CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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LEGISLATIVE ANALYST REPORT – Updated

To:	**Supervisor Avalos**
From:	**Budget and Legislative Analyst**
Date:	**September 8, 2011 – Updated**
Re:	**Community Supportive Banking Options**

SUMMARY OF REQUESTED ACTION

Your office requested that the Budget and Legislative Analyst research options for ways that the City may invest its funds in community-supportive banking institutions, including those that invest more in local small businesses, single family homeowners and community development. Your office asked us to report on a variety of municipal banking options, including private, credit union and public banking systems, with a focus on any examples of existing public banks in other jurisdictions (specifically, the Bank of North Dakota).

EXECUTIVE SUMMARY

- The Office of the Treasurer and Tax Collector is responsible for the banking and investment activities of the City and County of San Francisco and must abide by local, state and federal law in carrying out its duties. The City's monies are divided into two categories: (1) the cash that is used for ongoing expenditures including City and County employee salary expenditures, residing in bank accounts, and (2) all other funds that are not necessary for short-term use, invested in the Treasurer's Investment Pool. The City currently uses the services of three banks for its short-term cash banking needs, and many banks, brokers and dealers for its investment activities.
- The primary impediment to the City and County of San Francisco creating a public bank is California Government Code Section 27003, which states that "a county shall not, in any manner, give or loan its credit to or in aid of any person or corporation." Therefore, should the City and County of San Francisco choose to pursue the public bank option, a change in State law would be required. Beyond the legal impediment, the City would need to invest significant resources to capitalize the bank and build the human resource and technological capacity to operate a large financial institution. However, as demonstrated by the Bank of North Dakota, which is the only public bank in the United States, several potential benefits might be obtained through the establishment of a public bank, including (a) the creation of a new revenue-stream for local government without raising taxes, (b) decreased borrowing costs and increased credit stability for local government, and (c) increased support for small businesses and any number of community development programs.
- If a public bank were to be established, or if any other option presented in this report were to be pursued, the City and County of San Francisco would be required to comply with California Government Code Section 27000.5, which states that "the primary objective of the

county treasurer or the board of supervisors, as the case may be, shall be to safeguard the principal of the funds under the treasurer's or the board's control." This means that protecting the safety of public funds must always be the first priority in investment decisions and that consideration of liquidity, return on investment, or other priorities is subjugated by the requirement that county officials must protect principal. Therefore, investing in credit unions or community development banks (beyond the $250,000 per institution insured by the Federal Deposit Insurance Corporation) would only be allowable through a formal appropriation of funds to a program by the Board of Supervisors. Per California Government Code Section 27000.5, the Office of the Treasurer and Tax Collector would not be authorized to make such investments with the Treasury Funds.

- The City has several options available should it choose to increase its support of small businesses, single family homeowners and community investment. These options, and follow up recommendations for each, are as follows:

Option 1. Invest funds in local credit unions or community development banks that provide a minimum level of investment in City community development and improvement efforts

Recommendations to pursue this option:

1. Request the Office of the Treasurer and Tax Collector evaluate the viability of the 17 San Francisco-based credit unions reported by the National Credit Union Administration, any other credit unions operational in San Francisco, and qualified community development banks to ascertain which, if any, would be suitable for City time deposit business based on the institutions meeting a minimum level of investment in City community development and improvement efforts.
2. Unless evidence of additional suitable security is provided by any such institutions, the investment per institution must be limited to $250,000, the maximum insured by the FDIC.

Option 2. Expand existing City community development programs

Recommendations to pursue this option:

3. Request information from appropriate City departments on the results of existing community investment programs, both those operated directly by the City and those operated in conjunction with partner financial institutions, to assess which programs are suitable for additional appropriation of City funds. Examples of such programs are the Surety Bond Financing Assistance program and the Kindergarten to College program.
4. Request the Office of the Treasurer and Tax Collector to incorporate an element related to community investment into its upcoming competitive Request for Proposals to obtain banking services such that banks doing business with the City would be required to fulfill a defined community investment component such as the Kindergarten to College program or the Bank on San Francisco program.

Option 3. Create a community investment program by appropriation of funds

Recommendations to pursue this option:

5. Request the Office of the Treasurer and Tax Collector to evaluate and report back to the Board of Supervisors on the viability of and risk associated with the City operating a direct loan-making initiative such as an "Office of Community Investment", including recommendations for which City Department should administer the program and which City Department should provide oversight of this function.

6. Based on the results of the Treasurer and Tax Collector's report, request the City Attorney to prepare legislation for consideration by the Board of Supervisors that: defines the level of funding to be appropriated for the Office of Community Investment; defines targeted small business and community member clients; sets loan-making criteria; and creates an operational plan for establishing the Office of Community Investment.

Option 4. Support Assembly Bill 750 which would create a task force to study the viability of creating a State Bank and existing efforts in California to establish a state bank *[September 8, 2011 update: AB 750 was "held under submission" in the State Senate Appropriations Committee on August 25, 2011, indicating limited political viability without new levels of support or interest.]*

Recommendations to pursue this option:

7. Obtain from the legislative sponsors of AB 750 all related information about AB 750 and inquire about ways the City may actively support such legislation and benefit from advocating for the passage of AB 750 which is currently pending before the State legislature.

8. If the information gathered on AB 750 and the potential benefits to the City's community development efforts from creation of a state bank are determined to be worthwhile, request the City Attorney to prepare legislation for consideration by the Board of Supervisors to express support for such legislation and establish a process for City staff to follow up and report back to the Board of Supervisors on their involvement and the progress of AB 750.

Option 5. Join efforts to establish a Bay Area network of public banks

Recommendations to pursue this option:

9. Contact representatives of the Public Banking Institute, the nonpartisan research and advocacy organization that is organizing a steering committee of Bay Area stakeholders interested in establishing a regional public bank, to determine if participation in this effort would be beneficial to the City.

Option 6. Establish a San Francisco public bank

Recommendations to pursue this option:

10. Request the Treasurer and Tax Collector submit a report on the viability and estimated costs and benefits of establishing a public bank in San Francisco. The information to be provided should include:

- detailed estimates of the costs to the City of operating the bank, including consideration of the cost of human resources and technological systems that would be required;
- an examination of the legal hurdles and required steps to effectuate a change in State law;
- an assessment of the financial risk to the City and options to address that risk;
- options for meeting the 10 percent capital reserve requirement imposed on banks by the Federal Reserve Bank;
- a preliminary time-line for establishing the bank and meeting all regulatory requirements; and,
- the potential benefits that would accrue to the City and as well as to the City's residents and businesses, including an assessment of the value of more stable access to lower cost credit and an estimate of the potential revenue that could be generated for the City and County of San Francisco.

CITY AND COUNTY OF SAN FRANCISCO CURRENT BANKING ARRANGEMENTS

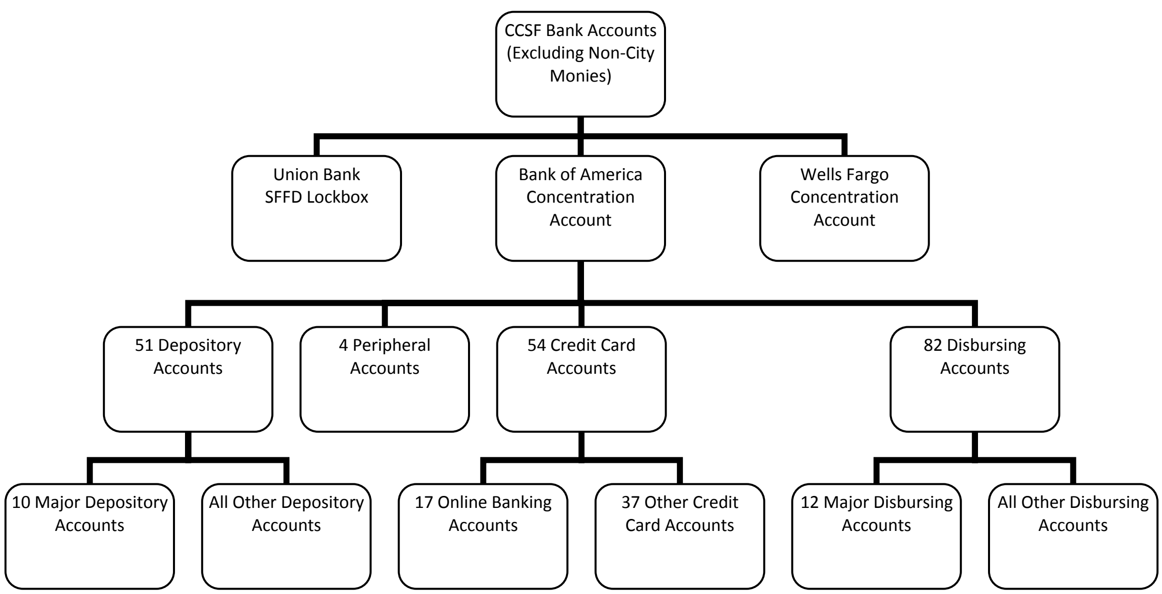
The City's monies are divided into two categories: (1) the cash that is used for frequent expenses like payroll, residing in bank accounts, and (2) all other funds that are not necessary for short-term use, invested in the Treasurer's Investment Pool. Each of these two categories of funds are described in more detail below.

Cash Bank Accounts

The City's cash for short-term use such as payroll and operations is held in bank accounts with the following institutions: Bank of America, Union Bank, and Wells Fargo Bank. The balance of cash held in these accounts as of the most recent audited financial statements (June 30, 2010) was $406,479,000[1].

As shown in Exhibit 1 below, the City's bank account structure includes a total of 194 accounts[2], including 82 disbursing accounts, 54 credit card accounts, 51 depository accounts, and four peripheral accounts, in addition to the primary Union Bank Lock Box Account, the Bank of America Concentration Account, and the Wells Fargo Concentration Account.

Exhibit 1
City and County of San Francisco
Bank Accounts Structure



Total of 194 Accounts
Data as of 02/04/2011

Source: Request for Proposals for Treasury Management Consulting Services (Attachment 4), Office of the Treasurer & Tax Collector.

[1] The Comprehensive Annual Financial Report of the City and County of San Francisco, Notes to the Basic Financial Statements, Note (5)(a) Cash, Deposits and Investments Presentation (page 59).
[2] As of February 4, 2011.

According the Office of the Treasurer and Tax Collector, the City has had its current banking relationships with Bank of America, Union Bank, and Wells Fargo for more than ten years. The City developed relationships with these three banks over time, as the City's service needs as well as the services offered by the individual banks changed. As Exhibit 1 above shows, the City's banking needs involve many different services which, in recent years at least, were only obtainable by engaging with multiple banks.

In 2011 and 2012, the Office of the Treasurer and Tax Collector will conduct a search for banking services providers. On March 24, 2011, the Office of the Treasurer and Tax Collector issued a request for proposals (RFP) for Treasury Management Consulting Services. The chosen consultant will work with the Treasurer-Tax Collector to assist in the selection and establishment of one or more banking and/or merchant card services contracts. As of the date of this report, the consultant had not yet been chosen. The Treasurer-Tax Collector expected to complete the entire banking and/or merchant card services contract selection process by approximately August 2012.

Invested Funds – Pooled Fund

Funds that are not needed for short-term operational use are invested in the Treasurer's Pooled Fund Portfolio. These funds are invested in accordance with California Government Code Sections 27000-27013 and the City and County of San Francisco Investment Policy, which is adopted by the Treasury Oversight Committee.

As of July 31, 2011, the Pooled Fund Portfolio had a balance of $3,959,950,813 in market value. Exhibit 2 below, an excerpt from the Pooled Fund's July 2011 Investment Report, shows the values of each of the different types of investments in the portfolio, broken out by par value, book value, and market value. The City's securities are held by Citibank, its custodian bank, and several brokers, banks and dealers are used in the buying and selling of securities.

Exhibit 2

City and County of San Francisco
Pooled Fund Portfolio Statistics

For the month ended July 31, 2011

Average Daily Balance	$3,959,950,813
Net Earnings	$4,222,406
Earned Income Yield	1.26%
Weighted Average Maturity	840 days

Investment Type	($ million)	Par Value	Book Value	Market Value
U.S. Treasuries		$ 450	$ 451	$ 456
Federal Agencies		2,513	2,522	2,545
TLGP		671	683	681
Public Time Deposits		10	10	10
Negotiable CDs		150	150	150
Commercial Paper		50	50	50
Total		$ 3,844	$ 3,866	$ 3,891

Source: Office of the Treasurer & Tax Collector July 2011 Investment Report.

BACKGROUND ON SPECTRUM OF COMMUNITY-SUPPORTIVE BANKING

A commercial bank is a for-profit financial institution that is owned by private investors and is organized to provide return to its investors. A commercial bank may offer some of the same services as a credit union, community development bank or other type of financial institution, and may even be chartered or supervised by some of the same regulatory entities, but the profit-generating purpose of commercial bank distinguishes it from financial institutions that include a community- or member-supportive mission.

Definition of other types of banking institutions

- Publicly-owned Bank

  A financial institution owned by a public entity. The only example of a publicly-owned bank in the U.S. is the Bank of North Dakota, which is described in detail below.

- Community Development Bank

  A mission-driven private financial institution that provides financial services to individuals, businesses, and communities underserved by traditional financial institutions. Authorized by the Community Development, Credit Enhancement, and Regulatory Improvement Act of 1994, key attributes of these institutions are defined in the authorizing law as follows:

  > (i) has a primary mission of promoting community development;
  >
  > (ii) serves an investment area or targeted population;
  >
  > (iii) directly, through an affiliate, or through a community partnership, provides development services and equity investments or loans;
  >
  > (iv) maintains, through representation on its governing board or otherwise, accountability to residents of its investment area or targeted population; and
  >
  > (v) is not an agency or instrumentality of the United States, or of any State or political subdivision of a State.

  The Community Development, Credit Enhancement, and Regulatory Improvement Act of 1994 established the Community Development Financial Institutions Fund (CDFI Fund), which was created for the purpose of promoting economic revitalization and community development through investment in and assistance to community development financial institutions (CDFI's). Administered by the U.S. Office of the Treasury, the CDFI Fund operates several programs whereby monetary awards and the allocation of tax credits support qualifying CDFI's in their economic, business, and community development goals.[3] Only certified CDFI's may access CDFI Fund awards. According to the CDFI Fund, CDFI's include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds,

[3] Overview of What We Do, Community Development Financial Institutions Fund, U.S. Department of the Treasury.

provided they meet the community development criteria spelled out above.[4] Since a CDFI may take these various forms, there are multiple federal regulators of these institutions. For example, a credit union seeking CDFI funds would need to meet the certification and regulatory requirements of the CDFI Fund of the U.S. Department of the Treasury in addition to those of the Federal Deposit Insurance Corporation and National Credit Union Administration if it is a federal credit union, or the California Department of Financial Institutions if it is a state-charted financial institution.

According to the U.S. Treasury's CDFI Fund website, 61 awards totaling $377.4 million have been granted to 17 different CDFI's in San Francisco since the establishment of the Fund in 1996. These awards ranged in size from $11,000 to $50 million, with the average award amounting to $6.2 million and the median award amounting to $860,000 and were awarded to a variety of types of CDFI's, including commercial banks, credit unions, venture funds and other community loan funds. Among the 17 awardees were Citibank, Northeast Community Federal Credit Union, Pacific Community Ventures, and Northern California Community Loan Fund, to name a few. While the 17 awardees may not represent the total number of certified CDFI's in San Francisco, the award information does indicate that a broad array of types of financial institutions have sought and secured funding from the CDFI Fund.

- Credit Union

  A credit union is defined as a nonprofit cooperative financial institution owned and run by its members. While they offer many of the same banking services, including checking and savings accounts and loan services as commercial banks, their organizational structure differs from commercial banks. Commercial banks are corporations owned by private investors and organized to return profit to investors, while credit unions are cooperatively owned by members, or depositors, who share in the benefits accrued by the credit union. Credit unions are intended to provide their members with a safe place to save and borrow at reasonable rates. They are governed by volunteer boards that are elected by the members.

  Like commercial banks, credit unions in the U.S. may elect to be chartered either on the federal or state level. Credit unions may be chartered and supervised on the federal level by the National Credit Union Administration (NCUA), an independent federal agency, or on the state level by the state's regulatory body overseeing credit unions. In California, the Department of Financial Institutions (DFI) oversees state-chartered credit unions. The statutory definition of a credit union provided by California Financial Code Section 14002 is similar to the NCUA definition but does not include the word "nonprofit".

- Other Vehicles

  Other, more specialized financial vehicles exist for community development purposes, including community development loan funds, and community development venture capital funds.

[4] CDFI Certification, Community Development Financial Institutions Fund, U.S. Department of the Treasury.

Banking in San Francisco

Table 1 below shows the number and asset size of commercial banks and credit unions in California, by federal or state-chartered status, as reported by the California Department of Financial Institutions. As the table shows, there are 188 state-chartered commercial banks in California with approximately $250 trillion in assets, and 49 national commercial banks in California with approximately $175 trillion in assets. There are 160 state-chartered credit unions in California with approximately $73 trillion in assets and 271 federal credit unions in California with approximately $56 trillion in assets.[5] The Department of Financial Institutions also reports on 11 other categories of financial institutions including industrial banks, trust companies, international banks and money transmitters.

Table 1:

Number and Asset Size of Commercial Banks and Credit Unions in California

		Commercial Banks	Credit Unions
State-Chartered	Number (%)	188 (79.3%)	160 (37.1%)
	Assets (%)	$250 billion (58.8%)	$73 billion (56.6%)
	Average Assets	$1.3 billion	$456.3 million
Federal or National	Number (%)	49 (20.7%)	271 (62.9%)
	Assets (%)	$175 billion (41.2%)	$56 billion (43.4%)
	Average Assets	$3.6 billion	$206.6 million
Total State-Chartered and Federal or National	Number	237	431
	Assets	$425 billion	$129 billion
	Average Assets	$1.8 billion	$299.3 million

Source: California Department of Financial Institutions, Financial Institution Overview as of March 31, 2011.

As shown in the table, most (79.3 percent) commercial banks established in California choose to operate under a state charter, but the average size of those banks ($1.3 billion) is less than half the size of the average national bank ($3.6 billion). This reflects the likelihood that larger national banks operate in multiple states and seek more streamlined regulatory requirements than holding multiple state charters would allow. The opposite pattern is exhibited by the credit unions, the majority (62.9%) of which are federally chartered. The average size of the federally credit unions ($206.6 million) is less than half the average size of the state-chartered credit union ($456.3 million).

PERTINENT REGULATORY FRAMEWORK AND REQUIREMENTS

Regulation of banks and credit unions

Financial institution regulation in the U.S. is complex and involves several entities and options. Generally, a financial institution based in California will be subject to the oversight of two or

5 Financial Institution Overview, as of March 31, 2011, California Department of Financial Institutions, available at: http://www.dfi.ca.gov.

more regulatory agencies. Known as a "dual chartering system,"[6] or a "dual banking system," financial institutions in the U.S. may elect to be chartered on either the state or federal level. Generally, if a bank expects to keep its business in a single state, it may choose to seek a state charter, since, as described below, state bank regulatory agencies may provide some benefits to charter holders. Conversely, if a bank's business proposal involves expansion into multiple states, it may prefer a single regulatory framework and opt for a national charter. If a bank or credit union opts not to seek a state charter, it is considered a "national" institution, and it will be subject to oversight by one federal regulator, its "primary regulator." If a bank or credit union elects to be a "state-chartered" institution, it will be subject to regulation by both the State of California and a federal regulator, as described in more detail below. As shown above in Table 1, a large majority, approximately 79 percent, of commercial banks established in California choose to operate under a state charter. By contrast, only 37 percent of credit unions established in California choose to operate under a state charter. However, commercial banks with greater assets generally operate under federal charters to allow for interstate banking and local regional banks with smaller asset bases tend to operate under State charters.

The California Department of Financial Institutions (DFI) oversees the operation of California's state-chartered financial institutions, including banks, credit unions and several other types of financial institutions. The DFI asserts that there are several advantages to seeking a state-charter, including greater access to itself as the regulator than institutions would have with the federal regulators, lower fees and assessments, streamlined examination processes, and director training opportunities, among others.[7] If a bank obtains a state charter from DFI, its primary federal regulator would then be either the Federal Reserve Bank (for state-chartered banks that are members of the Federal Reserve System) or the Federal Deposit Insurance Corporation (for state-chartered banks that are not members of the Federal Reserve System). If a bank chooses not to obtain a state charter from DFI, it would be known as a "national bank" and would be regulated by the Office of the Comptroller of the Currency.[8]

Regulation of the Treasury of the City and County of San Francisco

The Office of the Treasurer-Tax Collector is responsible for the banking and investment activities of the City and County of San Francisco. The Treasurer-Tax Collector must carry out these responsibilities in accordance with federal, state and local law and policies, as outlined in this section.

California Government Code Sections 27000-27013 define the roles and responsibilities of county treasurers in receiving and safely keeping counties' money. Section 27000.5 defines the relative importance of the three primary objectives that a county treasurer and/or board of supervisors must effectuate in all investment practices:

> When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of the county treasurer or the board of supervisors, as the case may be, shall be to safeguard the principal of the funds under the treasurer's or the board's control. The secondary

[6] "The Dual Chartering System and the Benefits of the State Charter," California Department of Financial Institutions, available at: http://www.dfi.ca.gov.
[7] "Advantages of State Charter," California Department of Financial Institutions, available at: http://www.dfi.ca.gov.
[8] *The Federal Reserve System: Purposes and Functions*, The Federal Reserve Board, available at www.federalreserve.gov.

> objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under his or her control.

This three-tiered hierarchy is commonly known in the investment field as "SLY," which stands for Safety, Liquidity, Yield. The fundamental meaning of Section 27000.5 and the SLY concept is that protecting the safety of public funds must always be the first priority in investment decisions and that consideration of liquidity, return on investment, or other concerns is subjugated by the requirement that county officials protect principal.

In addition to state and federal law, the City and County of San Francisco Office of the Treasurer and Tax Collector abides by its own set of investment policies approved by the Treasury Oversight Committee[9] and adopted by the Office in January 2011.[10] Reflecting the three-tiered Safety-Liquidity-Yield hierarchy required by California Government Code Section 27000.5 (shown above), the Section 1.0 ("Policy") of the Investment Policy states:

> It is the policy of the Office of the Treasurer & Tax Collector of the City and County of San Francisco (Treasurer's Office) to invest public funds in a manner which will preserve capital, meet the daily cash flow demands of the City, and provide a market rate of return while conforming to all state and local statutes governing the investment of public funds.

Section 4.0 ("Objective") of the Investment Policy specifies the priority order of these three objectives:

> The primary objectives, in priority order, of the Treasurer's Office's investment activities shall be:
>
> 4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the Treasurer's Office shall be undertaken in a manner that seeks to ensure the preservation of capital. To attain this objective, the Treasurer's Office will diversify its investments.
>
> 4.2 Liquidity: The Treasurer's Office investment portfolio will remain sufficiently liquid to enable the Treasurer's Office to meet cash flow needs which might be reasonably anticipated.
>
> 4.3 Return on Investments: The portfolio shall be designed with the objective of generating a market rate of return without undue compromise of the first two objectives.

Section 13.0 ("Social Responsibility") of the Investment Policy outlines socially responsible investment goals that should be used "in addition to and subordinate to" the objectives set for the Section 4.0 when investing in corporate securities and depository institutions. While these provisions effectively express the City's preference that socially responsible investments be made when safe and otherwise prudent, the primacy of the safeguarding requirement may in practice significantly limit socially responsible investment options available to the Office of the Treasurer and Tax Collector. The two primary Subsections are shown below:

> 13.1 Social and Environmental Concerns
> Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms, or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing and

[9] The Treasury Oversight Committee was established by the San Francisco Board of Supervisors in Ordinance No. 316-00. The five-member committee is charged with reviewing and monitoring the Treasurer's Investment Policy and overseeing an annual audit of the Treasurer's Office.
[10] Chapter 10 of the Administrative Code includes Article X "Financial Policies" which, at the time of this report, included only a section on reserve policies.

> deferred deposit (payday-lending) businesses. Prior to making investments, the Treasurer's Office will verify an entity's support of the socially responsible goals listed above through direct contact or through the use of a third party such as the Investors Responsibility Research Center, or a similar ratings service. The entity will be evaluated at the time of purchase of the securities.
>
> 13.2 Community Investments
> Investments are encouraged in entities that promote community economic development. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low income affordable housing, and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. Securities investments are encouraged in financial institutions that have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development.

PUBLICLY-OWNED BANKS & THE BANK OF NORTH DAKOTA

Bank of North Dakota

There is only one example of a publicly-owned bank in the U.S. The Bank of North Dakota (BND) was founded in 1919 as part of populist response to problems in the agricultural industry including farmers' poor access to credit. BND was charged with "promoting agriculture, commerce and industry" in North Dakota.

Today, BND, which is overseen by the Industrial Commission of North Dakota, partners with more than 100 other North Dakota financial institutions to, in essence, serve as a central bank with a focus on financing economic development. BND is authorized to make both "direct" loans to individuals and "participation" loans to "lead" financial institutions such as regional or community banks, savings and loans, or credit unions. By practice BND makes very few direct loans to individuals.

All state funds are constitutionally required to be deposited into BND. As a result of the very large amount of money deposited by the state, private citizen deposits account for only a small portion (approximately 1.5 percent) of total deposits. At the end of 2010, BND was a $4.03 billion institution with capital of over $327 million, reflecting its approximate 8 percent capital reserve ratio.

Unlike commercial banks, BND is not insured by the Federal Deposit Insurance Corporation (FDIC). Instead, state law provides that all BND deposits are guaranteed by the full faith and credit of the State of North Dakota. It is a member of the Minneapolis Federal Reserve Bank. As such, it has the rights and responsibilities of other Federal Reserve Bank member banks, such as processing checks and carrying out other cash transactions, maintaining an approximate 8 percent reserve requirement, and meeting all safeguarding requirements of the Federal Reserve Bank[11].

Advocates of the public bank model point to positive government budget and economic outcomes in North Dakota and tout the Bank of North Dakota's role in influencing those

[11] Bank of North Dakota, BND Frequently Asked Questions, available at: http://www.banknd.nd.gov.

outcomes. For example, the Public Banking Institute (PBI) touts that the state of North Dakota has the lowest unemployment rate, at 3.2 percent[12], of any state in country, and during the recent recession was the only state to achieve a major budget surplus. Proponents argue that since BND does not rely on large national banks, it was not subject to dramatic decreases in access to credit that other states and local governments were affected by during the financial crisis. As such, BND was able to continue a stable flow of credit to its member banks, which in turn continued to extend credit to small businesses and other community members, all of which had the effect of sustaining the North Dakota economy. In April 2011, the BND reported its seventh straight year of record-breaking growth, with 2010 profits of $61.9 million, all of which belongs to the people of the State of North Dakota[13] and about half of which is returned to the State's General Fund each year.[14]

Participation Banks

In April 2011, Demos, a non-partisan public policy research and advocacy organization, released a study[15] of "partnership banks", or public banks that "act as a 'banker's bank' to in-state community banks and provide the state government with both banking services at fair terms and an annual multi-million dollar dividend." In essence, the term "partnership bank" used in the Demos report refers to the same model of a public bank that is exhibited by the Bank of North Dakota, though, as described above, the Bank of North Dakota also makes direct loans to individual customers (though this represents a small portion of their business). The study includes a review of the experience of the Bank of North Dakota and focused on several potential benefits of partnership banks, as follows:

- Create new jobs and spur economic growth. Partnership banks are participation lenders, meaning they partner with local banks to drive lending through local banks to small businesses.

- Generate new revenues for states directly, through annual bank dividend payments, and indirectly by creating jobs and spurring local economic growth.

- Lower debt costs for local governments. Like the Bank of North Dakota, partnership banks can get access to low-cost funds from the regional Federal Home Loan Banks. The banks can pass savings on to local governments when they buy debt for infrastructure investments. The banks can also provide Letters of Credit for tax-exempt bonds at lower interest rates.

- Strengthen local banks, even out credit cycles, and preserve competition in local credit markets. By purchasing local bank stock, partnering with them on large loans and providing other support, Partnership Banks would strengthen small banks.

- Build up small businesses. Partnership Banks would increase lending capabilities at the smaller banks that provide the majority of small business loans in America.

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[12] July 22, 2011 report for the month of June 2011, Bureau of Labor Statistics, U.S. Department of Labor.
[13] Ibid Industrial Commission of North Dakota.
[14] "Banking on America: How Main Street Partnership Banks Can Improve Local Economies", Demos, Jason Judd and Heather McGhee, April 21,2011.
[15] Ibid Demos.

Recent Increase in Interest in State Public Banks

In large part a response to the financial crisis of 2008-2009, twelve states, including California, considered a state bank proposal or study in 2010 and 2011.

On June 1, 2011, the California State Assembly approved Assembly Bill 750 to establish the "investment trust blue ribbon task force" to study the concept of a state bank for California. As of the writing of this report, the most recent action on AB 750 was on July 12, 2011 when the Senate referred the bill to the Committee on Appropriations. If AB 750 is enacted, the task force would "consider the viability of establishing the California Investment Trust, which would be a state bank receiving deposits of state funds." The text of the bill cites the following as potential benefits of a state bank:

(1) Supporting the economic development of California by increasing access to capital for businesses in the state;

(2) Providing financing for housing development, public works infrastructure, educational infrastructure, student loans, and community quality of life projects;

(3) Providing stability to the local financial sector;

(4) Reducing the cost paid by state government for banking services; and

(5) Lending capital to banks, credit unions, and nonprofit community development financial institutions to assist in meeting their goals of increasing access to capital and providing banking services.

The task force's report would be due to the Legislature by December 1, 2012.

In addition to California, in 2011 the states of Oregon, Washington, Massachusetts, Arizona, Maryland, New Mexico, and Maine considered legislation to form a state bank or to conduct a feasibility study on the matter. These states follow Illinois, Virginia, Hawaii and Louisiana, each of which considered similar bills in 2010. As of the date of this report, the status of the legislation in each of the 12 states is shown below in Table 2.

Table 2:

Status of Recent Legislation to Establish a State Bank or State Bank Study Commission

	Bill Type	Bill Status	Last Action
Arizona	Establish State Bank	Held in Committee	2/14/11
California	Study State Bank	Passed Assembly; Pending in Senate Committee	7/12/11
Hawaii	Study State Bank	Passed House; Deferred by Senate Committee	3/23/11
Illinois	Establish State Bank	Did not pass House by end of session	1/11/11
Louisiana	Study State Bank	Passed House; Pending in Senate	6/9/11
Maine	Establish State Bank	Placed on file	5/19/11
Maryland	Study State Bank	Unfavorable reports in both houses	3/18/11
Massachusetts	Study State Bank	Passed; Study Commission convened and issued a report recommending against establishment of a State Bank.	8/8/11
New Mexico	Establish State Bank	Pending in Committee	1/27/11
Oregon	Establish State Bank	Pending in Committee	1/21/11
Virginia	Study State Bank	Tabled in Committee	2/16/10
Washington	Establish State Bank	Pending in Committee	4/26/11

Source: Legislative databases of each of the 12 states.

There are no examples of a publicly-owned city or county bank in the U.S.[16]

[16] The Indianapolis Local Public Improvement Bond Bank is an instrumentality of the City of Indianapolis and was created for the purpose of buying and selling securities of the City of Indianapolis and Marion County, which have a combined form of government. However, its functions are limited to the buying and selling of bonds; it is not an example of the type of public bank discussed in this memorandum.

POLICY OPTIONS

In order of increasing cost and difficulty of implementation, the following represent the primary policy options that decision-makers may consider as part of an analysis of banking options in the City and County of San Francisco.

Option #1: Invest funds in local credit unions or community development banks that provide a minimum level of investment in City community development and improvement efforts

Costs / Impediments	Benefits
• The size of investment would be limited to a relatively small amount of money – $250,000 per institution, the maximum amount insured by the Federal Deposit Insurance Corporation – unless evidence of sufficient additional security is provided • Would require some level of outreach to local credit unions and community development banks	• Could be implemented within existing institutional structures • Would not require changing local or state policy • Funds would be used to support small businesses, home-owners and other entities in the community, consistent with the member-serving mission of credit unions

The Office of the Treasurer and Tax Collector has, in the past, invested small amounts of money in local credit unions via time deposits. These investments are limited to a maximum of $250,000 per financial institution, which is the maximum amount insured by the Federal Deposit Insurance Corporation (FDIC). Any amount above the amount insured by the FDIC would not meet the safety requirements of California Government Code Section 27000.5, according to the Office of the Treasurer and Tax Collector. While the commercial banks with which the City has banking relationships are also subject to the FDIC maximum of $250,000, the City's deposits exceed that limit because the City assesses the safety of those large commercial banks to be sufficient to meet the State safeguarding requirements based on evidence of security provided to guarantee larger deposits.

The City does not currently have any money invested in time deposits at credit unions or community development banks[17], but, according to the Office of the Treasurer and Tax Collector, it always considers proposals by local banks and credit unions within the limitations of local, state and federal law. The Office of the Treasurer and Tax Collector could conduct special outreach to credit unions or community development banks or otherwise encourage them to propose investment options. However, even if the City were successful in obtaining suitable proposals from local credit unions or community development banks, the total dollar amount that could be directed to those institutions would be relatively small, since there are only 17[18] San

[17] Community development banks are one type of community development financial institution that, by law, must direct some of its investments to underserved communities that may otherwise not have access to credit.
[18] The National Credit Union Administration reports 17 credit unions based in San Francisco; additionally, there are an unknown number of credit unions operational in San Francisco that are based outside of San Francisco.

Francisco-based credit unions operating within San Francisco and an unknown number of community developments banks[19]. The Office of the Treasurer and Tax Collector believes that it is unlikely that all or even many of the local credit unions would be well-poised to handle the City's business for time deposit investments. If the City were able to establish relationships with even 10 local credit unions for its time deposit business, this investment could amount to $2.5 million if the City invested $250,000, the maximum amount insured by the FDIC, in each institution. As of the June 30, 2011 pooled fund portfolio report (see Exhibit 2 above), the City had approximately $10 million, or 0.2 percent, of its $4 billion dollar portfolio in time deposits.

Separate from the money invested through the Treasurer's Pooled Fund, credit unions and many community development banks would not be a viable option for the City's short-term cash banking needs. According to the Office of the Treasurer and Tax Collector, there are no credit unions large enough to handle the City's volume of funds and transactions; they do not have the technological capacity to meet the City's needs. Therefore, the only viable option for placing City funds in with a credit union would be through the limited time deposit option described above. The same argument would likely apply to many community development banks.

Recommendations

1. Request the Office of the Treasurer and Tax Collector evaluate the viability of the 17 San Francisco-based credit unions reported by the National Credit Union Administration, any other credit unions operational in San Francisco, and qualified community development banks to ascertain which, if any, would be suitable for City time deposit business based on the institutions meeting a minimum level of investment in City community development and improvement efforts.
2. Unless evidence of additional suitable security is provided by any such institutions, the investment per institution must be limited to $250,000, the maximum insured by the FDIC.

[19] The U.S. Treasury does not maintain a separate inventory of community development banks. However, records of awards to these type of institutions indicate that 17 institutions in San Francisco qualified for federal funding since creation of a federal program to enhance community development investment.

Option #2: Expand existing City community development programs

Costs / Impediments	Benefits
• Requires additional City expenditures	• Utilize and leverage existing infrastructure and programs • Would not require effort to change state law • Increase the impact of proven programs

While California Government Code Section 27000.5 would not allow the City and County of San Francisco to invest its Treasury funds in credit unions, community development financial institutions, or other community-oriented investments beyond the time deposit option described in Option #1, the City may choose to appropriate funds to community investment programs. Any such appropriation could include grants or loans to community development financial institutions or other community organizations that support the City's goals of supporting small businesses, single family homeowners and community development. The City already does this through a variety of programs that it could choose to expand by appropriating additional funds to those programs. For example, the City operates multiple community development programs through the Office of Economic and Workforce Development, and support programs for small business through the Office of Small Business, any of which it could choose to expand.

Through the Human Rights Commission, the City offers the Surety Bond and Financing Assistance Program for small businesses engaging in contract work with the City. The program is designed to help certified Small or Micro Local Business Enterprise (LBE) contractors who are participating in City and/or Redevelopment construction projects obtain and/or increase their bonding and financing capacity.[20] This allows small businesses who would not otherwise meet the bonding requirements for City contractors to meet the requirements and compete for City construction jobs. In addition to financing services, the program also offers financial counseling, accounting, and third party funds administration services.

The program is currently funded at $5 million per year and is limited to construction contractors. The City could choose to expand the funding of the program to enable a greater number of small construction businesses to compete for City jobs and it could also expand the types of contractors to which it extends this program. Additionally, the City could explore offering a program like this for small businesses attempting to secure work with private entities other than the City and County of San Francisco.

Another approach to expanding existing programs would be to expand the partnership programs the City currently operates in conjunction with commercial banks. For example, the City's "Kindergarten to College" program, which seeks to open a savings account and provide a $50 seed deposit for every kindergartener in the City, is funded by a combination of City funds and philanthropic funds provided by a large commercial bank. That program could be expanded to

[20] Program Overview, Surety Bond and Financing Assistance Program for Certified Firms, Human Rights Commission website.

include a larger initial seed deposit, either by obtaining a larger financial commitment from the existing bank partner, or by recruiting other banks to participate in the program.

A second example of an existing program that depends on financial institution partnerships is the "Bank on San Francisco" program operated through the Office of Financial Empowerment within the Office of the Treasurer and Tax Collector. A consortium of 13 banks and credit unions brought together by the City, including both institutions that do business with the City and institutions that do not do business with the City, provide free banking services to individuals who may not otherwise have access to banking services either because of troubled financial history, lack of a social security number, or other factors. The program was established in 2005 as a joint effort of the Mayor and City Treasurer, who worked in conjunction with community organizations and the Federal Reserve Bank of San Francisco to develop the program and recruit financial institution partners.

Recommendations

3. Request information from appropriate City departments on the results of existing community investment programs, both those operated directly by the City and those operated in conjunction with partner financial institutions, to assess which programs are suitable for additional appropriation of City funds. Examples of such programs are the Surety Bond Financing Assistance program and the Kindergarten to College program.
4. Request the Office of the Treasurer and Tax Collector to incorporate an element related to community investment into its upcoming competitive Request for Proposals to obtain banking services such that banks doing business with the City would be required to fulfill a defined community investment component such as the Kindergarten to College program or the Bank on San Francisco program.

Option #3: Create a community investment program by appropriation of funds

Costs / Impediments	Benefits
• Requires additional City expenditures	• Could define lending terms and take on greater levels of risk than state law allows for Treasury funds. • Could set specific programmatic goals and target any population of individuals, small businesses, or neighborhoods. • If structured as a profit-generating program, could potentially create a revenue stream for the City's General Fund.

The City could appropriate funds for a new community investment program that would comply with California Government Code Section 27000.5, which requires the Office of the Treasurer and Tax Collector to safeguard the principal of the City's funds before advancing any other investment objectives, to a special community investment program or office that would make loans to small businesses and other community members. Such an approach could take the form of an "Office of Community Investment" that would define its programmatic and investment performance goals and set criteria for loan-making in accordance with those goals.

Since these funds would be appropriated for the specific purpose of the "Office of Community Investment," or another community investment program chosen and defined by the City, and not under the control of the Office of the Treasurer and Tax Collector, the funds would not be subject to the strict safeguarding requirements of California Government Code Section 27000.5. Therefore, the City could take on greater levels of risk with the appropriated funds than the Treasurer is allowed by state law to incur while investing Treasury funds, and there would be no need for the City to pursue any changes in state law in order to pursue this strategy.

A community investment program could potentially create a revenue stream for the City's General Fund or other purpose comprised of interest earnings from loans and other successful investments, much like the Bank of North Dakota. The City's risk exposure and its potential profit would be functions of both the loan-making criteria set by policy-makers and the amount of funds appropriated to the program. While such a program would not likely offer traditional banking services such as cash transaction or savings and checking accounts, its loan program may operate similarly to those offered by commercial banks or credit unions.

Recommendations

5. Request the Office of the Treasurer and Tax Collector to evaluate and report back to the Board of Supervisors on the viability of and risk associated with the City operating a direct loan-making initiative such as an "Office of Community Investment", including recommendations for which City Department should administer the program and which City Department should provide oversight of this function.

6. Based on the results of the Treasurer and Tax Collector's report, request the City Attorney to prepare legislation for consideration by the Board of Supervisors that: defines the level of funding to be appropriated for the Office of Community Investment; defines targeted small business and community member clients; sets loan-making criteria; and creates an operational plan for establishing the Office of Community Investment.

Option #4: Support Assembly Bill 750 which would create a task force to study the viability of creating a State Bank and existing efforts in California to establish a state bank

Costs / Impediments	Benefits
• Unknown viability and likelihood of successfully emerging from the political process • Lack of control over specific policy provisions • Lack of opportunity to generate dividend revenue specifically for the City.	• Could cast support for AB 750 immediately and see report of the blue ribbon task force by December 2012. • Would join an existing network of supporters • In pursuing a state-based model, would follow an established example (North Dakota) • Limited and shared risk • Opportunity to access state letters of credit at reasonable rates not available through other banks, thereby helping the City to engage in infrastructure projects. • Opportunity to access low-cost funds from the regional Federal Home Loan Banks through the state bank.

If the City were interested in supporting existing efforts to create a public state bank for California, it could support Assembly Bill (AB) 750 and related efforts to establish a state bank. As described above, earlier this year the California State Assembly approved AB 750 to establish the "investment trust blue ribbon task force" to study the concept of a state bank for California. If AB 750 is passed by the Senate and enacted, the task force would "consider the viability of establishing the California Investment Trust, which would be a state bank receiving deposits of state funds" and report its findings by December 2012.

In addition to benefits that could accrue to the State of California, local governments could stand to benefit under a state-owned bank model. In North Dakota, local governments benefit from the Bank of North Dakota's lower cost funds. Local governments in North Dakota have access to more affordable terms on their letters of credit than they would have through large corporate banks. Letters of credit function like a co-signing agreement whereby the entity signing the letter of credit guarantees payment to the lender. They are an important source of credit for infrastructure projects that utilize bond financing. In North Dakota, the BND provides letters of credit to state and local governments as they seek bond financing for infrastructure projects, which, in turn, also supports higher employment rates in the broader economy[21].

[21] "Banking on America: How Main Street Partnership Banks Can Improve Local Economies", Demos, Jason Judd and Heather McGhee, April 21,2011.

Recommendations

7. Obtain from the legislative sponsors of AB 750 all related information about AB 750 and inquire about ways the City may actively support such legislation and benefit from advocating for the passage of AB 750 which is currently pending before the State legislature.

8. If the information gathered on AB 750 and the potential benefits to the City's community development efforts from creation of a state bank are determined to be worthwhile, request the City Attorney to prepare legislation for consideration by the Board of Supervisors to express support for such legislation and establish a process for City staff to follow up and report back to the Board of Supervisors on their involvement and the progress of AB 750.

September 8, 2011 update: On August 25, 2011, AB 750 was "held under submission" in the State Senate Appropriations Committee. While this indicates limited political viability, it may be that expressed public support from the City and County of San Francisco could regenerate momentum around the bill. City leaders would likely need to invest time and resources into efforts to raise support for the bill from other entities.

Option #5: Join efforts to establish a Bay Area network of public banks

Costs / Impediments	Benefits
• California Government Code Section 23007, which prohibits counties from giving or loaning their credit to any person or corporation; this option would require effectuating a change in state law. • Risk associated with being first-in-the-nation to try the model; many unknowns	• Efforts already underway to establish a Bay Area network, with staff and organizational support of the Public Banking Institute • Share the costs of establishing the capital reserve requirement • Share the costs of complying with regulatory requirements • Share the costs of building human and technological capital

According to the Public Banking Institute (PBI), a non-partisan think-tank, research and advisory organization dedicated to exploring and disseminating information on the potential utility of publicly-owned banks and to facilitate their implementation, an effort led by PBI is currently underway to form a Bay Area steering committee that would study the feasibility of establishing a regional public bank for the nine-county Bay Area. Two preliminary concepts are proposed for review: (1) form a network of public banks, or (2) form one regional public bank with different funds for the different participating entities.

These efforts are still in the early stages and definition of mission, scope, and terms remains to be done. Learning more about these efforts or participating in early discussions with the PBI organization may be of interest to San Francisco policymakers interested in public banking.

Recommendation

9. Contact representatives of the Public Banking Institute, the nonpartisan research and advocacy organization that is organizing a steering committee of Bay Area stakeholders interested in establishing a regional public bank, to determine if participation in this effort would be beneficial to the City.

Option #6: Establish a San Francisco public bank

Costs / Impediments	Benefits
• California Government Code Section 23007, which prohibits counties from giving or loaning their credit to any person or corporation. • Risk associated with being first-in-the-nation to try the model; many unknowns • Compliance with all regulatory requirements • Meeting 10% federal capital reserve requirement[22] • Recruiting and maintaining the human capital to run a large bank • Building or acquiring the technological capacity • Funding ongoing operational costs • Long-term prospect	• Profits from bank operations stay with the City • Rather than borrowing from larger state or national banks, the City as a "bank" could borrow from other banks at the Fed funds rate, which has a current target of 0-0.25%. • Possibility of achieving positive economic and budgetary results such as those demonstrated in North Dakota. o Low unemployment o Budget Surplus o Additional revenue stream for the City • Possibility of notoriety for serving as a leader among cities, first-in-the-nation to try the model.

In addition to the practical costs and challenges described below, there is a major legal impediment to the City and County of San Francisco establishing a public bank. California Government Code Section 23007 states "except as specified in this chapter, a county shall not, in any manner, give or loan its credit to or in aid of any person or corporation. An indebtedness or liability incurred contrary to this chapter is void." The Office of the Treasurer and Tax Collector interprets this to mean that the City and County of San Francisco could not lawfully establish and operate a public bank. Should the Board of Supervisors choose to pursue the public bank option, it would need to effectuate a change in California Government Code Section 23007. The costs of pursuing such a change in state law are unknown.

If the City were to succeed in changing state law, there are a number of other challenges it would face in establishing a public bank. First, it would have to go through the process of forming an entity that would apply to be recognized by either the California Department of Financial Institutions (DFI) and a primary federal regulatory agency, or just a primary federal regulatory agency. A bank establishing itself in California need not seek a state charter through the California DFI. However the DFI asserts that there are several advantages to seeking a state-charter, as described above.[23] If a bank obtains a state charter from DFI, its primary federal

[22] Reserve requirements are set by the Federal Reserve Bank and are subject to change. 10% is the rate applied, as of 12/30/10, to banks with over $58.8 billion in liabilities.
[23] "Advantages of State Charter," California Department of Financial Institutions, available at: http://www.dfi.ca.gov.

regulator would then be either the Federal Reserve Bank (for state-chartered banks that are members of the Federal Reserve System) or the Federal Deposit Insurance Corporation (for state-chartered banks that are not members of the Federal Reserve System).[24] If a bank chooses not to obtain a state charter from DFI, it would be known as a "national bank" and would be regulated by the Office of the Comptroller of the Currency.[25]

As shown in Table 1 of this report, a large majority, approximately 79 percent, of commercial banks established in California choose to operate under a state charter. If the City were to pursue state-chartered status, it would need to consult the DFI's "Guide for Groups Interested in Chartering a State Bank in California,"[26] which outlines the steps that parties interested in establishing a state-chartered bank in California must follow whether they elect to be a state member bank of the Federal Reserve Bank or choose the Federal Deposit Insurance Corporation as their primary federal regulator. In summary, the process requires an interested party to submit to the DFI a proposal and business plan for its proposed bank; request and attend pre-application meetings between all proposed directors of the proposed bank, representatives of the DFI and representatives of the Federal Reserve Bank and/or the FDIC; file a complete application to the DFI; and comply with field investigative activities during the application review period.

According to the DFI, in evaluating applications for a state charter, reviewers seek to ascertain:

a. That the public convenience and advantage will be promoted by the establishment of the proposed bank or trust company.

b. That the proposed bank or trust company will have a reasonable promise of successful operation.

c. That the bank is being formed for no other purpose than the legitimate objects contemplated by this division.

d. That the proposed capital structure is adequate.

e. That the proposed officers and directors have sufficient banking or trust experience, ability, and standing to afford reasonable promise of successful operation.

f. That the name of the proposed bank or trust company does not resemble, so closely as to be likely to cause confusion, the name of any other bank or trust company transacting business in this state or which had previously transacted business in this state.

g. That the applicant has complied with all of the applicable provisions of this division.

[24] As described earlier in this report, the Bank of North Dakota, the only example of a public bank in the U.S., is not insured by the Federal Deposit Insurance Corporation. Per state law, its deposits are guaranteed by the full faith and credit of the State of North Dakota. The Bank of North Dakota is a member of the Federal Reserve Bank of Minneapolis.

[25] *The Federal Reserve System: Purposes and Functions*, The Federal Reserve Board, available at www.federalreserve.gov.

[26] "Guide for Groups Interested in Chartering a State Bank in California," California Department of Financial Institutions, available at: http://www.dfi.ca.gov/cacharter/guide.asp

Additionally, the DFI states that, in reaching its decision, it considers:

a. The character, reputation, and financial standing of the organizers or incorporators and their motives in seeking to organize the proposed bank or trust company.

b. The need for banking or trust facilities or additional banking or trust facilities, as the case may be, giving particular consideration to the adequacy of existing banking or trust facilities and the need for further banking or trust facilities.

c. The character, financial responsibility, banking or trust experience, and business qualifications of the proposed officers of the bank or trust company.

d. The character, financial responsibility, business experience, and standing of the proposed stockholders and directors.

e. The adequacy of banking facilities to support its operations.

f. The adequacy of capitalization to support the projected volume and type of business.

g. The reasonableness to achieve and maintain profitability.

h. The viability of the Business Plan given the economic condition, growth potential, and competition of the proposed market area.

i. Whether the bank is free from abusive insider transactions and apparent conflicts of interest.

j. Other facts and circumstances bearing on the proposed bank or trust company and its relation to the locality as in the opinion of the commissioner may be relevant.

The City would be required to meet the Federal Reserve Board's capital reserve requirements, which vary based on the size of the depository institution. As of the date of this report the rate applied to institutions with liabilities of more than $58.8 million is 10 percent[27]. This means that the City would be required to keep 10 percent of its total funds, or approximately $408 million based on the $4.08 billion market value balance of the Treasurer's pooled investment fund as of June 30, 2011, in cash reserves.

As a variation on the public bank concept described above, the City could choose to design its public bank as "partnership bank" similar to the North Dakota model. Under this scenario, the City would not make direct loans to businesses or other individual community members. Rather, it would primarily provide "participation loans" to local partner financial institutions (commercial banks, credit unions, community development banks or other qualified institutions), which would then extend loans directly to small businesses and individuals. This option may require fewer administrative and operational costs than if the City were to provide direct loans and banking services to community members since it would harness the established systems and

[27] Reserve Requirements, in Monetary Policy of the Federal Reserve Board; available at: http://www.federalreserve.gov/monetarypolicy/reservereq.htm#table1

infrastructure of existing institutions. However, the City would still be required to meet regulatory requirements and build its own infrastructure as the "banker's bank."

Recommendations

10. Request the Treasurer and Tax Collector to submit a report on the viability and estimated costs and benefits of establishing a public bank in San Francisco. The information to be provided should include:

    - detailed estimates of the costs to the City of operating the bank, including consideration of the cost of human resources and technological systems that would be required;
    - an examination of the legal hurdles and required steps to effectuate a change in State law;
    - an assessment of the financial risk to the City and options to address that risk;
    - options for meeting the 10 percent capital reserve requirement imposed on banks by the Federal Reserve Bank;
    - a preliminary time-line for establishing the bank and meeting all regulatory requirements; and,
    - the potential benefits that would accrue to the City and as well as to the City's residents and businesses, including an assessment of the value of more stable access to lower cost credit and an estimate of the potential revenue that could be generated for the City and County of San Francisco.