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State Legislation Prompts San Diego to Explore Creating a City-Owned 'Public Bank'

Proposal could generate revenue, boost community investment; but critics say there are risks

SAN DIEGO — New state legislation allowing cities to establish government-run “public banks” has prompted San Diego officials to begin exploring the idea, including four City Council members who want to spend \$250,000 on a feasibility study.

San Diego would join Los Angeles, Oakland and several other cities that have begun analyzing the pros and cons of public banks, which aim to boost city revenue and direct more capital to priorities like affordable housing.

If approved, San Diego would launch its public bank, which could happen as soon as next year, using hundreds of millions of dollars from city reserves that it now keeps at Bank of America.

By cutting out a commercial bank as the middle man, the city could replace the small interest payments it receives from B of A — currently about 1 percent — with interest revenue as high as 20 percent from loans it would make, supporters say.

Just like a traditional bank, the city’s public bank could lend money in the form of property mortgages, capital needed for housing developments or loans to nonprofits and other businesses.

Supporters say a public bank would strengthen the local economy by making it easier for small businesses to get capital and by directing loans toward projects that address pressing needs, like bike lanes, solar panels and other “green” infrastructure.

In addition, a public bank could provide crucial start-up capital to local credit unions and neighborhood banks. That would make loans and other financial services more widely available, especially in low-income neighborhoods, supporters say.

“There’s really something for everyone in this,” said Jeff Olson, a North Park resident spearheading the effort as head of a new organization called PublicBankSD. “We’re going to make a ton of money out of thin air.”

Critics say previous efforts to launch public banks across the nation have been plagued by large start-up costs, profits that don’t materialize for decades and even complete failures in some cases.

They also say public banks get mired in politics, with decisions on loans becoming political debates instead of sound financial evaluations.

Such concerns prompted the state Legislature to treat the creation of public banks as a pilot project in September when it approved AB 857, which was signed into law by Gov. Gavin Newsom in October.

Only 10 cities will be allowed to establish public banks under the pilot legislation, with a maximum of two banks opening per year until that total is reached.

Olson said Los Angeles officials, who placed an unsuccessful city public banking measure on the ballot in 2018, are further ahead in establishing a city-owned bank than other cities in California.

But San Diego has a chance to join L.A. in the first duo of cities to have public banks approved by the state, he said. If not, Olson said he is hopeful San Diego will be in the second wave, probably with Oakland or San Francisco.

Other cities that have begun exploring the idea include San Jose, Long Beach and Truckee, he said.

Olson said the state limit of two new public banks per year helped motivate four San Diego Councilmembers – Georgette Gómez, Dr. Jennifer Campbell, Chris Ward and Monica Montgomery — to request Mayor Kevin Faulconer include \$250,000 in his new budget for a feasibility study.

“It’s another case where we run the risk of procrastinating so long that the team moves to L.A., and I think that has lit a fire underneath some of the folks at City Hall,” Olson said.

Councilman Ward said he supports the study and plans to have the council’s economic development committee, which he chairs, help make a public bank happen.

“Public banking offers many potential benefits to San Diego, and the committee should explore the necessary steps for identifying these opportunities going forward,” Ward said in his proposed priority list for the committee this year.

Councilwoman Barbara Bry also has agreed to let Olson make a detailed presentation on public banking in March to the council’s budget committee, which she chairs.

None of the council’s Republican members have endorsed the idea, but Republican Mayor Kevin Faulconer sent the city’s lobbyist to Sacramento to advocate for AB 857.

In a letter to the state Assembly, lobbyist Moira Topp said a public bank could be “an innovative municipal finance tool that could allow cities like San Diego to truly invest in its citizens.”

Topp said the state legislation includes many benefits for cities, but it’s also carefully written to avoid financial pitfalls.

“The city could potentially reduce costs and provide access to capital for its residents, businesses and nonprofit organizations,” she said. “The bill includes safeguards and fiduciary requirements to be met before the city could establish a public bank and would require this bank generally comply with requirements in state law for commercial banks.”

San Diego’s first step is hiring a financial firm to determine the estimated start-up costs of a public bank, create a business plan and analyze the potential long-term cost savings and revenue for the city.

AB 857 requires cities to complete such an analysis and submit it to the California Department of Business Oversight, which could then give San Diego permission to open a public bank.

Olson said he’s optimistic about the results of such an analysis, which could be complete by late 2020 if the city makes the \$250,000 available in the new budget it’s scheduled to adopt in June.

“My group paid an economist to do a preliminary business plan where he pulled all the numbers from the city’s comprehensive annual financial report into a banking model, and it shows an immediate 15 percent return on our investments, and in the second year it looks like we get a 24 percent return on our money,” Olson said.

By comparison, the city now gets between half a percent and one and a half percent in interest on its money at Bank of America.

In addition, the city would get a much better deal when it borrows money, Olson said.

For example, a \$900 million housing bond proposed for the November ballot would only generate about half that amount for housing projects because of interest and financing fees, he said.

But if a city-owned bank handled the bond sales, a much larger share of the money would go toward actual housing construction, he said.

Public bank proponents often tout the Bank of North Dakota, a state-owned public bank that has generated \$464 million since 2000, as a shining example.

But a feasibility analysis by San Francisco last March yielded discouraging results.

It analyzed three models and found that the one providing the most services would require \$119 million in start-up capital and \$2.2 billion in public subsidies — and the bank wouldn’t break even for 56 years.

“It’s possible the numbers come back and it doesn’t work out,” said Olson, noting that Washington state postponed plans for a public bank after a similarly discouraging analysis.

But it’s worth the cost and effort to conduct a study to see the results, he said.

The city’s first public debate on the subject will be Olson’s presentation to the council’s budget committee, which is scheduled for 9 a.m. on March 11.

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