
Memorandum

To: **Reinvestment Working Group, City and County of San Francisco**

From: HR&A Team: HR&A Advisors, Inc., Gary Steven Findley & Associates, and Contigo Communications

Date: February 10, 2023

Re: Additional Recommendations and Next Steps for the Formation of a Non-Depository Municipal Finance Corporation and Depository Public Bank – **DRAFT**

DISCLAIMER

The following document was prepared by the HR&A Team, a consultant to the City and County of San Francisco. This presentation does not include legal advice, and the HR&A Team does not represent that the presentation, or the recommendations or conclusions therein, comply with applicable laws governing the establishment or operation of a non-depository municipal finance corporation or a municipal bank. Under the City Charter, the City Attorney is the legal advisor to the City and only the City Attorney or his authorized delegates may advise the City on legal issues, including such issues pertaining to municipal banking.

This memorandum provides the Reinvestment Working Group (RWG) and City and County of San Francisco (City) with additional information on the attached deliverables for the non-depository municipal finance corporation (MFC) and depository public bank. It describes where we seek feedback as part of the review process and outlines tasks that the City will need to conduct following our scope to move forward with this project.

The RWG's Feedback

We seek direction from the RWG and other City organizations involved in this project on the following topics.

Legal, Political, and Organizational Items

Establishing the MFC and public bank involves legal, political, and organizational decisions. We are prohibited from addressing legal items. For those that involve political or organizational decisions, we believe that the RWG and other City organizations should inform sensitive choices around the allocation of public funds, powers, and priorities. While the HR&A Team provides our best professional judgment and can facilitate decision-making, we request direct input on the following:

- The amount of capitalization and funding that the RWG and City will provide for the MFC and public bank. We modeled \$20 million in capital and \$50 million in funding for the MFC and \$50 million in capital and \$188 million in funding for the public bank by their third year of operation. We recommend minimum upfront capitalization of \$50 million for the public bank to satisfy regulators. What scale does the RWG and City believe these entities should feasibly attain and can the City commit to providing those funds?
- The sources of capitalization and funding. We understand that there are legal and other considerations around these sources that the RWG has discussed in its past meetings. Although we do not require a final decision on the capitalization and funding sources before the end of our scope to deliver business and financial plans for the MFC and public bank, greater clarity in how the City might proceed could help us refine the plans. Are there any immediate capitalization and funding considerations that we should factor into the plans beyond those the RWG has already discussed?
- Allocating seats on the Bank Oversight Commission to other City agencies. The RWG could allocate BOC seats to agencies like the Treasurer, Controller, etc. to distribute power away from the Mayor and Board of Supervisors and potentially address the regulators' concerns around political interference in the public

bank's governance. Should we incorporate this option in a revised governance plan, and if so with what alternative seat allocation?

- Prohibition on lending for market-rate housing. Ordinance No. 87-21 prohibits lending for market-rate housing. We recommend that the MFC and public bank be able to lend to mixed-income housing projects if there is a substantial affordable component and the projects are consistent with the bank's values and mission. Does the Ordinance prohibit lending for any project that includes any share of market-rate housing, or only to exclusively market-rate projects?

Framing

We have written the deliverables to be from the perspective of the City (e.g., "The City and County of San Francisco proposes to establish a City-owned public bank..."). We have done this to position the City as the main actor as it (through the RWG, Board of Supervisors, agencies, and other bodies) is the entity that will act on our deliverables. We defer to the RWG as to its preferred form of expressing the entity acting upon the deliverables and of representing the work done by the HR&A Team on its behalf.

Suggested Names For the New Entity

We have kept a placeholder name for the MFC and public bank. The RWG, City, and public may wish to offer alternatives during the review process and thereafter. Some options we offer for consideration include, in no particular order:

- San Francisco Bank for Community Reinvestment
- Restorative Bank of San Francisco
- Bank of the Communities of San Francisco

Format of Feedback

As part of our collaborative review process with the RWG, we ask that it provide our Team with direct edits (e.g., redlines) and directive recommendations for changes to make clear the edits it would like us to make. For example, a helpful suggestion could be "reduce the number of Bank Oversight Commission (BOC) members to 18 from 25," as opposed to vaguer suggestions like "we should reduce the number of BOC members" or "should we reduce the number of BOC members?" This approach will simplify our review process and avoid potential ambiguity or misunderstandings in revisions.

Tasks for the RWG and City Beyond the HR&A Team's Scope

The RWG and City will need to address several other tasks beyond the HR&A Team's scope to prepare the establishment of the MFC and public bank. These include:

- Assess the legal requirements of establishing a public bank within the City Charter and other City laws and regulations, and potential amendments needed.
- Allocate funding to secure management staff, systems, equipment, and office space for the MFC and public bank. The management staff's initial responsibilities will be to refine and operationalize the business, governance, and financial plans. It will be important for the plans to evolve and be shaped directly by management, who will ultimately be the people accountable for delivering on them. Management should also establish an impact and evaluation framework for the entities' activities.
- Assess all existing loan programs from different City agencies and deciding whether to consolidate all programs that expect repayment into an MFC. This would establish the MFC as the primary lender for the City and generate a volume of financial and lending operations. Zero-interest or forgivable loans would remain in their current structure.

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- Establish funding and grants to support the HR&A Team’s recommended non-financial solutions that would complement the MFC and public bank (see presentation for Oct. 20, 2022, RWG meeting).
 - Evaluate the feasibility of the bank lending towards other markets described in Ordinance No. 87-21 (e.g., student loans) as well as others (e.g., investment to bring broadband and digital equity infrastructure to underserved neighborhoods).
 - Coordinate with community financial institutions (CFIs) and community development financial institutions (CDFIs) to establish memoranda of understanding for partnership lending programs for the MFC and public bank so that these entities can begin lending operations to and through CFIs and CDFIs immediately upon creation.
 - If these partnerships are successful, consider seeking letters of support from partner CFIs and CDFIs to support the public bank’s regulatory filings.
 - If the City chooses to convert the MFC into a public bank, develop a plan through which to roll over its operations into the public bank.

The HR&A Team, upon the RWG's request, can provide a proposal for the tasks and resources required to seamlessly move from this project to the establishment of the MFC and public bank.