



# PUBLIC BANKING IN CALIFORNIA: LEARNING FROM THE BANK OF NORTH DAKOTA

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## INTRODUCTION

Public banking is a promising way for cities and states to most efficiently use public funds for investing in their communities, especially supporting small business owners, developing affordable housing for residents, and building community wealth. In this brief report, we use the Bank of North Dakota<sup>1</sup>—the nation’s only state-owned public bank with a history of over 100 years of successful operation—as an example for how California can finance needed community investments. We discuss how the Bank of North Dakota uses lending to support the state’s small businesses, pursue economic growth, and finance affordable housing and other infrastructure development.

Today in California, small businesses navigate challenges keeping their doors open, hiring workers, and expanding their operations. In particular, predatory lenders that charge high interest rates undermine the potential for small businesses to contribute to economic growth. Alternative lenders offer loans with excessively high interest rates. An analysis conducted by the Opportunity Fund found that these alternative loans carried an average annual percentage rate (APR) of 94%, with one loan analyzed reaching a shocking 358% APR.<sup>2</sup> These predatory loans often include many exploitative terms, such as requiring large, lump sum payments at the end of a loan term.<sup>3,4</sup> Between 2007 and 2013, Small Business Administration lending fell by 60% in California, creating an even stronger market for predatory lenders.<sup>5</sup> A 2024 survey by Goldman Sachs found that on average 28% of small businesses nationally report experiencing predatory loan payment terms, however that number increased to 37% for Black small business owners.<sup>6</sup> The average California business using predatory loans is charged 178% of its net income,<sup>7</sup> with Black- and Latine-owned businesses being disproportionately targeted with expensive lending products.<sup>8</sup>

California also needs to invest in affordable housing and help communities build wealth. The state is well-known for its chronic shortage of affordable housing, made worse by frequent environmental disasters including wildfires and floods. In 2023, California awarded \$576 million in

low-interest loans to developers for completing affordable housing units.<sup>9</sup> However, developers had requested \$3.5 billion and the insufficient amount of low-interest loans meant many projects were stalled. Racial, income, and wealth divides are also widening in the state.<sup>10</sup> Alongside residential segregation, these divides suggest that some communities have disproportionately fewer resources and opportunities—especially poor communities and Black, Indigenous, and other racially marginalized communities. As one example, White households in Los Angeles have a median net worth of \$355,000 compared to \$4,000 for Black households and \$3,500 for Mexican households.<sup>11</sup>

Public banking is one way for California to support small businesses, construct affordable housing, and build community wealth. If the state were to adopt some of the Bank of North Dakota’s approaches, which could be accomplished by expanding the purview of the state’s Infrastructure and Economic Development Bank (IBank), there would likely be benefits to local communities. This is especially true if the public bank incorporated into its design a targeted universalism approach, an outcome-oriented methodology that ensures every person or community benefits from a given policy.<sup>12</sup> Public banks can create tailored programs to address the economic and social needs of California’s people and communities by considering the impacts of structural disadvantages, such as poverty, racism, and gender bias. With unequal social and economic contexts in mind, public banks can more effectively design programs that deliver on mandates to promote investment supporting public good. For example, a public bank in California can:

- Expand affordable capital for small business owners to start, grow, and invest in their small business.
- Promote local economic thriving and bolster local workforces by increasing access to quality jobs for rural entrepreneurs, generationally impoverished people, and people marginalized by race and gender.
- Save hundreds of thousands of dollars on the costs of each new affordable housing unit by lending at lower interest rates.

- Support sustainable wealth building through cost-saving infrastructure improvements that address climate change and improve energy efficiency.

In the sections that follow, we describe the Bank of North Dakota and its lending activities in small business development, affordable housing, and community wealth building. Within each of these areas, we offer some preliminary estimates of how a California public bank, modeled after the Bank of North Dakota, could support the state’s communities. For example, the Bank of North Dakota uses a partnership model to expand access to capital for local banks and credit unions, thus enabling partner institutions to offer loans at substantially lower interest rates than private banks. Expanding access to large amounts of low-cost capital can lead to outcomes like more affordable housing as a result of cheaper building costs—a high priority for California residents facing expensive housing markets which are further threatened by disasters like floods and wildfires.

Although the states of California and North Dakota differ considerably in size and demographics as shown in Table 1, the model provided by the Bank of North Dakota can be adapted and scaled to support the specific needs of Californians while maintaining commitments to promote the public good. The longstanding success of the Bank of North Dakota illustrates the profound potential of public banking in California to deliver financial services on an even larger scale. The state of North Dakota has a smaller economy in comparison to California, which has the fourth largest economy in the world.<sup>13</sup> Therefore the Bank of North Dakota, even in a state with relatively limited financial resources, is able to make meaningful investments and positive contributions to local communities. This would likely be even more true for California, which has access to more financial resources. State and municipal public banks in California can also design programs that consider the diverse social, cultural, and economic contexts of California residents to offer holistic support for small businesses, affordable housing, and community wealth building.

**Table 1. Comparing California and North Dakota’s Population and Economics**

	North Dakota	California
<b>Population</b>	< 796,000	< 39,000,000
<b>Land area (square miles)</b>	68,995	155,858
<b>Population density (per square mile)</b>	11.3	253.7
<b>Median household income (2019-2023)</b>	\$75,949	\$96,334
<b>Median gross rent (2019-2023)</b>	\$934	\$1,956
<b>Persons in poverty (2023, percent)</b>	9.8%	12%
<b>Racial Demographics (percentage of the state population)</b>		
<b>Black</b>	3.8%	6.5%
<b>Native American</b>	5.3%	1.7%
<b>Hispanic or Latino</b>	4.9%	40.4%
<b>Asian</b>	1.7%	4.3%
<b>Mixed race</b>	2.6%	4.3%
<b>White alone</b>	82.6%	34.3%
<b>Total number of employer firms</b>	18,251	781,306
<b>Women-owned firms</b>	3,720	183,842
<b>Minority-owned firms</b>	914	291,607
<b>Total GSP</b>	\$60.5 billion	< \$3.9 trillion

U.S. Census Bureau. (2024). QuickFacts: California. U.S. Department of Commerce. Retrieved April 8, 2025, from <https://www.census.gov/quickfacts/fact/table/CA/PST045224>; U.S. Census Bureau. (2024). QuickFacts: North Dakota. U.S. Department of Commerce. Retrieved April 8, 2025, from <https://www.census.gov/quickfacts/fact/table/CA/PST045224>; Bohn, S., & Duan, J. (2025, January). California’s economy [Fact sheet]. Public Policy Institute of California. Retrieved April 8, 2025, from <https://www.ppic.org/publication/californias-economy/#:~:text=In%202023%2C%20California's%20gross%20domestic,China%2C%20Germany%2C%20and%20Japan>. USAFacts. (2025, February 19). What is the gross domestic product (GDP) of North Dakota? USAFacts. Retrieved April 8, 2025, from <https://usafacts.org/answers/what-is-the-gross-domestic-product-gdp/state/north-dakota/>

A state public bank in California can transform predatory lending markets and promote investment of public monies into local economies. At the same time, the propensity of public banks to support small businesses or invest in affordable housing—let alone advance racial, economic, social, and environmental justice—hinges on their commitments to robust democratic governance, public accountability, and intentional policy design. In the absence of these commitments, public banks have potential to reinforce existing systemic inequities present in California’s economy.<sup>14</sup> With clear mandates and well-designed governance structure to serve the needs of the people, public banks can promote the public good. While public banking is not the only strategy for supporting small businesses, investing in affordable housing, and building community wealth, it is a practical and promising approach being uplifted by coalitions nationwide.

### WHAT IS A PUBLIC BANK?

Public banks are lending and depository institutions that are owned and managed by a government or public authority.<sup>15</sup> Across the globe, municipal, city, state, tribal, and federal governments own and operate public banking institutions that have the capacity to manage large asset portfolios. More than 1,000 public banks worldwide control about \$91 trillion in assets, which represents almost one-fifth of total banking assets globally.<sup>16</sup>

Nations around the world, along with the state of North Dakota, have public banks because they provide sovereignty over budgets and taxes and offer possibilities for using monies to support community needs. For example, in the United States, public banks at the state level might provide needed autonomy from and protection against unwanted federal government intervention. This sovereignty may be increasingly relevant, as the current presidential administration seeks to coerce states into compliance by restricting and rescinding federal funds.<sup>17,18</sup> Public banks also provide a means of reinvesting tax revenues back into communities, reducing state and municipal borrowing costs and expanding access to loans that support local development.

Public banks can be mandated to mobilize capital in ways that serve the public interest. Mandates, governance structures, and institutional functions help determine where and how public banks use or invest their assets.<sup>19</sup> Ideally, these rules and guidelines center the needs of local communities and are developed democratically and transparently. Thus, public banks can be established with the authority and capacity to advance specific mandates that support small businesses, develop affordable housing, expand sustainability initiatives, build community wealth, and advance racial economic justice.<sup>20</sup> Although public banks are neither inherently good

nor bad, public banks can operate in ways that support public good with mandates rooted in justice and sustainability.

### THE BANK OF NORTH DAKOTA

The state-owned Bank of North Dakota is a commonly-referenced example by public banking coalitions. There is a good reason for this: the bank is the only state-owned public bank in the United States and has operated successfully for over 100 years. The Bank of North Dakota was established in 1919 as part of a populist uprising by the state’s farmers and labor organizers. This uprising occurred as part of a decades-long movement for public sovereignty over financial resources and decision-making in response to Wall Street bank failures and economic recessions.<sup>21</sup> Today, the bank pursues a mandate to promote agriculture, commerce, and industry and is overseen by a three-person governing board that includes the state’s governor, agricultural commissioner, and attorney general. The Bank of North Dakota provides lending and financial services within the state in accordance with its mandate, such as small business and agricultural loans and disaster relief loans to local governments. While the bank has one brick-and-mortar branch where customers can open accounts, it does not compete with private banks and generally does not provide retail products and services to individuals.<sup>22</sup>

The Bank of North Dakota operates as a partnership bank, sometimes referred to as a “banker’s bank.” This is similar to the model used by the Federal Reserve, which provides services to commercial banking institutions. While the Bank of North Dakota offers residents basic checking and savings accounts, the Bank of North Dakota primarily serves the state’s community development financial institutions (CDFIs) and local commercial banks. When approached for a loan, the state’s banks and CDFIs can ask the Bank of North Dakota to partner by increasing the loan size or selling the loan to Bank of North Dakota. Because of this, the Bank of North Dakota does not compete with local commercial banks—instead, it directly supports these institutions.

By many accounts, the Bank of North Dakota has effectively fulfilled its mandate to support the state’s economy. The bank’s lending activities have been shown to better facilitate the state’s goals of supporting the economy and industry when compared to private banks in other states. At the beginning of the COVID-19 pandemic,<sup>23</sup> North Dakota awarded more Paycheck Protection Program (PPP) funds on a per-worker basis than any other state. In the initial phase of the PPP rollout, North Dakota approved 24% of the state’s small businesses’ loan applications, in contrast to 10.8% in California.<sup>24</sup> Together with the Bank of North Dakota, local partnering financial institutions more effectively rolled out over \$1.7 billion of PPP funds to small businesses, which employ nearly 60% of the state’s workers.<sup>25</sup>

The Bank of North Dakota also offers cautionary lessons for public banking. In 2016, during protests against the Dakota Access Pipeline (DAPL) at Standing Rock Indian Reservation, the bank financed local law enforcement's militarized and violent response against Indigenous Water Protectors.<sup>26</sup> The Bank of North Dakota is also invested in fossil fuels as a result of its responsibility to support industry within the state, and its mandate lacks ecological or environmental considerations. The oil and gas industry in North Dakota accounts for \$40 billion in business volume, 60,000 jobs, and nearly \$4 billion in state and local taxes.<sup>27</sup> Interestingly, the contemporary public banking movement was inspired by calls for divesting from fossil fuels at Standing Rock, which sparked divestment movements nationwide. This example emphasizes the importance of clear public purpose mandates and demonstrates how public banks balance competing priorities between public and private interests.

With the Bank of North Dakota as an example, public banks are subject to political struggles between private sector stakeholders and some communities' interests. The remedy is to ensure these institutions are established, including in California, with clear public purpose mandates and robust democratic governance structures.

In the following sections, we describe how the Bank of North Dakota invests in the state and its communities, especially by supporting small business owners, developing affordable housing for residents, and building community wealth.

## **SMALL BUSINESS**

Small businesses are an essential part of the economic ecosystem in the United States. The over 33 million small businesses nationwide account for approximately 43.5% of America's total GDP.<sup>28</sup> The Small Business Administration generally defines any independent business with fewer than 500 employees as a small business, but standards differ by industry.<sup>29</sup> California generally defines a small business as those with 100 employees or less.<sup>30</sup> However, the vast majority of small businesses are sole-proprietorships run by self-employed individuals with no other employees. In the United States, more than 45% of people are employed by a small business, which represents almost half of the national workforce.<sup>31</sup>

Supporting commerce has been a core mandate of the Bank of North Dakota since its founding. From its establishment in 1919, the Bank of North Dakota has been a boon for small businesses across the state. While the Bank of North Dakota does not exclusively loan within the state, their business portfolio is predominantly from enterprises within North Dakota. As of 2023, the Bank of North Dakota's business loan portfolio held \$3.65 billion of \$10.15 billion in total assets.<sup>32</sup> The Bank of North Dakota expands businesses' access to

affordable capital by increasing the lending capacity of local banks and credit unions.

The Bank of North Dakota has the capability to increase the size of loans, provide guarantees on loans, or provide interest rate buydowns—offering capital at lower interest rates.<sup>33</sup> When approached by a small business for a loan that exceeds their capital, a local bank must seek capital from larger commercial banks. These commercial banks can poach small business clients from local banks, which ultimately discourages local banks from offering larger loans. The Bank of North Dakota resolves the problem of poaching by working in collaboration with the state's local banks and credit unions.<sup>34</sup>

For example, the Bank of North Dakota's Flex PACE program partners with local banks to offer low-interest loans and buydowns to businesses that serve the community's needs.<sup>35</sup> This program extends the requirements of the Medicare and Medicaid Program of All-Inclusive Care for the Elderly (PACE) programs, to include more businesses such as child care facilities and affordable housing projects.<sup>36</sup>

The Bank of North Dakota's public mandate also allows it to act as a buffer for the state's small businesses during times of crisis. During the 2007-2008 economic crisis, the Bank of North Dakota practiced counter-cyclical investing and increased lending activity, in contrast to most other financial institutions that restricted lending in response to the recession.<sup>37</sup> This strategy protected small businesses by expanding access to the affordable capital required to maintain operations and retain employees during a period of economic constriction.

A decade earlier, the Bank of North Dakota intervened in an environmental crisis that quickly produced economic consequences.<sup>38</sup> In 1997, the city of Grand Forks was hit by a flood. Grand Forks has a population of nearly 60,000 and straddles the Red River, which divides the city and states of North Dakota and Minnesota. In response to the devastating flood, the Bank of North Dakota coordinated with local banks and state agencies to revive the city, focusing its lending on the North Dakota side of the river. When the 1997 flood hit, 83% of homes and 62% of commercial buildings were damaged.<sup>39</sup> Every downtown business was impacted. The total cost of property damages was valued at \$3.5 billion. The Bank of North Dakota made \$100 million available in disaster recovery loans, offering many of these loans at an interest rate of 6% or less. Further, the Bank of North Dakota supported coordination of a 1997 Flood Relief Fund.<sup>40</sup> In contrast to the robust recovery effort seen in Grand Forks, North Dakota, the city of Grand Forks, Minnesota, did not have comparable financial support for disaster recovery, which ultimately led to significant population loss.<sup>41</sup>

### **Flex PACE in Action:**

**In 2021, Whitney Carter, who owned child care centers in New Town and Parshall, North Dakota, made the decision to move “back home” to Carrington. She wanted to fill a community need for more child care. As her journey began, she [sought to purchase] a vacant church building. Jay Tweed from Bremer Bank was the local banker who built the financing package that included Bank of North Dakota’s Flex PACE Loan. Carter shared, “For business owners who are just starting and trying to make it, the first two years when you need to include your startup expenses are incredibly costly. The Flex PACE Loan decreased our bank loan by 50%.”**

**“Utilizing the right funding is a key factor in setting a business up for success. Done correctly, it can allow businesses to grab new opportunities, improve old ones, and provide a safety net for unforeseen circumstances,” Tweed explained. “The interest buydown allowed them to free up additional cash for other areas of the business, such as remodeling the building and additional staffing.” Purchasing the building allows Carter to build equity while providing needed services in the community. Tweed said, “Prior to opening, there was a shortage of daycare providers in the area, which as a parent of young children myself, I realize how important it was to have a business address that need. Bank of North Dakota Business Banker Bruce Schumacher added, “Reliable child care is a challenge for [the] workforce across the state. BND recognizes this need and utilizes Flex PACE to support providers. It’s great to be able to assist with this project that fills an empty space while providing excellent child care and healthy activities for families in the community.”<sup>42</sup>**

Through supporting fair financing of small businesses, public banks can promote local economic resilience and increase the financial independence of people marginalized by race and gender. In 2023, about 13 million of the United States’ 33 million small businesses were women-owned. Women-owned businesses have continuing issues accessing capital, with 46% of women entrepreneurs experiencing gender bias when they try to raise capital.<sup>43</sup> In addition, there is clear evidence of disparities in credit access, particularly affecting minority-owned businesses due to barriers created by structural racism. Often, racially marginalized business owners feel discouraged from even applying for loans – even despite a strong credit history – because they anticipate denial and unfair treatment due to racial bias.<sup>44</sup> Through programs to promote thriving small business economies, public banks can lower barriers and expand access to capital for groups who have historically been excluded from lending and other financial services.

### **AFFORDABLE HOUSING**

Another area supported by the Bank of North Dakota is affordable housing. The U.S. Department of Housing and Urban Development defines affordable housing as “housing on which the occupant is paying no more than 30% of gross income for housing costs, including utilities.” Housing costs in California are historically high, with both renters and owners paying tens of thousands of dollars more per year than nationwide averages. Based on the aforementioned definitions, housing is unaffordable for nearly half of households in California.

Developers use affordable housing definitions to benchmark their construction plans. One example is area median income (AMI), which developers can use to set affordable rents for households in different AMI bands. For example, in a neighborhood that is considered very low income, residents are making 31% to 50% of the AMI in their region. In this case, a housing developer would need to propose a construction plan that resulted in housing costing no more than 30% of that AMI band’s annual household income. Generally, the size of the unit determines the household size a developer aims to serve, and program regulations determine the AMI served. Despite being labeled as affordable housing, the costs for households can still be expensive if the median income of an area is relatively high.

There are several ways the Bank of North Dakota addresses affordable housing: Flex PACE, buydown projects, and generally lower interest rates. The Bank of North Dakota has a Flex PACE loan program for affordable housing. These loans are granted to individuals and corporations in North Dakota and can be used alongside any state or federal programs for affordable housing construction projects. The Flex PACE program allows for low interest rates, never going above 5%. Lower interest rates create more affordable housing projects for developers, in turn creating more affordable housing for households. Between 2005 and 2015, this program provided \$160 million in loans for real estate rental and leasing. From the success of the Flex PACE program, the Bank of North Dakota plans to further expand lending capital.

The Bank of North Dakota requires satisfactory evidence that any new housing project provides rental concessions at a level deemed to be affordable in the community. This is similar to benchmarking construction plans for affordable housing to an area’s AMI. A local housing authority or other government agency verifies current market rates at the time of application and the rental concessions made as a part of the affordable housing loan request. This local authority or agency then provides annual verification of the borrower’s affordable housing compliance, letting communities have more control over how affordable housing is defined. It is

important in these instances for communities to have a voice in conversations around developer compliance. Utilizing a public bank, where communities exercise sovereignty over capital through robust democratic governance structures, assures community oversight for assessments and developer accountability.

There are also opportunities available in North Dakota for communities to use the Flex PACE loan program for community buydown projects related to affordable housing. A buydown project is when community members choose to invest their own money, land, or property into an affordable housing project. This involves an upfront investment that lowers the interest rate for the initial years of the loan, saving a significant amount in the long run. With direct investment, the community has a more significant voice in the oversight of the project and maintaining affordable pricing. People struggling to pay housing costs may have limited income and wealth for taking advantage of a buydown project. However, a public bank, in coordination with community credit unions and nonprofit organizations, can support people with lower incomes. Community buydowns through the public bank could support community movements such as the Moms 4 Housing in California, which occupied vacant properties in 2020 as a way to call attention to the lack of affordable housing in their communities; they ultimately purchased property through a community land trust to be used as transitional housing for homeless mothers and their children.<sup>45</sup>

The low interest rates for affordable housing loans, ranging from 1% to 5% in North Dakota, contrast the higher interest rates for similar programs in California, which start around 5% and can go up to 15%. Private banks, such as Banc of California, offer development loans for affordable housing projects in California. If an average California affordable housing project costs \$350,000 per unit, an interest rate of 10%, compounding monthly, could cost an additional \$205,000 per project over a 10-year repayment period. However, with a public bank that can offer lower interest rates, such as 2%, the same project would only cost an additional \$36,000—saving the developers hundreds of thousands of dollars. These savings can then be passed on to occupants in the form of lower rents, provided that California state and municipalities implement measures to ensure that affordable development translates to more affordable housing options, like rent control and stabilization for new units created. With loan programs inspired by the Bank of North Dakota’s partnership model, public banks in California could expand affordable housing initiatives and decrease housing costs by lowering interest rates and decreasing barriers to affordable capital for California residents.

## COMMUNITY WEALTH BUILDING

At its core, community wealth building supports the economic prosperity and sustainability of historically marginalized and oppressed communities. This means directly addressing systems that have deprived—and continue to deprive—local economies, especially in poor communities and Black, Indigenous, and other racially marginalized communities. The Democracy Collaborative defines community wealth building as “a systems changing approach to community economic development to produce broadly shared economic prosperity, racial equity, and ecological sustainability through the reconfiguration of institutions and local economies on the basis of greater democratic ownership, participation, and control.”<sup>46</sup>

Community wealth can be assessed by measuring economic indicators,<sup>47</sup> including but not limited to: household income, household wealth or net worth, homeownership, education and graduation rates, health care access and outcomes, and access to public goods like green spaces, clean air and water, transportation, libraries, grocery stores, recreation and more. A concentration of low-income households in a given area, for example, can indicate institutionalized inequalities like discrimination in access to credit, housing, and labor market opportunities. High rates of chronic disease and premature mortality can indicate the cumulative effects of exposure to environmental hazards and unaffordable preventive health care. The concentration of harmful economic indicators can indicate where to direct money and resources.

Here, we emphasize the potential of a state public bank to support access to public goods, given that the Bank of North Dakota offers multiple programs aimed at supporting community development and infrastructure. While the Bank of North Dakota does not have a specific mandate to address systemic inequalities, the Bank of North Dakota can model how to build community wealth by investing in infrastructure, transportation, and food systems.

One program aimed at supporting community wealth is the bank’s Legislative-Directed Loan Programs. Through these loan programs, as of 2023, the Bank of North Dakota administered just over \$1 billion in assets towards projects that serve a range of purposes, including school construction, water projects, medical and municipal infrastructure, disaster relief, sustainable energy, affordable housing, and so on.<sup>48</sup> Through partnerships with other local lending institutions, the Bank of North Dakota supports financing projects that establish community wealth infrastructure by offering highly competitive interest rates on loans.

Another example is the Bank of North Dakota’s Infrastructure Revolving Loan Fund, which provides financing for the repair, replacement, and new construction of infrastructure across

the state including water supply and treatment projects, road and bridge infrastructure, and communications infrastructure. Currently, this revolving fund offers loans at a 2% fixed interest rate,<sup>49</sup> in contrast to the over 4% interest rates currently being offered by IBank Infrastructure (ISRF Program) Loans.<sup>50</sup> Additionally, the Bank of North Dakota's Medical Infrastructure Loan Fund finances the building, expansion, and improvement of medical facilities at a 1% fixed interest rate. Expanding affordable capital for medical infrastructure development fosters community wealth by improving health care access in underserved rural communities across the state.<sup>51</sup>

The Bank of North Dakota also demonstrates the potential for community wealth building through programs that support the state's agricultural sector. Unpredictable weather events and ecological catastrophes pose a significant threat to community wealth, like the fires that ravaged Southern California in January 2025. Public banks, in partnership with local lenders, offer one possible means of delivering financial resources to agricultural producers and business owners whose livelihoods have been negatively impacted by environmental disasters. For example, the Bank of North Dakota's 2024 Agriculture Disaster Relief Program reserves \$200 million in funds to provide relief to North Dakota farmers and ranchers who find themselves negatively impacted by extreme weather events, wildfires, inflationary input costs, and volatility in commodity prices.<sup>52</sup>

The most recent use of Agriculture Disaster Relief Program funds occurred after the 2021 drought, which forced farmers to purchase and transport hay from out of state and ultimately decreased beef cow numbers in North Dakota by 89,000. After a statewide disaster was declared, a suite of programs rolled out including the Livestock Drought Loan Program administered by the Bank of North Dakota. This program, which closed in June 2023, made a total of 190 loans for over \$25 million, approximately \$16 million of which was funded by the Bank of North Dakota, in partnership with local banks and credit unions. Since the program's implementation, about 16,000 head of cattle have been replenished to North Dakota ranches.<sup>53</sup>

California's agricultural sector is especially vulnerable to financial impacts from ecological disasters, like extreme weather events including wildfires, droughts, and floods, as well the ongoing epidemic of Highly Pathogenic Avian Influenza (HPAI) in California dairy cows.<sup>54</sup> The wide range of climate impacts on agriculture have already caused yield losses, decreased efficiency, and increased costs for California farmers. For example, the 2013-2016 drought, which was exacerbated by climate change, cost California's agricultural economy about \$1.84 billion in losses and 21,000

jobs.<sup>55</sup> Public banks at state and local levels can protect California's economic and ecological resilience by directing low-cost financing towards solutions that adapt modern agriculture to the ongoing impacts of climate change.

Public banks have the potential to support local development and rural entrepreneurship, increase capital to partner banks and credit unions, reduce interest rates, and help mitigate the financial consequences of ecological crises. Taken together, these investments may improve economic indicators commonly associated with wealth building, such as raising household incomes, improving graduation rates, and preventing chronic disease. However, without mandates that consider the economic, social, and environmental harms done to poor and racially marginalized communities, public banks remain vulnerable to reproducing institutionalized injustices that widen racialized community wealth gaps. Instead, public banks can build community wealth for all Californians by creating tailored programs that reach groups historically excluded from lending and financial services, including those marginalized by race, gender, and class. By acknowledging the diverse economic and social challenges faced by California residents and communities, state and municipal public banks can create targeted programs that use a variety of strategies to build equitable and resilient community wealth across California.

### A PATH TO PUBLIC BANKING IN CALIFORNIA: INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBANK)

California's existing financial infrastructure is limited in support for small business, affordable housing, and community wealth building. Most notably, the California Infrastructure and Economic Development Bank (IBank), which was established in 1994, delivers affordable financing to infrastructure projects across California. At present, IBank offers financing for borrowers in the private, non-profit, and public sectors.<sup>56</sup> Despite the name, IBank is not a bank; IBank cannot receive deposits and engages exclusively in lending activities, whereas banks are both lending and depository institutions. IBank's limitations as a nondepository institution restrict access to capital, whereas a public bank, such as the Bank of North Dakota, can receive deposits, which expands the capital available for investment towards the public good.

Similar to the Bank of North Dakota's partnership model, IBank partners with local banks and community development financial institutions (CDFIs) to deliver financing to small businesses. From 2013 through 2023, IBank reported having supported \$2 billion in small business loans and approximately 449,000 jobs in California through its Small Business Loan Guarantee Program.<sup>57</sup> Comparable to the Bank

of North Dakota, IBank has offered support and security for California's small businesses in the wake of disaster. In 2020, IBank formed the Disaster Relief Loan Guarantee program in response to the COVID-19 pandemic, which lowered barriers to accessing capital for small businesses recovering from disaster-related losses. In the years since, IBank has taken on a more extensive disaster response role and used the Disaster Relief Loan Guarantee program to finance recovery responses to wildfires, including the January 2025 wildfires in Southern California.<sup>58</sup> IBank also has climate financing programs that proactively support sustainable development, such as IBank's Climate Catalyst Revolving Loan Fund that directs flexible low-cost credit towards supporting climate solutions.<sup>59</sup>

IBank offers a solid foundation for building a state-level California public bank. State legislation could change IBank's status into both a lending and depository institution, which could hold state and local government deposits. Instead of requiring FDIC insurance, California state and municipal public banks would be secured by state guarantees. A down payment can then greatly expand the bank's partnerships with municipalities and local financial institutions. With action from California's governor and state treasurer, an initial investment into a state public bank could be made using a portion of funds from California's pooled money investment account (PMIA). Once established through a phased approach, the California state bank can be the central hub for municipal level public banks and support a broad portfolio of investments that promote economic flourishing for people and communities statewide.<sup>60</sup>

## POLICY RECOMMENDATIONS

Cities and states around the country can benefit from public banks modeled after the Bank of North Dakota. Since the passage of the California Public Banking Act in 2019, momentum has been building to create public banks across California, particularly in Los Angeles,<sup>61</sup> San Francisco, and the East Bay.<sup>62</sup> Regional and city-level public banks can also adopt the partnership model provided by the Bank of North Dakota to collaborate with local financial institutions. This momentum demonstrates the exciting potential for public banking in California.

The Bank of North Dakota offers one example for how public banks may deliver on commitments to supporting small businesses, affordable housing development, and community wealth building. Utilizing the partnership model provided by the Bank of North Dakota, California public banks can collaborate with local lenders to scale similar programs that promote investment in sustainable, equitable, and resilient economic development for all Californians. Given the benefits a public bank could offer, policymakers may consider the following

recommendations of integrating a targeted universalist approach, establishing sovereign state and municipal banks, and promoting participatory budgeting and democracy.

### **Integrate a Targeted Universalist Approach**

Public banking in California can spark transformative economic and social change by applying a targeted universalist framework to mandates. Public banks can mitigate risks of perpetuating institutionalized inequality and financial discrimination by establishing mandates rooted in ideals of equity, justice, and sustainability. Public banks can take targeted measures to deliver on mandates to support thriving small business, ensure stable housing, and support community wealth building for all Californians. With broader goals of equity and justice in mind, public banks can tailor programs to meet the unique needs of specific communities.

For example, in order to achieve the goal of widespread housing security and stability for all Californians, public banks can design programs that address the differing needs of housing-insecure people in urban versus rural communities. In an urban environment, lower interest rates offered by public banks can incentivize developers to build multi-unit housing or fund renovations of deteriorating apartment buildings. In contrast, programs that target housing security in rural areas can first invest in lacking public infrastructure, like water, electricity, and sewage, which must precede new housing developments. Similarly, public bank programs supporting rural housing can offer low interest loans towards smaller-scale housing projects by local builders, like the creation or renovation of single family homes. In this example, these programs consider the unique contexts of people and communities and develop tailored approaches to address economic challenges, while ultimately working towards the universal goal of affordable and secure housing for all people throughout California's diverse communities.

### **Establish Sovereign State and Municipal Public Banks Across California**

California can establish a state public bank using existing funds by converting IBank into a lending and depository institution. Establishing a state-level California public bank could multiply the financial assistance and support for small business, housing, infrastructure, agriculture, and disaster relief that IBank currently provides.<sup>63</sup> Public banks can be capitalized by depositing a portion of budget accounts, as well as other pools of public monies like pension funds. Municipal public banks, in collaboration with a state public bank, can further promote local flourishing by targeting programs to address the specific economic, social, and infrastructural needs unique to their region.

Public banks at any level can leverage the existing capital held within state and city accounts to increase their budgetary power and benefit the public good. Governments can multiply

the available credit within state and local economies through fractional reserve banking, leading to significantly more lending capacity that increases the scope and scale of public investment without raising taxes. Public banks can protect the economic sovereignty of state and local governments from unwanted federal interventions that threaten funding. Whereas private banks direct capital based on the exclusive interests of wealthy shareholders, public banks offer a way for state and local governments to exercise more democratic control over investments funded by public dollars. With the increased financial autonomy that public banks can provide, state and local governments can execute programs that preserve neighborhood diversity, support the material needs of marginalized peoples, and promote local economic flourishing that ripples throughout and beyond California's economy.

### **Promote Participatory Budgeting and Democracy**

In order to facilitate lasting economic resilience through targeted investments, public banks at state and municipal levels must engage in ongoing collaboration with people affected by their policies and programming. Public banks should directly engage with constituents to understand multifaceted strengths, challenges, and opportunities for state and local economies. Public banks may take many measures to abide by mandates that promote economic flourishing for all, including poor and marginalized communities. For example, a broad, diverse, term-limited, general assembly could function as the primary decision making forum for appointing board members and reviewing proposals for a California state public bank.<sup>64</sup>

The organizational structure of a public bank can be intentionally designed to promote transparency, civic engagement, and empower marginalized perspectives. Without the active and ongoing participation of poor and marginalized peoples, a public bank risks reinforcing harmful and unjust socioeconomic dynamics. Integrating multi-layered systems of direct community engagement and public oversight into the governance structure of public banks can protect these institutions from being co-opted by special interest groups that seek to maintain the status quo of social and economic inequality. Structuring public banks with multiple guardrails in place to maintain focus on sustainable and equitable economic development can ensure that the actions of public banks continually reflect the will of the people and communities they were created to support.

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