to reduce the costs of government services and infrastructure (by reducing fees and generating revenues via returns on loans/investments). In addition, public banks can offer banking services to people, and entities underserved by private-sector banking. Public banks also have the potential to *increase control over the money supply (protecting and aiding local banks):*

- Following the 2008-09 global financial crisis, places public banks, such as in Germany and North Dakota responded counter-cyclically' by extending credits and making new investments.<sup>24</sup>
- A public bank can provide a direct way of injecting money into desirable areas of the economy. i.e., If government (acting for the public good) wants to stimulate homeownership and reduce emissions, mortgages could become cheaper and car financing more expensive.

*Finally, public banks can promote the kinds of economic development that reflect polities' shared notions of social good, for example by expanding access to affordable loans for low-income families and small businesses.* Public banks can extend loans not with the intent of making a profit, but rather to stimulate the economy. This might mean providing loans to low-income communities at break-even interest rates, as they are likely to spend in a way that benefits the wider economy.

Feasibility studies have cited potential upsides:

- 2011 study predicted that a public bank would generate 3,500 new jobs in Maine,
- 2013 study found that a public bank would create about 2,500 new jobs and \$200 million in value added to the economy in Vermont,
- Study for Santa Fe found that every \$1 million in lending from a public bank would generate an additional ten jobs in the local economy,
- Study found a public bank in New Jersey would add 60-93 new jobs for every \$10 million lent. <sup>25</sup>

### **Obstacles and Criticisms of Public Banking:**

1. Adequate credit is already available through commercial channels (why re-create?)<sup>26</sup>
2. A public bank will increase the risk to state assets<sup>27</sup>.
3. Perception public banks are inefficient and/or influenced by political pressures<sup>28</sup>.
4. Legal challenges are insurmountable: many state constitutions have provisions against "lending the credit of the state."
5. Much of a public bank's funding comes from state deposits that would otherwise earn more from a private bank, there is a hidden subsidy that acts as a transfer from taxpayers to borrowers.<sup>29</sup>
6. Public banks must still invest in things that will grow the city's money over time. Affordable housing may not make as much money.

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<sup>24</sup> "Public Banks: Decarbonisation, Definancialisation and Democratisation" Thomas Marois. P 15  
<https://books.google.com/books?hl=en&lr=&id=EQYxEAAAQBAJ&oi=fnd&pg=PT21&dq=US+public+state+owned+municipal+banks&ots=VCzmFAM7Wm&sig=d6yij8MkCSwl7u0TvqP0RUdBT5k#v=onepage&q=US%20public%20state%20owned%20municipal%20banks&f=false>

<sup>25</sup> State-Owned Banks and the Promise of an Equitable Financial Sector, Elias van Emmerick, Pomona College April 30, 2021 [https://www.brownjppe.com/\\_files/ugd/1ac8d1\\_1356eb0cc09747cebefa5b26c9f793e4.pdf#page=65](https://www.brownjppe.com/_files/ugd/1ac8d1_1356eb0cc09747cebefa5b26c9f793e4.pdf#page=65)

<sup>26</sup> [The Los Angeles Times Editorial Board called a public bank "risky, expensive and a potential waste of tax dollars," Los Angeles Times. March 27, 2019](#)

<sup>27</sup> [Could Public Banks Help Cities Keep Their Money Away From Wall Street? - The New York Times](#) ), 2019

<sup>28</sup> <https://thehill.com/opinion/finance/412278-a-public-bank-is-risky-business/>

<sup>29</sup> Calabria, Mark (March 5, 2015). "BankThink Promises of Public Banks Don't Match Reality". American Banker. Archived from the original on November 12, 2019. Retrieved November 19, 2019.

7. Perception of incompetent or untrustworthy city governance (“i.e. they couldn’t run a bank”) <sup>30</sup>.
8. Socially beneficial programs are a less complex and costly way to achieve the same ends (rather than via public bank as concluded by DC feasibility study).
9. Level of start-up capital required is prohibitive: FDIC has strong capital requirements for new banks, which must be in cash or cash equivalents<sup>31</sup>.

The feasibility studies for California and DC found that establishing a public bank would be legally difficult and capital intensive.<sup>32</sup>

Recent efforts to establish, pave the way or initiate public banks have failed to get political backing. In 2021, New Jersey governor Phil Murphy ran his campaign partly on the promise of establishing a public bank and sponsored a bill on his first day in office. New Jersey’s effort has since been on hold. Maine, Vermont, and New York (among others) voted down bills to establish state banks. Despite majority support, New York lawmakers failed to pass [legislation](#) last session that would allow cities to create their own public banks<sup>33, 34</sup>.

Other resources:

[Public Banking Institute – Banking in the Public Interest](#)

Is Government Ownership of Banks Really Harmful to Growth? DIW Berlin Discussion Paper No. 987, March 2010, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1633841](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1633841)

New York Times, Room for Debate, Opinion Pages. In Banking, Should There Be a ‘Public Option’? 2013 [Should States Operate Public Banks? - Room for Debate - NYTimes.com](#)

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<sup>30</sup> [City-owned bank is possible, but probably not necessary \(startribune.com\)](#), Dec 2016

<sup>31</sup> State-Owned Banks A Relic of the Past or the Wave of the Future?, 2013 <https://www.pgslegal.com/wp-content/uploads/2017/07/Spring-2013-Delaware-Banker-Article.pdf>

<sup>32</sup> [https://www.brownjppe.com/\\_files/ugd/1ac8d1\\_1356eb0cc09747cebefa5b26c9f793e4.pdf#page=65](https://www.brownjppe.com/_files/ugd/1ac8d1_1356eb0cc09747cebefa5b26c9f793e4.pdf#page=65)

<sup>33</sup> [What if NYC had its own public bank? - Gothamist](#), July 2023

<sup>34</sup> <https://www.thecity.nyc/2022/5/18/23125953/public-bank-bill-blocked-new-york-senate>