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Public Bank Governance Feedback

Reinvestment Working Group Meeting

February 16, 2023

DISCLAIMER ON LEGAL ADVICE

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New Content

Highlighting new materials developed by
the HR&A Team

HIGHLIGHTING MATERIALS NEW TO DELIVERABLES

The HR&A Team developed several new sections for our draft deliverables. These sections were included alongside business, governance, and management sections that we shared previously.

- Executive summary describing purpose of MFC and public bank (p. 3 in MFC document)
- Grounding in legacy of historical discrimination (p. 4)
- Revisions to Mission and Principles (p. 24)
- Case study of Banco Popular (p. 25)
- Financial models (p. 39)

RECOMMENDATIONS ON A JOINT GREEN-PUBLIC BANK

At the City and RWG's request, we also assessed the viability of establishing and operating a municipal green bank alongside or as part of a future municipal finance corporation (MFC) or public bank.

- Green banks are mission-driven financial entities that use public funds to make and incentivize green investments; there is no single “blueprint” to establish a green bank.
- The primary constraint to a joint entity is that depository institutions—like a public bank—are ineligible to participate in the federal Greenhouse Gas Reduction Fund.
- We recommend making the MFC, or a structure within the MFC, the green bank to reinforce the MFC's role on green investments and environmental justice, bring additional funds for the MFC to deploy, and avoid creating separate entities.
- If the MFC becomes a public bank, the City should explore structures that allow the MFC's green bank component to remain separate from but subordinate to the public bank to preserve access GHGRF funds while maintaining a single structure.

Open Questions

Items on which the HR&A Team seeks
direction from the RWG

CAPITALIZATION AND FUNDING

- 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?**

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?**

BANK OVERSIGHT COMMISSION SEAT ALLOCATION

- 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?**

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**

Next Steps

Review and potential MFC and bank
creation timelines


COLLABORATIVE REVIEW TIMELINE


The HR&A Team will collaborate with the RWG to incorporate its feedback into our final deliverables over the course of February and March for the MFC deliverables and over April and May for the public bank deliverables.

Collaborative Review Timeline

Collaborative Review Timeline			February				March				April				May		
TASK	Deadline	Week of:	2/6	2/13	2/20	2/27	3/6	3/13	3/20	3/27	4/3	4/10	4/17	4/24	5/1	5/8	5/15
RWG MEETINGS																	
MUNICIPAL FINANCIAL CORPORATION																	
HR&A Team Submits MFC and Public Bank Draft Documents	Feb. 10		🕒														
RWG Gathers Feedback, Shares with HR&A Team, and Both Discuss Feedback to Incorporate																	
HR&A Team Incorporates RWG Feedback																	
HR&A Team Submits Final MFC Documents	Mar. 31									🕒							
PUBLIC BANK																	
RWG Gathers Feedback, Shares with HR&A Team, and Both Discuss Feedback to Incorporate																	
HR&A Team Incorporates RWG Feedback																	
HR&A Team Submits Final MFC Documents	May 10															🕒	
<u>RWG Meeting</u> : Public Discussion of Final Documents and Next Steps	<u>May 18</u>																
Items in bold represent deliverables for the HR&A Team. <u>Underlined</u> items represent RWG Meetings.				RWG Meetings				🕒	Deliverable Due								

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 RWG Meetings

 Deliverable Due

THE TENTATIVE TIMELINE TO ESTABLISHING A SAN FRANCISCO PUBLIC BANK

The two-step process of establishing a non-depository MFC and a depository public bank can take place within the next 5-6 years. Following initial study and the development of viability, business, and governance plans, the City will require Board of Supervisors legislation, MFC creation and operation, a public bank application, and public bank creation. We conservatively estimate the duration of these steps below.

Potential Phases of Public Bank Creation	2022	2023	2024	2025	2026	2027	2028	2029
1 Education, engagement, and banking model selection (<i>complete</i>) <ul style="list-style-type: none"> Confirm MFC and public bank priorities and structure Stakeholder and community engagement 	<div>12 months</div> <div>► Today</div>							
2 Prepare viability, business, and governance plans (<i>ongoing</i>) <ul style="list-style-type: none"> Prepare documents for RWG and Board of Supervisors approval Ongoing community engagement 								
3 Create MFC (<i>tentative</i>) <ul style="list-style-type: none"> Board of Supervisors passes legislation creating and funding MFC Board of Supervisors establishes triggers for public bank application 			12 months	MFC operation				
4 File public bank regulatory application (<i>tentative</i>) <ul style="list-style-type: none"> Update Phase 2 plans based on lessons learned from MFC* Engage with CDFPI and FDIC throughout regulatory process 					12 months			
5 Establish the public bank (<i>tentative</i>) <ul style="list-style-type: none"> Address final regulatory requests** Capitalize, fund, and establish public bank 						12 months	Public bank operation	

Note: All times are estimates based on best available knowledge today

* Ordinance 87-21 requires the MFC to apply for a public bank license within 3 years of its establishment and for the public bank to be operational within 5 years of MFC establishment

** FDIC approvals are conditional upon the completion of requested actions See "Applying for Deposit Insurance: A Handbook for Organizers of De Novo Institutions," FDIC, 2019

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:

1. Assess the legal requirements of establishing a public bank within the City Charter and other City laws and regulations, and potential amendments needed.
2. Allocate funding to secure management staff, systems, equipment, and office space for the MFC and public bank.
3. Assess all existing loan programs from different City agencies and deciding whether to consolidate all programs that expect repayment into an MFC.
4. 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).
5. Evaluate the feasibility of 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).
6. Coordinate with community financial institutions (CFIs) and community development financial institutions (CDFIs) on partnership lending programs.
7. 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.

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Appendix

Materials from previous meetings

REGULATOR FEEDBACK ON PUBLIC BANK GOVERNANCE PLAN

On January 12, the Consultant and City Teams met with the California Department of Financial Protection and Innovation (CDFPI) and the Federal Deposit Insurance Corporation (FDIC) to receive feedback on the draft governance plan we had submitted for comment.

- The FDIC expressed three primary concerns:
 - **Ensuring that a public bank can operate independently of the political process.** This means insulating bank management and governance from changes in government entity leadership as result of elections to maintain continuity of functions and oversight.
 - **Ensuring that the bank board retains fiduciary responsibility and authority for bank decisions.**
 - **Ensuring that a public bank's shareholders can raise additional capital, and do so quickly, if needed.**
- Both FDIC and CDFPI representatives questioned whether the two-tiered (Board Oversight Commission) structure addresses the first and second concerns.
- Our team will work with the City team to revise and strengthen the governance plan.

Note: The City team included representatives from LAFCo, the RWG, and Supervisor Preston's office.

REGULATORY REQUIREMENTS REQUEST SIMILAR INFORMATION

Requirements by AB 857, CDFPI, and FDIC are similar, allowing our team to develop a single business and governance plan deliverable for the public bank that fulfills all criteria.

	AB 857: Study to Assess the Viability of the Proposed Public Bank	California Department of Financial Protection and Innovation	Federal Deposit Insurance Corporation
Public Bank Overview	<ul style="list-style-type: none"> Main purpose of the public bank 	<ul style="list-style-type: none"> Public convenience and advantage 	<ul style="list-style-type: none"> Business description Details on market characteristics
Management	<ul style="list-style-type: none"> Proposed governance structure 	<ul style="list-style-type: none"> Proposed organizers; officers, employees, and advisers; controlling persons; board 	<ul style="list-style-type: none"> List of the organizers, proposed directors, senior executive officers, and 10-percent-or-more shareholders*
Capital	<ul style="list-style-type: none"> Fiscal analysis of costs associated with starting bank Estimate of initial amount to be provided 	<ul style="list-style-type: none"> Pre-opening expenditures Proposed capitalization 	<ul style="list-style-type: none"> Details regarding each class of stock, adequacy of proposed capital structure, all known stock subscribers, and any fees to be paid in connection with sale of stock
Business Plan and Financial Projections	<ul style="list-style-type: none"> Pro forma balance sheet and income statement of at least the first five years of operation 	<ul style="list-style-type: none"> Pro forma financial statements Proposed operations 	<ul style="list-style-type: none"> A comprehensive, written plan with supporting financial schedules, as well as key assumptions, sensitivity analyses, and market/feasibility studies
Other	<ul style="list-style-type: none"> Legal analysis of whether the proposed structure and operations comply with Section 6 of Article XVI of California Constitution** 	<ul style="list-style-type: none"> Proposed Premises Effects on competition Marketing plan 	<ul style="list-style-type: none"> Description of premises and fixed assets Physical security program IT program description List of activities and functions that will be outsourced to third parties Vendor management program

* Also requires a background check for each of those individuals; signed oath of director forms; and details regarding director and management qualifications, responsibilities, compensation, conflicts of interest, and interlocks .

** The HR&A Team is unable to perform this task due to prohibition on performing legal analyses.