RECAP: BLA REPORTS AND RECOMMENDATIONS for CREATING A SAN FRANCISCO MUNICIPAL BANK

Prepared for Supervisor Dean Preston

Presentation to:

GOVERNMENT AUDIT AND OVERSIGHT COMMITTEE

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

June 3, 2021

BLA Reports: Public bank/municipal financial corporation

2011	2017	2020
Options for community supportive banking so more City funds are used for affordable housing, small businesses, low income residents, and community needs.	Updated 2011 report and outlined steps for public banking option.	Alternatives to public banking models in Treasurer-Tax Collector's task force report. Estimates capitalization & funding sources and uses.

1. More City funds to local credit unions/community development financial institutions
2. Expand City community development programs
3. City community investment program
4. Support and work for State bank
5. Work with other cities for regional network of public banks
6. Establishment of a San Francisco municipal bank.
	• Create separate legal entity
	• Appoint independent board of directors
	• Establish bylaws
	• Prepare multi-year business plan detailing finances:
	  • Capitalization requirements
	  • Funding needed
	• Obtain State charter
		• 2019 State law explicitly allows creation of & investment in municipal banks by cities
		• Recommends use of City's investment pool, interest earnings, and GF appropriations to ensure scale, profitability and impact
		• BLA recommends preferred model of non-depository municipal financial corporation

Key attributes in 2020 report: 1) non-depository and 2) depository models

- Use City resources to keep costs and interest rates low.
  - Investment Pool and limited number of General Fund appropriations.
- Manage risks to ensure safety, liquidity, and yield (see CA Gov't. Code 53600.5).
- Lower operating costs and lower interest rate loans vs. Task Force models.
  - BLA models achieve profitability immediately.
- Cultivate and enter into lending agreements with a network of affiliated institutions: local and regional credit unions, banks, loan funds, and Community Development Financial Institutions (CDFIs).
- ***Non-depository*** uses phased-in approach: demonstration loans funded initially, ramping up over the first five years of operations.
- Non-depository: does not provide traditional banking services.

2020 report pro formas: non-depository & depository models

Conclusion: Both models feasible and could operate profitability. We recommend that the City establish a ***non-depository*** MFC, at least initially, for lower operating costs, bigger impact, and no requirement for FDIC approval.

- **Capitalization:** Portion of Investment Pool interest earnings, limited # GF appropriations, and MFC's own interest earnings over 3 years = approximately $136 million.
- **Funding**: 10% of Investment Pool ($1 bn.) moved from current instruments to MFC, plus GF appropriations.
  - Investment Pool invests $1.5 bn. by Year 10.

Capitalizing a public bank Capitalization refers to the initial funding the bank would receive from its investors to start its operations and to serve as a buffer against losses.

Funding a public bank refers to a bank's proceeds from issuing debt securities or IOUs and/or deposits, all of which are used to originate loans.

Results: MFC non-depository

By Year 10:

- MFC assets = approximately $2 billion.
- Loan portfolio = $1.25 billion.
- $750 mn. held in liquid U.S. Treasury notes and municipal securities.
- Significant impact on local housing provision, small-business credit, and (as a supplemental source) infrastructure financing.

Key Metrics: MFC non-depository

Interest rates	
MFC earnings on USTRs and municipal bonds	2.5%
Interest rate on loans	2.65%
Interest paid to IP	0.5%

Measure	MFC- Year 10	Industry standard
Return on Equity	9.3%	11.4%
Return on Assets	1.4%	1.3%
Capital to Asset ratio (risk-weighted)	14.5%	6.0-8.0%

Policy options

1. Establish, fund, and staff an Implementation Working Group to oversee the development of a business plan for a City municipal financial corporation (MFC).
2. Implementation Working Group should design three initial lending programs to determine viability focused on: 1) property acquisition for affordable housing, 2) small business lending, and 3) infrastructure financing.
3. Mandate Implementation Working Group to assess the viability of developing a wholesale distribution network.
4. If the City should decide, after an initial period of successful operation of demonstration lending projects, to scale up its funding commitments, we recommend the City initially do so by committing additional monies from the Investment Pool to fund the lending activities of a *non-depository* MFC. Consider a depository subsequent to this after several years of operation.

Questions and comments

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