

PUBLIC BANKING IN THE CITY OF LOS ANGELES

Utilizing Public Banks To Equitably
Prioritize The Needs Of Small Businesses



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**INCLUSIVE
ACTION**
FOR THE CITY

1936

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Inclusive Action for the City

Inclusive Action for the City is a community development organization whose mission is to bring people together to build strong, local economies that uplift low-income urban communities through advocacy and transformative economic development initiatives.

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SPECIAL THANKS

Public Banks for Los Angeles (PBLA)

Public Bank Los Angeles is a volunteer initiative founded in 2017 to create a socially and environmentally responsible municipal bank for the City of Los Angeles. Public Bank LA (PBLA) evolved from Divest LA, a nationally recognized grassroots movement which succeeded in divesting Wells Fargo from the City of Los Angeles' commercial banking services. The movement was rooted in the DefundDAPL phenomenon and resistance from all vulnerable communities victimized by unethical banking practices. Today, PBLA is apart of a state wide public banks coalition called California Public Banking Alliance (CPBA), which works to create socially and environmentally responsible city and regional public banks.

GLOSSARY

- **Public Bank** - Public banks are financial institutions owned publicly by a government, public authority, or public enterprise that provide lending services to public/private entities. Public banks are unique because they can be controlled by the public and legally held accountable to abide by a public interest mandate that serves the community's needs. ¹
- **Private Bank** - Private banks vary in size (local, regional, national, international), scale (assets), and function (investment bank, commercial bank, retail bank, credit union). The key defining factor of a private bank is that they are managed and held accountable to the interests of their owners - individual, partners, or board of directors if publicly traded. ²
- **Large Bank** - A financial institution with a total assets of at least \$1.322 billion as of December 31 of both of the prior two calendar years. ³
- **Small Bank (Community Banks)** - A small institution with assets of at least \$330 million as of December 31 of both of the prior two calendar years and less than \$1.322 billion as of December 31 of either of the prior two calendar years. ⁴ *Community/local banks are small banks that originates from the area they serve.



INTRODUCTION

Banks and lending institutions play a significant role in shaping the outcomes of individuals, businesses, and communities' self-determination to financial security and ability to obtain resources and assets. Financial institutions wield tremendous power because they can ultimately determine and/or influence what individuals, businesses, and communities thrive. Historically, activists have cited the lack of access to capital and discriminatory practices from financial institutions as a primary contributor to people of color's inability to build equity, reinvest in their communities, and create/sustain businesses.⁵ The ramifications of not obtaining capital from a financial institution can significantly impact individuals' ability to secure necessities such as a home mortgage, an automobile, medical services, and more. For entrepreneurs, not obtaining capital prevents a business and/or industry from scaling or thriving. When the priorities of financial institutions do not align with the needs of the communities, it's a grave concern given the tremendous power financial these institutions wield. In recent years community activists concerned with the lack of lending opportunities and public accountability from financial institutions have been calling for the formation of public banks.

Most recently, as of October 2021, the City of Los Angeles' City Council voted to begin outlining the infrastructure needed to develop a public bank and released an RFP seeking input from a consultant to formulate a business plan for a public bank.⁶ As cities like Los Angeles move to establish a public bank, it's essential for the public, especially small business owners and community development advocates, to ask how a public bank can better support small businesses and local economic development? This brief provides an overview of public banks, the economic development benefits of a public bank, and how Los Angeles can utilize public banks to prioritize communities and local small businesses.

WHAT ARE PUBLIC BANKS?

Public banks are financial institutions owned publicly by a government or government agency that provides lending services to public agencies and private businesses. Public banks are unique because they can be controlled by the public and legally held accountable to abide by a public interest mandate.⁷

The primary functions of a public bank can vary depending on the scale of the bank's geographic/jurisdictional reach, revenue, administrative capacity, and last mission and priorities set by local stakeholders (i.e., the public). A major benefit of public banks is that their functions can adapt and evolve accordingly to meet their stakeholders' immediate needs and demands. For instance, a public bank could function as an intermediary to local financial institutions, economic development financier for local or international projects, lender to businesses, student loan provider, fund manager of municipal funds, and more.⁸

What Makes Private Banks Different

In contrast to public banks, *private* banks are what we tend to think of as traditional financial institutions such as JP Morgan Chase, Goldman Sachs, and Wells Fargo. Private banks vary in size (local, regional, national, international), scale (assets), and function (investment bank, commercial bank, retail bank, credit union). The key defining factor of a private bank is that they are managed and held accountable to the interests of their owners - shareholders, partners, or board of directors if publicly traded.⁹ Currently, the City of Los Angeles uses Bank of America to deposit city funds into private bank accounts to save and to reinvest.¹⁰

PUBLIC BANKING RESURGENCE & POLICY LANDSCAPE OVERVIEW

Public banking is not a new concept; the Bank of Pennsylvania, the earliest example of a public bank in the United States, can be traced back to 1780.¹¹ Similarly, the Bank of North Dakota, the only operating public bank in the United States today, dates back to 1918.¹² Nonetheless, what is relatively new is the national mass resurgence of the general public and Californian public officials' interest in public banks in the past three to five years. Across the nation, cities such as Los Angeles, New York City, Washington DC, Oakland and exploring and conducting feasibility studies to charter a public bank. Most recently, as of March 3, 2022, the City Council of Philadelphia voted to establish the Philadelphia Public Financial Authority to oversee the creation of the City of Philadelphia's public bank.¹³

Public Banking Resurgence in the City of Los Angeles

The revival of public banking in Los Angeles can largely be attributed to Public Bank Los Angeles' (PBLA) advocacy efforts. PBLA is a grassroots organization, co-founded by Trinity Tran and David Jette in 2017; in 2018, PBLA successfully led the advocacy and lobbying efforts to introduce Measure B, a public banking bill on the November 2018 midterm ballot.¹⁴

Although Measure B failed with 44% of the general vote, it helped the public bank campaign gain traction.¹⁵ Since November 2018, three crucial bills have passed at the state and city levels to propel the public banking movement further. Presently, the City of Los Angeles has the opportunity to become the first city in the United States to create a public bank. In October 2021, the City of Los Angeles passed a motion to issue a request for proposal (RFP) to study the viability of forming a city-owned bank and to develop a business plan to operate a public bank.¹⁶

Public Banking Regulations in the City of Los Angeles and State of California:

City of Los Angeles

- **2018: Measure B** - Council member Herb Wesson passed a motion to put “Measure B” that sought to begin the process of the creation of a local public bank on the November ballot. Ultimately it didn’t pass but received 44% (430,488 votes) of the voter’s approval.
- **2021: City of Los Angeles’s Public Bank RFP** - Calls for an request for proposals (RFP) to study the viability of forming a city-owned bank and create a business plan. The motion mandates the public bank will focus on but not limited to four key areas: credit access for small businesses, affordable and social housing finance, climate change mitigation and green energy investment, and transformative credit programs for preserving and developing local economic growth and worker & tenant ownership.¹⁷

State of California

- **2019: AB 857** - Seeks to create a regulatory framework for the state’s Department of Business Oversight (now Department of Financial Protection and Innovation) to issue 10 public bank charters over seven years.¹⁸
- **2021: AB 1177** - Requires a commission on or before July 1, 2024, to conduct a market analysis/feasible to implement a “CalAccountProgram”. The state established the program to protect consumers who lack access to traditional banking services from predatory, discriminatory, and costly alternatives, which offers CA access to a voluntary, zero-fee, zero-penalty, federally insured transaction account, known as CalAccount.¹⁹

Public Banking Regulations in the City of Los Angeles and State of California:

Pursuant to Los Angeles’s City Council’s October 2021 motion calling for request for proposals (RFP) to study the viability of forming a city-owned bank. The motion also identified four objectives for the City of Los Angeles’s public bank to prioritize: providing access to credit to small businesses, affordable and social housing financing, investing in climate change mitigation and green energy investments, and transformative credit programs for preserving and developing local economic growth and worker and tenant ownership.²⁰

It’s expected for the Public Bank of Los Angeles to have three primary functions - managing funds, reinvesting funds, and being an intermediary for local banks and financial institutions. In contrast to the Bank of North Dakota, it is not expected for the City of Los Angeles’s public bank to serve as a retail bank where individuals and/or small businesses can physically or digitally access deposit checks, acquire loans, or set up checking, savings, and business accounts.

City of Los Angeles Public Bank Primary Functions:

- 1. Managing Funds** - It will operate as a financial institution for the City of Los Angeles that manages annual revenue, or on average \$8 billion in collected from taxes.²¹
- 2. Reinvesting Funds** - It will reinvest City funds into clean energy, public housing, and community development initiatives.²²
- 3. Intermediary** - It will operate as a “bankers bank” and make available federal, state, and local funds for commercial investing to local community banks, CDFIs, and community development corporations (CDCs) to distribute the funds to small businesses as small business loans.



ACCESS TO CAPITAL CHALLENGES & THE BENEFIT OF A PUBLIC BANK

SMALL BUSINESSES AND ACCESS TO CAPITAL CHALLENGES

Small businesses are integral to Los Angeles County's regional economy, representing the largest small business ecosystem in the United States. The economy consists of 250,000 small employer businesses and 1.1 million non-employer sole proprietorships. 93% of all businesses in the County of Los Angeles have fewer than 20 employees.²³ Small businesses are important to local economies because they retain local dollars and tend to hire locally. It's estimated that 68% of revenue generated by local businesses stays within the community through the employment of community residents, compared to 43% of revenue generated by non-local businesses.²⁴ Thriving small businesses are an important economic health indicator of a robust local economy and social mobility.

For small businesses to thrive and new businesses to develop, it's critical that small businesses have access to capital. A public bank for the City of Los Angeles can play a significant role in easing the barriers to access capital for small businesses and micro-entrepreneurs throughout Los Angeles County.

A public bank can mitigate four challenges impacting small businesses such as access to capital:

1. High loan denial rates.
2. Limited technical assistance support.
3. Inequitable distribution of funds/resources.
4. High interest predatory loans.

Conventional Financial Institutions High Loan Denial Rates

Large private banks are risk-averse entities that tend to value “safe” (less likely for a borrower to default) and high returns on investment. As a result, the large bank sector has adopted the notion of small businesses, especially small businesses in marginalized communities, as risky and/or poor return on investment and has become increasingly reluctant to approve small business commercial loans. Despite large banks reporting record profits following the 2008 crisis, large banks have gradually approved less than half the amount of loans as community banks.²⁵ Additionally, both large and community banks approved even fewer commercial loans for small businesses in marginalized communities, often located in bank deserts, than higher-income communities.

Before the COVID-19 pandemic, it was reported that small businesses had an average 15 day cash reserve for expenses.²⁶ Limited cash reserves coupled with a high likelihood of being denied commercial loans means these businesses are at greater risk of permanent closure resulting from a lack of access to capital. Commercial loan products are essential to small businesses because the additional capital enables them to grow, expand operations, hire/train staff, market their products/services, and purchase raw materials that facilitate profitability.

Inequitable Distribution of Funds

The COVID-19 Paycheck Protection Program (PPP) rollout illustrated how existing inequalities impact and amplify disparities in the distribution of public resources and funds. One of the main drawbacks of PPP was its reliance on traditional financial institutions to administer federal funds to small business owners. First, the lion’s share of PPP funds went towards large corporations, sophisticated businesses, and enterprises located in high-income communities. The majority of small businesses left out of obtaining PPP were owned by people of color and/or resided in marginalized communities; in South LA, some neighborhoods got less than six times the PPP support that wealthy westside predominantly white communities received.²⁷

Second, large banks heavily favored servicing small businesses with existing accounts and relationships with the bank over applicants without an existing relationship with the bank. It’s important to keep in mind 1 in 4 Californians are underbanked or unbanked, and so there are many small business owners without access to banks.²⁸ Whether a small business has an established relationship with a financial institution or not, that should not hinder their ability to acquire public funds during a global pandemic.

Lack of Technical Assistance

PPP and other COVID-19 small business-related loan/grant programs illustrated the importance of technical assistance for applicants. Technical assistance is non-financial resources and support provided to support business owners in the form of business coaching, financial literacy/credit counseling, business plan reviews, business incubation, technology services support, and loan/grants application assistance.²⁹ Burdensome paperwork, application website portals, and financial records required to apply for grants and loans have proved challenging for small business owners, especially for non-English speaking and technologically inexperienced small business owners. In a 2018 survey conducted by the Federal Reserve Bank, 27% of small business owners reported opting not to apply for a bank loan because they were discouraged and believed they would be turned down. The survey also found that small business owners of color were more likely to feel discouraged from applying for bank loans than white-owned businesses. When small businesses owners, especially marginalized business owners, do not have adequate technical assistance support, they are more likely to assume that obtaining a loan is not feasible.³⁰

High Interest and Predatory Loan Products

In 2019, non-bank short-term business loans were the fastest-growing non-bank loan product segment, and small business owners paid an estimated \$3.6 billion in fees and interest. The rise in non-bank business loans has been fueled by the high demand for small business credit because traditional financial institutions are reluctant to lend to small businesses.³¹ When small business owners cannot acquire a non-bank business loan, they become vulnerable to predatory loans through financial service retailers such as Payday, Cash Advance Loans, and Check Into Cash. In the state of California, financial service retailers loan up to \$300, charge borrowers a 15% upfront finance fee and 460% APR for a two-week loan, and charge additional fees for renewed loans.³² When small business owners acquire a predatory loan with high-interest rates, they are often caught in an expensive and protracted cycle of debt refinancing. In addition, these predatory loans further lessen small businesses' ability to access more capital from traditional financial institutions.

BENEFITS OF A PUBLIC BANK AND ECONOMIC DEVELOPMENT OPPORTUNITIES FOR SMALL BUSINESSES

A public bank for the City of Los Angeles has the potential to significantly enhance economic development processes and systems to benefit small businesses, neighborhoods, and community banks/CDFIs. The economic development benefits of a public bank can be better than a traditional bank. However, it's critical to note that public bank benefits are not guaranteed; rather, it depends on how a public bank is structured. Four critical economic development-oriented benefits of a public bank are saving and leveraging local funds for more impact, streamlining the distribution of public funds throughout the city, and prioritizing community-serving banks and CDFIs that lend to small businesses.

Saving & Leveraging Local Funds

The City of Los Angeles uses private financial institutions to hold \$8 billion in a checking account, store between \$4-\$12 billion in a savings account, and invest up to \$45 billion in investments for pensions and other funds.³³ There are two major issues here: first, the City pays upwards of \$109 million annually in exorbitant transactional and origination fees to private banks.³⁴ Second, residents and community stakeholders do not have input on how their tax dollars are invested.

There are multiple benefits to establishing a public bank for Los Angeles. Two of the most straightforward benefits are that the City will not have to pay exorbitant transactional fees and origination fees to traditional banks. Lastly, it grants taxpayer governance over how their tax dollars get invested. The capital saved from eliminating transactional fees can fund key priorities outlined by the City of Los Angeles's public bank motion such as credit access for small businesses.³⁵ The ability to determine where to invest funds can also empower Los Angeles to divest from harmful industries such as fossil fuels, private prisons, and gun manufacturers that private financial institutions traditionally invest in.³⁶

Case Study: Germany's Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute, KfW)

The KfW founded in 1948, is Europe's largest public bank and the third largest bank in Germany in terms of assets. Since its founding, the KfW has worked on behalf of Germany's federal and state governments to execute public contracts and finance economic development initiatives in Germany and abroad.³⁷ The KfW has six primary areas of focus: financing, loans, environment, poverty reduction, socio-economic development, education & training. While the KfW doesn't offer depository services to individuals or businesses, the KfW does provide direct lending to businesses and student loan borrowers. A core mission of KfW is to promote the small-medium business sector through small business lending, grants, and innovation loans for tech start-ups. Additionally, the KfW supports municipalities, municipal companies, and institutions in financing infrastructure development initiatives such as local public transportation, roads, and housing.³⁸

Streamline the Development of Public Funds

As previously mentioned, the inequitable distribution of public funds, such as PPP, is one barrier holding small businesses back from accessing capital. A public bank can play a significant role in removing barriers to access capital for small businesses by strategically organizing local banks to distribute public funds under a standardized approach efficiently. For example, a public bank for the City of Los Angeles can allocate public funds to a local bank who agree to adhere to conditionalities, such as prohibiting the rejecting of small business applicants that do not have an existing account with the bank or banning high service fees on loans.

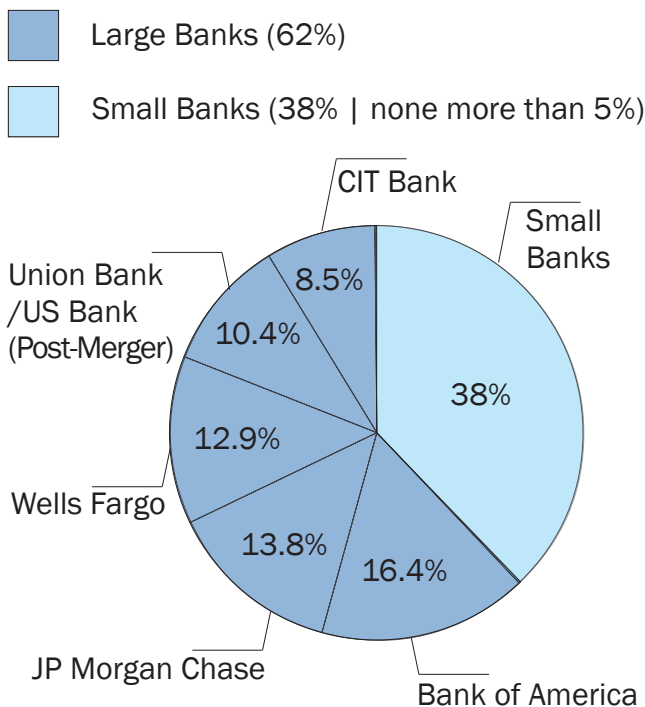
Case Study: Bank of North Dakota

In contrast to the rest of the nation, the state of North Dakota found great success in efficiently distributing PPP loans to applicants, thanks in part to their public bank, the Bank of North Dakota (BND). Weeks before the first rollout of PPP, the BND coordinated and educated community banks on the PPP guidelines and protocols, which enabled the creation of a standardized strategy to disburse and approve PPP applicants fast and efficiently.³⁹ It was also able to ensure small business applicants were not charged additional servicing fees with their PPP application from large banks like Chase and Wells Fargo.⁴⁰

Prioritization of Local Banks

Public banks can play a vital role operating as the primary intermediary between public funds and local banks. For example, a public bank owned by the City of Los Angeles has the opportunity to establish key partnerships and prioritize local community banks that can offer guaranteed loans, commercial loans, and grants to targeted small businesses. Local banks are more likely to consider a broader range of a borrowers' characteristics and provide a small business, especially those with less than perfect credit, a specialized loan product than a large bank.⁴¹ Nationally, small banks hold less than 14% of the industry assets but allocate 46% of loans to farms and small businesses.⁴² In Los Angeles County, the five largest banks control 62% of the bank market share, with no other bank having more than 5% of market share.⁴³

Figure-1 | Bank's Market share in LA County



Since 1988, nationally the small banks sector has decreased by 75%, due to larger banks acquisitions of small banks.⁴⁴ From a small business perspective, the market dominance of large banks in Los Angeles County could be a potential barrier to access to capital than opportunity, given the reluctance of large banks to service small businesses. Studies show that community banks' relationship lending business models are better equipped to cater to local small businesses' needs. Also, community banks reinvest the majority of their assets back into their community via small business loans, personal loans, and community grants.⁴⁵ Increasing community bank lending capabilities through a single source of capital, the public bank, will increase reinvestment and further enrich our communities. When small businesses are able to obtain commercial loan products from local community banks, they can better scale their operations and generate more profit, reduce their likelihood of acquiring a high-interest predatory loan, and support local government operations through business taxes.

Prioritization of Community Development Financial Institutions (CDFIs)

Community development financial institutions, or CDFIs, are mission-driven financial institutions (i.e., non-profits, credit unions, microloan funds, venture capital providers) certified by the US Department of Treasury. CDFIs primary function is to expand economic opportunities in under-resourced/low-to-moderate income communities by providing access to financial products and technical assistance services to individuals and businesses.⁴⁶ They also serve an essential role for large banks who lend to CDFIs to fulfill their annual Community Reinvestment Act (CRA) obligations. The strength of CDFIs lies in their deep relationships with the communities they serve, that more often than not located in bank deserts. A benefit of CDFIs is that they can help a public bank scale the depth of their reach and impact to hard-to-reach demographics such as immigrants, BIPOC, and unbanked/underbanked individuals and businesses.

Case Study: Inclusive Action for the City

Inclusive Action for the City (Inclusive Action) is a Community Development Financial Institution (CDFI), founded in 2008 that brings people together to build strong local economies that uplift income urban communities through advocacy and transformative economic development initiatives. CDFIs, such as Inclusive Action, provide two essential services: in-depth technical assistance and inclusive underwriting practices. On average Inclusive Action offers 10-15 hours of pre-loan technical assistance per applicant. Pre-loan technical assistance services include but are not limited to, supporting the creation of financial statements, identifying and explaining predatory financial debt, improving understanding of credit and credit history, applying for a DUNS number, applying for an Employer Identification Number, and supporting technology education/training.

Comprehensive technical assistance has two benefits that support the underlying goal of expanding access to capital. First, Inclusive Action can develop authentic trust with borrowers in hard-to-reach and under-resourced communities. Second, Inclusive Action can create inclusive underwriting terms that are informed by the experiences of their local community members and the borrowers they seek to serve. As a result, Inclusive Action can achieve perfect repayment records from 94% of its clients, who are traditionally deemed uncreditworthy by conventional financial institutions. It's important to note that not all CDFIs prioritize providing comprehensive technical assistance or developing community-informed loan products in the same manner as Inclusive Action. However, suppose the City of Los Angeles wants to ensure local small businesses are adequately supported. In that case, a public bank must take a cue from Inclusive Action's lending practices and allocate funding for comprehensive technical assistance and flexibility to customize loan products in contracts with community-based organizations and local financial institutions.





RECOMMENDATIONS

UTILIZING PUBLIC BANKS TO EQUITABLY PRIORITIZE THE NEEDS OF SMALL BUSINESSES

As the City moves closer to establishing its regulatory framework, the City of Los Angeles must utilize a public bank to prioritize the needs of small businesses equitably. There are many opportunities for the Los Angeles Public Bank to right some of the historical wrongs of lending in low-income areas and create inclusive systems for capital deployment.

There are five ways the City can utilize a public bank to support small businesses:

1. Foster partnerships with community banks and CDFIs with a strong commitment to small business lending.
2. Align the public bank's priorities with community needs.
3. Master plan the allocation of funds, and coordination processes.
4. Establish a loan-loss reserve.
5. Transparency & Accountability.

Foster Partnerships with Community Banks, CDFIs, and Community Based Organizations

Community banks, credit unions, and CDFIs often address the needs of small businesses better than large banks. To best ensure small businesses have meaningful access to capital, a public bank must prioritize partnering with community banks, credit unions, and CDFIs with a strong commitment to small business lending. These partnerships should be utilized to develop tailored financial products and inclusive underwriting terms to support small businesses, cooperatives, and nonprofits who have been historically kept from accessing capital and do not qualify for capital from traditional sources.

The public bank should work in tandem with community-based organizations and public agencies that provide critical services such as technical assistance, legal aid, and business coaching to small businesses.

Align the Public Bank Priorities with Community Needs

A public bank for the City of Los Angeles should seek to align its missions and objectives to economic justice initiatives that address inequalities impacting residents, businesses, and neighborhoods around the City. It should be expected that the City of Los Angeles Public Bank meets all the criteria outlined in the City of Los Angeles Responsible Banking Ordinance. Additionally, the public bank should also follow the example of the cities such as Cleveland, Philadelphia, Pittsburgh, and New York's responsible banking ordinance and be required to publicly submit a reinvestment plan.⁴⁷ A reinvestment plan details an annual or multi-year plan on how public funds will be invested into neighborhoods, small businesses, and individuals in the City of Los Angeles.

Master Plan the Allocation of Funds and Coordination Processes

As previously noted, a public bank can remove barriers around access to capital for small businesses by strategically organizing local banks to distribute public funds under a standardized approach efficiently. It can play a significant role as a primary facilitator/coordinator and work with willing small and large banks to develop a joint reinvestment master plan for the City of Los Angeles. Banks could voluntarily use the joint-master plan to guide their approach to investing in economic development initiatives needed to meet their Community Reinvestment Act obligations. Banks could volunteer to allocate a percentage of their funds set aside for CRA initiatives to finance the joint-reinvestment plan. The reinvestment plan should bi-annually assess the needs of neighborhoods (infrastructure), small businesses, CDFIs/community-based organizations, and individuals (personal and mortgage loans) around the City of Los Angeles. The joint-reinvestment plan should be open to meaningful and participatory public feedback from residents, community-based organizations, and small businesses. A benefit of developing a joint reinvestment master plan is that the public bank will leverage its funds with capable financial institutions to address inequities throughout the City of Los Angeles.

About: The Community Reinvestment Act (CRA)

The Community Reinvestment Act (CRA), was initially passed in 1977 and amended in 1995. The federal bill requires banks to invest in low to moderate-income areas that have been historically impacted by redlining and neglected by financial institutions. Traditional banks are encouraged to open up branches in underserved markets to meet CRA requirements and provide substantial commitments to state and local governments and development organizations to increase lending to underserved markets. Every year banks are evaluated and assigned a CRA rating based on the investments they made to approved CRA economic development activities.⁴⁸ When banks fail to meet their CRA obligations, they can face monetary penalties or the denial of contracts with local governments.⁴⁹

Establish a Loan-Loss Reserve

A loan loss reserve must be created to complement the public bank as a safety measure to mitigate against the perceived risk of small business owners defaulting on loan programs. A loan-loss reserve is a credit enhancement approach, similar to insurance, that helps mitigate losses on loans in the event a borrower defaults. Loan loss reserves are used commonly by state and local governments and financial institutions (banks and lenders).⁵⁰ In practice, a financial institution or local government, or vice-versa can utilize a loan loss reserve to cover a percentage of a loan in the event a borrower defaults. A loan loss reserve will add an extra layer of support to ensure small business lending practices are sustainable and inclusive - maintaining the original mission of serving businesses who have been left out of capital access historically.

Transparency & Accountability

Transparency is essential for assessing the public bank's success and commitment to utilizing public funds to advance our communities and provide small businesses access to capital. The public bank should be transparent with community engagement and financial reporting. First, a public bank must seek to ensure transparency be a part of the entirety of the community engagement process. It's crucial to ask community stakeholders to define what transparency and engagement look like to them.

Second, the public bank should seek to work in tandem with the City Controller and publish financial records of public funds invested annually, details on the City of Los Angeles finances, and interest and fees paid to third-party banking institutions for the City of Los Angeles. Last, the public bank for the City of Los Angeles should establish reporting requirements for local banks and CDFI recipients of public bank funds, because the public bank itself will not directly be providing loans and grants to small businesses. At minimum, the public bank should require partner banks and CDFIs to publish borrower/

recipient data disaggregated by race, business size (workforce size and annual revenue), and location. At a minimum, partner banks and CDFIs should publish borrower/recipient data disaggregated by race, business size (workforce size and annual revenue), and location.

CONCLUSION

A public bank for the City of Los Angeles has an excellent opportunity to adequately finance local economic development initiatives to service small businesses' needs. The potential marginal benefit of a public bank cannot be stressed enough. Small businesses account for 93% of businesses in the County of Los Angeles and generate 68% of local revenue.⁵¹ Therefore, the City of Los Angeles must utilize a public bank to resolve inequities barring small businesses from accessing capital, especially in marginalized communities.

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