Appendix E: Letters from Task Force Members

COMMUNITY Financial Resources

Providing tools for economic empowerment

March 7, 2019

As Executive Director of Community Financial Resources, I was selected to participate on the Municipal Bank Feasibility Task Force given my past experience in commercial banking and my current role with an economic justice non-profit. I attended all eight meetings and valued the dedication and diligence of the Task Force staff that did the research and modeling that is presented in the Report.

However, the models presented in the final Report negatively bias the feasibility analysis. Though creating a public bank will be challenging and ground-breaking, it is feasible and the work to make it happen should continue.

The following summarizes my primary concerns with the financial models.

1. The models over-estimate start-up and operational costs and under-estimate revenue generation. For example,
   a. The proposed models were unnecessarily complicated by selecting a specific loan mix and trying to project market interest and loss rates. The mix of any proposed loan portfolio can be fluid. The key factors are total size of the portfolio and the required spread net of losses to cover operational expenses and generate growth to meet future mission oriented demand.
   b. No loan related fee generation opportunities are included in the models.
   c. Assuming that the bank would do a segment of small business lending that would lose money from the get-go is not banking but a grant program. Given that numerous subsidization programs already exist across many City/County departments, this activity should not be included in the public bank model as it artificially depresses revenue.
   d. Due to time limitations and lack of experience in bank and payment operations, it was difficult for Task Force staff to identify existing and more cost-effective options to optimize operating costs.

2. Even taking cost and revenue figures as is, the bottom line is that a public bank to serve the needs of the City and County of San Francisco must be of a certain size to be financially sustainable. **The real question is: Can the bank find sufficient capitalization and deposits to start at a size to breakeven in 3-5 years like any other bank start-up.**

3. The Report assumes away the major depository source, the $11 billion Treasurer's Pooled Investment Fund which does sit in other banks today. Even though these funds are encumbered, it should be noted that the Bank of North Dakota holds similarly structured funds as part of its depository base. It would be useful to identify what legal and structural changes would be required to free-up some or all of this $11 billion dollars to use as part of the public bank's depository base.

4. The Report assumes that the public bank could not provide custodial or investment banking services (currently provided by major Wall Street entities) or act as the City/County's bond underwriter saying that the public bank could not acquire the needed expertise. Several Task Force members disagreed with this assumption and noted that it overlooks a primary value of establishing a public bank---divesting from

> non-local Wall Street entities and investing in the local economy to develop a better, more secure future for San Francisco Bay Area residents.

I endorse the Next Steps outlined by the Report and would like to add an additional emphasis to the step "Convene City (and county) agencies performing lending (and economic subsidization) work" (my additions). In the course of the research, Task Force staff identified a myriad of programs within local government agencies that provide some sort of loan, grant, or subsidy for community development. The opportunity for scale economies, optimization, and better resource allocation seemed obvious.

San Francisco's economy is rare among cities and regions in being able to command the resources to accomplish bold new projects to confront the existential issues of equity, sustainability and justice. The City has the opportunity now to take a lead in the developing Public Banking movement, just as it has played a leading role in the Cities for Financial Empowerment movement.

Overall, I appreciated the opportunity to participate in the Municipal Bank Feasibility Task Force. I enjoyed working with the insightful Task Force members and staff. The process was professionally managed and produced a concrete game plan to move the public banking concept forward. I recommend that the Board of Supervisors adopt the Report's Next Steps recommendations.

Respectfully Submitted,

Lauren E Leimbach

Lauren E. Leimbach
Executive Director

James Clark
896 De Haro Street
San Francisco, CA. 94107

3/13/2019

Treasurer José Cisneros
San Francisco Office of the Treasurer & Tax Collector
1 Dr Carlton B Goodlett Pl
San Francisco, CA 94102

Dear Treasurer Cisneros,
Thank you for the opportunity to participate on the Municipal Bank Feasibility Taskforce this past year. At your invitation, my fellow taskforce members and I met numerous times to discuss the request made by the Board of Supervisors to provide analysis regarding the creation of a Municipal Public Bank for the City of San Francisco. I believe that our report will provide the City's policymakers with much of the additional information and insight needed to further guide discussion and policy formulation around this very important topic.

I would also like to commend your staff and the way in which they managed both the process and creation of the report. With a wide range of views and perspectives shared at each meeting, they've done yeoman's work to distill our thoughts and conclusions both accurately and succinctly.

While technically feasible, the creation of a municipal bank for the City of San Francisco would not be a costless endeavor. As such, the taskforce spent a tremendous amount of time developing the assumptions and structures that underpin our modelling work so that policymakers could more accurately weigh the expected cost of potential subsidies with their associated benefit. I agree with our models' results, namely that the cost of establishing and running a municipal bank can be quite large and persistent, depending upon the bank's goals and broader macroeconomic factors. Should policymakers deem both the size and uncertainty of these costs acceptable, however, I also believe that significant benefits could accrue to the people and businesses of San Francisco. Of course, any decision regarding the establishment of a municipal bank should also be made in light of the fact that the City may already have previously established and cost effective programs in place to achieve these same goals.

Thank you again for the opportunity to serve.

Respectfully,

James Clark

Chapman and Cutler LLP
Attorneys at Law · Focused on Finance®

Marc P. Franson
Partner

595 Market Street
26th Floor
San Francisco, California 94105-2839

T 312.845.2988
F 312.516.3988
franson@chapman.com

March 13, 2019

Board of Supervisors of the City and County of San Francisco
City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Municipal Bank Feasibility Task Force

Ladies and Gentlemen:

It has been a distinct pleasure to be a member of the Municipal Bank Feasibility Task Force for the City and County of San Francisco. At the outset, let me commend the efforts of Treasurer Cisneros and his staff for the comprehensive, thoughtful, sensitive and realistic approach that they have taken with respect to this issue and to the proceedings of the Task Force. That group worked tirelessly and have provided a report which adds significant research and input into the discussion of a public bank both in the Bay Area and elsewhere. While each member may come to the table looking through a different lens, the report submitted to you reflects all points of view and digests and summarizes an enormous amount of material and viewpoints in providing guidance on if, and how, to proceed.

Having spent most of my career as a bank regulatory attorney, I hope that my participation and contribution to the proceedings were helpful in discussing the legal and practical aspects of attempting to create a municipal bank under the confines of current law and regulation. From the outset, it has been obvious that the creation of a public bank presents novel issues and uncharted challenges under current law and regulation. In my view, legislative action would be needed in order to provide the proper structure and framework for this type of institution.

Under any scenario, because banking is a highly regulated industry, the creation of a public bank will require a combination of time, cost and effort that will be significant. Even in the public setting, the capital requirements for an institution to be successful will be large. Simply stated, the practical reality, is that in order to move forward with this type of an initiative would require a long range commitment of staff and monetary resources, the benefits of which need to be balanced with the investment required.

Regardless of the deliberations and outcome, the Treasurer and Task Force have added to the discussion of this important issue. Thank you for the opportunity to serve. If I can be of additional assistance in the future, please let me know.

Very truly yours,

CHAPMAN AND CUTLER LLP

By: ______________________
Marc P. Franson

March 14, 2019

The Honorable Jose Cisneros
Treasurer and Tax Collector
City and County of San Francisco
City Hall Room 140
San Francisco, California 94102

Dear Treasurer Cisneros:

It has been an honor and a privilege to serve on the taskforce to assess the feasibility of a municipal bank for the City and County of San Francisco. This concept has become a hot topic, with many thoughtful, smart advocates hoping to catalyze this idea into action in San Francisco and across the State of California. I share the objectives that advocates for municipal banks hope to achieve.

Yet, I write to today to express my reservations that a municipal bank could easily be the wrong tool to attain many of these aims.

This is especially true given the fact that some of the economic models in your report illustrate that San Francisco would incur billions in losses to eventually, *maybe* have such a bank function effectively. There are hundreds of thousands of low income San Franciscans who urgently need housing, social services, healthcare, transportation, education, childcare, job training, legal aid and more.

Are we willing to accept the trade-offs that will be required to launch a municipal bank that will materially decrease our ability to provide these things to San Francisco families? This should not be a rhetorical question, but rather, should guide the next conversations in exploring the feasibility of a municipal bank for San Francisco. I urge us to dive into these questions courageously and to use data, instead of ideology, as we jointly seek to solve so many challenging problems.

Municipal banks are a powerfully attractive alternative for good reason. They appear at first glance to be a way to address multiple issues all at once - increased financial inclusion, lower infrastructure capital costs, more affordable housing, disinvestment from fossil fuels and much more. But we should beware the allure of “silver bullet” solutions that appear to us like a panacea. Rather, let us seek to methodically understand what the highest and best use a municipal bank may be when held up to the problems we hope it will solve.

In reflecting upon the many thoughtful discussions at taskforce meetings, as well as comments from members of the public who often spoke passionately in support of a municipal bank, I believe there has been a conflation of objectives as we consider this idea. Many people want a municipal bank because they are justly and deservedly angry at bad and unethical behavior by private financial institutions, ranging from predatory pricing to investments that poison our communities. But in the context of considering a municipal bank, we must ask ourselves some hard questions in response to this anger.

If our aim is to punish banks, is there a cheaper and more effective way to do this that does not diminish our ability to serve the needs of people whose lives we'd hope to improve by establishing a municipal bank?

If our aim is to increase the production of affordable housing, do we know for sure that new sources of funding made available through a municipal bank would actually increase the supply of affordable housing in San Francisco?

If our aim is to provide a *virtuous* place for rich, predominantly white San Franciscans to invest their personal wealth, is it worth depleting our ability to serve our poor and vulnerable families to do this?

If our aim is to model a new form of capitalism, to create more social, racial and economic equity, will foregoing billions in direct spending to achieve equity for the sake of creating a municipal bank be an effective, efficient and ethical option?

In my opinion, the answer to each of these questions is clearly no.

Some would brush aside these hard questions to rush into action, driven by what they describe as a moral imperative. I believe the real moral imperative is to put these questions front and center as we consider policy and innovation that is meant to serve the people we want this to benefit, effectively, efficiently and with an equitable distribution of costs and benefits.

It is my hope that any implementation of a municipal bank is only considered after a deeper feasibility study is conducted. I believe it is our responsibility to discover how such an entity could solve problems that we are unable to solve today by making adjustments to existing programs and tools currently available to the City and County of San Francisco. I also urge any implementation of a municipal bank to be structured with a gradual roll out, with clear, measurable definitions of success and a clear structure to test the core hypotheses around the impact it aims to achieve. I believe cornerstones like these will increase accountability and allow for growth based on objective analysis rather than ideological fervor.

It will be tempting for some to dismiss my comments as defensive retorts from someone who works at a business school. Yet, I want readers to know that my opinions are formed by the nearly fourteen years I spent cofounding and running EARN, a San Francisco-based nonprofit that helps low income workers build savings and financial capability.

My views are also informed by my own personal experiences. My family relied on every strand of the safety net, from public housing, to food stamps, to Headstart, in order to get by. I don't believe we can ethically or reasonably disinvest in San Francisco's poor and moderate income families in order to build a multi-billion dollar talisman to our ideals.

Serving the public good demands that we are both visionary and practical, and that we answer the hardest questions before us as we pursue bold ideas like a municipal bank. I know we have the ability to find the best answers to propel human progress here in San Francisco, and beyond.

Sincerely,

Ben Mangan
Resident, City and County of San Francisco

Executive Director + Professional Faculty
Center for Social Sector Leadership
UC Berkeley, Haas School of Business

Senior Fellow, Aspen Institute Financial Security Program

LAWYERS' COMMITTEE FOR CIVIL RIGHTS OF THE SAN FRANCISCO BAY AREA

March 15, 2019

The Honorable Jose Cisneros, Treasurer
City Hall, Room 140
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Via Email

Re: Comments on February 2019 Municipal Bank Feasibility Task Force Report

Dear Treasurer Cisneros:

We write to thank you for including us as members of the Municipal Bank Feasibility Task Force which has led to the 2019 Municipal Bank Feasibility Task Force Report (the "Report"). We admire and appreciate the effort your office put into producing this Report, especially the hard work of Molly Cohen, Katherine Chen, Amanda Fried, and Tajel Shah. While the Report has not considered enough factors to rise to the level of a feasibility study, it gathers critical data, provides initial analysis and is the beginning of the conversation about how the City can create a safe, accountable and transformative banking solution that will benefit all of its residents. We think that the next steps are to develop additional models which consider more factors, convene all internal City actors tasked with lending, and hire a consultant to develop a business plan for San Francisco's Public Bank. As community development advocates who strongly believe in the potential that such a bank could offer the City and people of San Francisco, we offer the below comments in the spirit of providing feedback on the Report and endorsing the next steps it has laid out.

A. The Report considers financial models that overcomplicate the formation of the public bank.

We agree with the conclusions of Task Force member, Lauren Leimbach, who stated in her March 7th, 2019 response letter that, "The models over-estimate start-up and operational costs and under-estimate revenue generation." The Report assumes that Models Two and Three would cost a total of $1.6 billion and $3.9 billion, respectively, including start-up costs, operational subsidy and capital investment. We believe these numbers are overstated. We agree with Ms. Leimbach's assessment that, "due to time limitations and lack of experience in bank and payment operations, it was difficult for Task Force staff to identify existing and more cost-effective options to optimize operating costs." We believe a critical next step would be to rigorously test the Report's cost assumptions, hiring external consultants who could advise on technology solutions to handle the City's banking needs, or exploring correspondent banking relationships with larger mission-aligned banks, such as Amalgamated Bank.

B. The Report does not model a phased approach.

The Report mentions starting with a phased approach "where the City implements interim opportunities while a municipal bank is in development, and then allows the bank itself to develop over time" (page 41), and we agree that this should be one specific phased-approach model. As a next step, we recommend modeling a phased approach that would build towards taking on all of the City's banking needs.

The Report provides three models for a public bank—Models 2 and 3 are depository institutions that serve as the City's primary banker, providing its cash management and payment services. Model 1 is a non-depository loan fund. The Report projects very high costs for Models 2 and 3, ranging from $95 million to $143 million *annually*. Part of the reason that the costs are projected so high is because the Models are performing the City's cash management and payments systems work, which is much more expensive than just holding deposits. The information technology development for cash management *is the highest fixed cost, projected at $40 million annually*.

Performing the City's cash management is not the central, nor most pressing need, for a public bank. The most pressing needs are community re-investment—especially affordable housing, small business lending, student loans and renewable energy investment. Cash management can be phased in over time, and there are many more technology options available beyond what the Treasurer's Staff could investigate given time and other constraints.

We think the City should model a depository institution that grows, over time, to become the City's primary banker. This "Model 1.5" as we have termed it, would be a bank that holds City funds that are not required for daily operations or that are currently invested in the Treasurer's Pooled Funds. Its primary function would be lending for community re-investment.

This Model 1.5 would not serve as the City's primary banker, as considered in Models 2 and 3. While Model 1.5 would be a depository institution, it would not initially take on cash management or payment processing. As a depository institution, it would have access to a deposit base—primarily City deposits, but also from other depositors—which would be a lower-cost base for lending. This Model could therefore overcome some of the cost concerns in Models 2 and 3, while still providing access to a deposit base, which is not available in the current Model 1. More importantly, Model 1.5 would start building core competency in lending, which would allow it to eventually become the City's primary banker.

C. The Report leaves out critical factors which would otherwise be required in a feasibility study.

The Report models interest rates for direct loans below-market. Instead, it should have recognized that the mix of interest rates in the proposed loan portfolio will be fluid and not all loans will be below-market. It also models static loan growth at 5 percent per year with no consideration of business cycles, especially those affecting the supply and demand of housing. There should be more discussion of risk modeling, such as potential downturns in the business cycle or a collapse of the real estate market.

In addition, the Report makes passing mention of the disruptive effect that fintech developments will have on the banking industry. Banking experts agree that fintech will severely disrupt the banking industry in the coming years, potentially reducing current technology costs dramatically. The Report fails to model this likely disruption; indeed, technology costs are modeled as the highest annual cost, with no alternative scenarios presenting the likelihood of lower costs in the future. This oversight underlies our concern that the Report may be overstating technology and other operational costs.

The Report mentions housing lending activities for mezzanine debt targeted at for-profit developers, ADUs and small sites acquisitions, to the exclusion of other products. We wish that the Report had gone bigger, for example modeling large scale acquisitions for the development of affordable housing or direct lending to nonprofit affordable housing developers.

D. The Report is not clear about the source of deposits and assumes away a major source of funding.

The Report contradicts itself with regard to the source of deposits. In Assumption 9 (page 31) the Report states that the depositors are not defined and that "the models do not depend on deposits coming from any source." Earlier, the Report states that in Models 2 and 3, the bank will hold $100 million of the City's short-term deposits (page 22). We can only conclude that Models 2 and 3 depend on the City being the primary deposit source. The Report should have been more clear about this crucial point because advocates are clear that they want to build towards a bank that will hold the City's deposits. The question is whether, in the initial phase, this bank needs to be the City's *primary banker*.

The Report also assumes away the use of the Treasurer's Pooled Investment Fund, a major source of potential funding. It is imperative to examine the legal or policy changes that would be required in order to use the $11 billion of Treasurer's Pooled Funds, either in the bank's deposit base or as a non-deposit funding source. We appreciate that there are legal barriers to moving this money—some of which may be addressed in pending legislation in Sacramento (AB 857-Chiu), and the Report could specifically call for state legislation to address those issues.

In discussing why the Pooled Investment fund is off the table, the Report states,

> *The money in the pool comes from tax revenues, fees, federal and state government, and bond proceeds. All of these funds have already been allocated through the budgetary process and through voter-initiated bond approvals and as part of the capital plan. State law and the City's investment policy sharply limit how the Treasurer can invest the Pool, and in general these investments must be of the highest quality and most secure and short-term in duration. For example, almost 60 percent of the Pool is currently invested in treasuries and federal agencies, and over 50 percent held in securities under 1 year in duration* (page 22).

It is important to note here that over 50 percent of the Pooled Fund is held in securities under one year in duration—but not all of it is invested in federal treasuries. This means that those funds are presumably being invested with other banks. The Report should analyze the potential to use this source of funds for the public bank, such as by using them as short-term notes or through some other non-depository funding mechanism. To dismiss the Pooled Fund strips the City of a potentially critical source of its own funding.

E. The City should convene all agencies performing lending work with a mission of consolidating lending activities into one entity.

The Report recommends convening a working group of internal City actors to lead the next phase of the work, which should be tasked with finalizing objectives for the bank and building a realistic roadmap (page 43). We endorse this as a next step. In addition, we think the Board of Supervisors should provide more direction about what a potential working group should explore. We recommend two areas of exploration: 1) consolidation of all existing lending activities into one entity; and 2) exploration of the Model 1.5 described above.

1. <u>Consolidation of all lending activities with the mission of forming a single lending entity</u>

As the Report describes, the Mayor's Office of Housing and Community Development (MOHCD) and the City spends and invests $400 million per year on affordable housing on subsidies to develop and preserve affordable housing units and on down payment assistance programs which help individual homeowners purchase their first homes (page 16). Four hundred million dollars annually is half of the operational subsidy that the Report projects for Model 2, notwithstanding the high costs of that model. We believe there are potential cost savings to redirecting this subsidy to the operations of the future bank. The purpose of convening the working group could be to make recommendations to this effect.

2. Hire a consultant to model the creation of a depository institution that could grow, over time, into the City's banker.

As we discuss above, we believe the City should explore a Model 1.5, which would be a depository institution that could grow to become the City's primary banker. We wholeheartedly endorse the Report's recommendation to hire a consultant to develop a business plan that would explore such a model.

We look forward to continuing to engage with you and with the Board of Supervisors on this critical endeavor, one with the potential to establish San Francisco as both a thriving global center and an equitable home for all of its residents.

Sincerely,

Sushil C. Jacob, Senior Economic Justice Attorney, Lawyers' Committee for Civil Rights

Paulina Gonzalez-Brito, Executive Director, California Reinvestment Coalition

Ky-Nam Miller, Task Force Member

John Avalos, Coordinator, National Union of Healthcare Workers