



San Francisco Public Bank Coalition

September 20, 2018

To: The Office of the Treasurer and Tax Collector (TTX)
Attention: Molly Cohen

RE: Follow-up from Meeting 6 of the Municipal Bank TF

Dear Mrs. Cohen,

Thank you for including members of the San Francisco Public Bank Coalition on your email dated September 14, 2018, in which you committed to providing a model for a public bank that takes on the Treasury management functions for the City and County primarily performed by Bank of America. However, with just 43 days until the final Task Force meeting scheduled for November 1st, we are urgently concerned about the lack of communication regarding the timeline for releasing the draft report for public comment. This letter defines the work product created by your office as the "Draft Report", which is the report to be delivered prior to the November 2018 Task Force Meeting, and the "Final Report," which is the report that is published after receiving comment from Task Force Members and from the public. It is our expectation that the Draft Report will be released with sufficient time for input from Task Force Members and from the public, but in no event less than one week prior to the November meeting.

We were discouraged that, after seven months of convening the Task Force and, presumably, seven months of research within TTX, you have thus far only released a draft Executive Summary for public review. We had expected a full Draft Report. Moreover, we are disappointed that the models you identified in the Executive Summary fail to model an actual municipal bank that would be the depository for the City's funds. Instead the models suffer from a paucity of vision and ambition for the transformational power of a true municipal public bank. With the goal of assisting you in getting the work of the Task Force back on track, we provide the following suggestions.

First, we request that the Final Report include a chronological summary of the drafting stages you undertook between the September 13th and November 1st Task Force meetings. For example:

- September 13, 2018: Executive summary draft presented to Task Force
- [MONTH DAY, YEAR]: Draft Report distributed to task force members (via e-mail or in-person)
- [MONTH DAY, YEAR] to [MONTH DAY, YEAR]: Task force members provided feedback on Draft Report
- [MONTH DAY, YEAR]: Final Report issued by Task Force (or TTX) according to [explain process here]

We would also appreciate an explanation in the report as to whether all feedback from the public and Task Force members--provided either at the Task Force meetings or via email--had been

incorporated into the Draft Report between September 13 and the time the report is finalized. If not, please include reasons for excluding such feedback.

In addition, we will be reviewing the Draft Report for elaboration of subjects in the pages that follow.

Required characteristics of a municipal public bank

The San Francisco Public Bank Coalition has adopted the following characteristics as non-negotiable for a San Francisco municipal public bank (the “Bank”):

1. **Public Funds & Ownership.** San Francisco taxpayer money is currently entrusted to private banks that engage in socially and environmentally destructive practices fundamentally contrary to the values of San Franciscans. The profit derived from their loans benefits private shareholders who are not accountable to our City. The primary purpose of the municipal public bank of San Francisco is to create an entity that the City owns and controls. Only public entities shall be able to own shares in the Bank. Further, the Bank shall be adequately capitalized over time in order to be entrusted with the City's deposits.
2. **Local Control & Public Welfare.** The Bank shall operate on principles of local control for the benefit of the (community/communities) that own it, and invest for the purposes of enhancing the welfare of those communities, rather than the private wealth of a class of shareholders.
3. **Accountability and Transparency.** The Bank shall adopt mechanisms for ensuring community oversight, accountability, and transparency.
4. **Underserved Communities.** The Bank shall directly or indirectly provide credit and financial services to local communities underserved by mainstream commercial banks and lenders as well as public finance programs, to undo the historical legacy of wealth disparities and harmful economic, environmental, social, housing and transportation impacts.
5. **Community Wealth Building.** The public bank shall seek in its lending programs to promote an economy that upholds social justice and ecological sustainability. In its lending priorities, it shall promote community ownership and community wealth building, including investments in permanently affordable housing, renewable energy infrastructure, students and educators, locally-owned social enterprises, cooperatives, and community-based nonprofit organizations.
6. **Cooperation with Existing Community Banking Institutions.** The Bank shall strengthen the lending capacity of existing non-Wall Street credit unions and local banks by partnering, rather than competing, with them on participation lending and other programs.
7. **Indigenous Rights.** The public bank shall act within a reparations framework to (1) recognize the historic injustices carried out in this particular place now known as San Francisco, (2) protect sacred sites and support indigenous land trusts, and (3) uphold indigenous people's right to Free, Prior, and Informed Consent.
8. **Prohibitions.** The Bank should refrain from investing in sectors that exacerbate negative environmental conditions and socio-economic disparities, including fossil fuels, tobacco, military and weapons, prisons and detention centers.

A holistic cost-benefit analysis of establishing a the Bank versus maintaining current banking relationships with Wall Street banks

In its aim to present a holistic--though less than exhaustive--Cost Benefit Analysis of establishing a municipal bank to the Board of Supervisors, we ask the Treasurer's Office to calculate not only the expenses and benefits of establishing the Bank, but also the expenses and benefits of maintaining the City's current system of banking relationships with Wall Street banks. To this end, we ask that the Treasurer's Office calculate

- ALL city expenses of banking services for each of the past ten years including, but not limited to: bond debt, cash management services, brokerage services, and security custodian services; and
- Return on Investment (ROI) for each of the past ten years from the City's Pooled Investment Fund, as well as interest in any savings accounts.

Options for capitalizing a Bank

The Task Force has covered the issue of capitalizing the municipal bank at a few meetings. We hope the report addresses this crucial topic, and provides an explanation of how the State of North Dakota and Territory of American Samoa capitalized their own public banks.

A multi-category comparison between municipal public bank models provided by the Treasurer's Office, and the Bank of North Dakota

In conversations with staff of the Treasurer's Office, we understood that the Treasurer's Office was studying the Bank of North Dakota as a model from which to build upon for a potential municipal bank, adjusted for the unique investment opportunities, priorities, and values of the City and County San Francisco. As we know, BND (1) is not FDIC insured, but rather insured by the State of North Dakota; (2) has four main lines of business: home mortgages, student loans, business, and agriculture; (3) has a governance structure headed by the governor, the attorney general, and head of their agricultural department, as well as an Advisory Board and Executive Committee; and (4) does not provide direct loans, but rather partners onto existing loans and programs originated by in-state credit unions and banks. In keeping with that model, while also tailoring the model to the specific investment opportunities, priorities, and values of San Franciscans, we ask the Treasurer's Office to

- Model a Bank that does not provide direct loans, but rather follows in the footsteps of the Bank of North Dakota by partnering with credit unions and in-state, non-Wall Street banks on loans in sectors that align with San Francisco priorities:
 - Permanently affordable housing
 - Green energy infrastructure
 - Student loans
 - Small businesses
- Adjust the rates of return and interest rates included in all models, with input from credit unions and local banks with which a San Francisco municipal bank could partner on their existing loans
- A side-by-side comparison of all models in the Draft Report, with the models of the Bank of North Dakota--and, if possible, the new Territory Bank (American Samoa)--across the categories of:
 - Mission
 - Principles
 - Governance
 - Lines of business

- Insurance
- Capitalization; and
- Cooperation, rather than competition, with local credit unions and local (“non-Wall Street”) banks.

An explanation of the state charter application process

It is our understanding that the City will need to apply to the state Department of Business Oversight (DBO) for a depository bank license. On the subject of the DBO’s state charter application process, we ask the Treasurer to clarify the following:

- the role of a Board of Directors;
- the requirement for a business plan;
- the roles of “bank organizers;”;
- Start-up cost estimation requirements;
- capitalization requirements;
- An estimation of the time it will take to complete the charter application process [The Executive Summary Draft presented 5 years, while Task Force member Marc Franson said may only take 18 months; and
- Whether the DBO has discretion to waive the FDIC insurance requirement for the municipal public bank’s application;

A clear pathway to establishing a municipal public bank

Please include in the report an explanation of the necessary steps the City must take in establishing a Bank. Our Coalition projects this pathway to include:

1. Identifying which barriers exist in current law to establishing a Bank, and identifying ways to either address or amend state laws. For example
 - a. Can the city work around collateralization regulations with letters of credit from the Federal Home Loan Bank? We understand that this is the Treasurer’s current practice with roughly \$80 million in City deposits to local banks and credit unions.
 - b. Should state legislators create a separate public bank charter that defines a public bank?
2. Recommendation to bring a charter amendment to the voters of San Francisco City and County establishing:
 - a. mission and principles of the Bank;
 - b. a governance model, including a Board of Directors, with appropriate levels of autonomy, community representation, transparency, and accountability; and
 - c. a mandate for “bank organizers” within the Treasurer’s office to facilitate the process of applying to the DBO for a state charter, and to assist the Board of Directors in drafting a business plan.
3. Recommendations for capitalization of the Bank to include: a one-time appropriation from the City, a loan from the city, issuing non-voting shares to the public, seeking grants, etc.

Public commentary

Finally, please include in the Draft Report a copy of our statement dated September 14, 2018, as well as a copy of this letter.

We reserve the right to amend this request as the final Task Force meeting approaches and as we receive updates on this report--or not--from your Office. Thank you in advance for your consideration.

Sincerely,

The San Francisco Public Bank Coalition