



CITY OF LANCASTER COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION PROJECT PLAN

DRAFT September 30, 2022

Contents	
Executive Summary	2
BRG Recommendation	2
Step 1: Establish CFL (Subsidiary A and B)	2
Step 2: Convert CFL to CDFI	4
Existing CDFI Partnership Option	5
Timeframes and Responsibilities	5
Proposed Project Timeline	5
Business Plan	6
Purpose of the CFL	7
Organization	7
Organization Structure and Governance	7
Target Markets	8
Initial opportunities	8
Future opportunities	8
Banking Partners	8
Partnership with Other Cities	9
Existing CDFI Partnership Option	9
Legal Analysis	10
Financial Analysis	11
Source of Capital	12
Analysis of Banking Needs	12
Amount of Capital	13
Pro Forma 5 year Projection	13
APPENDIX 1 - BRG Statement of Work	14
APPENDIX 2 – CA Assembly Bill No. 857	16
APPENDIX 3 - CFL Licensing	19
APPENDIX 4 - CDFI Certification	21
APPENDIX 5 - CDFI Bond Guarantee Program	23

Executive Summary

The City of Lancaster (the “City” or “Lancaster”) retained Berkeley Research Group (“BRG”) to develop a strategy and plan with the goal of establishing a public bank, subject to California Legislation Assembly Bill 857 (herein “AB 857”), to serve its local community development needs (see **Appendix 1**).

BRG has gone through a strategic review of AB 857 and the City’s position based on information received from the City and BRG’s experience in the space, as well as discussions with relevant parties (see **Appendix 2**).

Due to the unlikelihood of the FDIC approving a public bank or other such an entity in the near term, along with the cost-prohibitive nature of a public bank, the City has concluded that a fully-functioning public bank may not be the most effective path forward in the near term.

Upon recommendation of legal counsel, BRG proposes the City create an entity known as a Community Financial Lender (“CFL”) licensed under the California Department of Financial Protection and Innovation (“DFPI”).

A CFL allows the City to achieve the primary objectives of a public bank, namely the funding of city projects and more cost-effective banking services. Advantages of a CFL include the ability to add leverage with minimal regulatory requirements and startup costs. Further, a CFL allows the City to control the entity and leverage core competencies.

After 1 year of operating experience and sound financial performance, the CFL will qualify for certification by the US Treasury as a Community Development Financial Institution (“CDFI”).

The CDFI supports the economic development of communities by providing loans and other forms of investment to institutions with the stated purpose of furthering community economic development.

Additionally, a Certified CDFI Qualified Issuer may participate in in CDFI Bond Guarantee Program. Under this program, a Certified CDFI Qualified Issuer applies to the CDFI Fund for authorization to issue bonds worth a minimum of \$100 million. The CDFI Fund, which is backed by the US Treasury, provides a 100 percent guarantee on these bonds, up to \$1 billion per year.

BRG Recommendation

Step 1: Establish CFL (Subsidiary A and B)

In order to become certified as a CDFI by the US Treasury, an institution must have at least 1 year of operating experience with sound financial performance. Further, The US Treasury has recently announced a moratorium on licensing new CDFIs until Q2, 2023.

To bridge this gap between the City’s current status and a fully functional CDFI, subject to legal review, BRG proposes the City create an entity known as a Community Financial Lender (“CFL”) licensed under the California Department of Financial Protection and Innovation (“DFPI”). The CFL allows the City to have an entity in place to operate under the economic development goals outlined above with the intent of applying for CDFI certification after 1 year (see **Appendix 3**).

Advantages of a CFL include the ability to add leverage with minimal regulatory requirements and startup costs. Further, a CFL allows the City to control the entity and leverage core competencies.

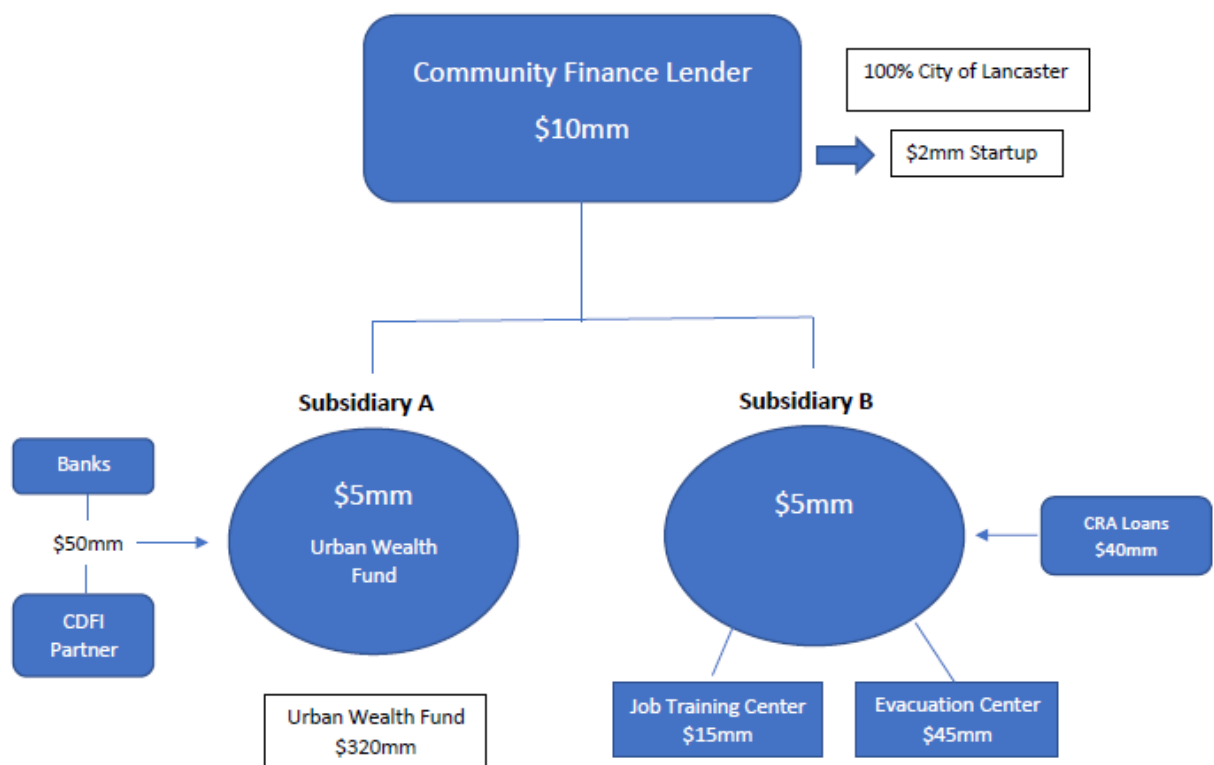
The City will establish a Community Finance Lender subject to the guidelines and jurisdiction of the Department of Financial Protection and Innovation. Subject to further due diligence, assets of the proposed Urban Wealth Fund could be incorporated into the CFL.

The CFL will be wholly owned by the City of Lancaster.

For illustrative purposes, the City will provide an initial capital investment of \$10mm. The CFL will then establish two subsidiaries (Subsidiary A and Subsidiary B), each capitalized at \$5mm. Subsidiaries A and B are wholly owned by the CFL.

The respective Subsidiary organizations will form strategic alliance with one or more established CDFI and/or community banks (see **Figure 1**).

Figure 1 (For illustrative purposes only)



The goals of this structure are:

1. Enable the City to finance multiple projects by leveraging on its paid in capital; and
2. Provide lower cost of funds

A comprehensive financial model will be developed in conjunction with City management (see **Proposed Project Timeline**).

Subsidiary A will be used to fund the Urban Wealth Fund (UWF) assets by forming strategic alliance with other CDFI or community banks. This will enable the City to fund a bigger portion of its UWF assets by leveraging on the CFL paid in capital, expanding the City's purview and giving additional resources to the City, while keeping the funds under City control

Subsidiary B will be used to fund the proposed community projects, such as the Evacuation Center and the Job Training Center. It is anticipated that Subsidiary B can access the CDFI Guaranteed Bond program through its partnership with an established CDFI (see Existing CDFI Partnership Option below).

The City's banking services, currently with Wells Fargo and River City Bank, can be put under either Subsidiary and thereby positioning the City to negotiate for more favorable pricing.

As a separate line of inquiry, BRG can assist in negotiations with the City's existing banking service providers in Phase II of this project upon further consultation with City management for the Council's consideration and approval.

Step 2: Convert CFL to CDFI

The CDFI supports the economic development of communities by providing loans and other forms of investment to institutions with the stated purpose of furthering community economic development (see **Appendix 4**). Over time, the CDFI will establish the necessary controls and processes that will be needed as a stand-alone public bank.

Additionally, a Certified CDFI Qualified Issuer may participate in the CDFI Bond Guarantee Program. Under this program, a Certified CDFI Qualified Issuer applies to the CDFI Fund for authorization to issue bonds worth a minimum of \$100 million. The CDFI Fund, which is backed by the US Treasury, provides a 100 percent guarantee on these bonds, up to \$1 billion per year. (see **Appendix 5**)

These CDFIs have the opportunity to borrow capital from Qualified Issuers for long-term, large-scale community investments. Such projects may include such activities as the development of small businesses, commercial real estate, housing units, shelters, charter schools, daycare or healthcare centers, and municipal infrastructure, among others. In addition to these projects, Eligible CDFIs may use the capital to extend credit to other community development borrowers (or Secondary Borrowers) or refinance existing loans at below-market interest rates.

It is advisable for Lancaster to engage a bank other than River City and Wells Fargo to separate the municipal transactions from the CDFI transactions. This creates a standalone relationship for Lancaster CDFIs to operate independently from the City of Lancaster

The City will apply for regulatory approval to convert the CFL to a CDFI once it has established a satisfactory performance record over one or two years as a CFL. The CDFI license will allow the City to expand its funding sources (e.g. CDFI Bond Guarantee Program) at a lower cost to finance a more diversified range of community financial services, such as small business loans, infrastructure and renewable energy financing among others.

The City can convert the CFL to a CDFI when the license moratorium is lifted in 2023 and could ultimately convert the CDFI to a public bank at an opportune time.

BRG will develop a detailed business plan upon further consultation with City management for the Council's consideration and approval.

Existing CDFI Partnership Option

A potential option for the City is to form a strategic alliance with an established Community Development Financial Institution. The alliance will allow the City to jump start the community projects, such as the evacuation center and job training center by leveraging on the funding sources of the CDFI.

As discussed in Appendix 3, a certified CDFI can issue US Treasury Guaranty Bonds or to raise funds from the private sector, including commercial banks (see Business Plan, Banking Partner Section) to finance its projects.

This option is based on the following considerations:

1. The strategic alliance will enable the City to develop the near-term project(s) and gain operating traction for the purpose of establishing your own CDFI when the moratorium is lifted. It will also minimize the City's initial capital investment and operating expenses since the CDFI partner will provide the operation platform.
2. This will give the City time to form an entity and to prepare for the CDFI application.
3. Finally, the prospective CDFI partner is amenable to discuss an exit strategy should the City decide to establish its own CDFI some years later.

Proposed Project Timeline

- October - November 2022
 - BRG to finalize the business strategy and structure and plan.
 - Legal opinion on establishing a CFL as the first step toward the goal of attaining CDFI approval.
- November - December 2022
 - Marketing plan and management plan
 - Application to DFPI
- December 2022- January 2023
 - Initiate board members and management team recruitment.
- February – March 2023
 - BRG to assist the formation of CDFI strategic alliance and community banking partnerships.
- March - April 2023
 - Complete board formation and executive recruitment process.
 - Physical locations
 - Technology requirements/outourcing
- May 2023
 - Continue follow-up on CFL application.
- June 2023
 - CDFI requirements/documents

All regulatory applications will be subject to legal review.

DRAFT

Business Plan

City of Lancaster

DRAFT

Purpose of the CFL

The CFL will be focused on providing a municipal financing alternative to traditional banks to increase capital for local economic development priorities and improves banking access for residents and small businesses.

The CFL will be wholly owned by the City of Lancaster with initial capital of \$10mm. The CFL will then establish two subsidiaries (Subsidiary A and Subsidiary B), each capitalized at \$5mm. Subsidiaries A and B are wholly owned by the CFL. The respective Subsidiary organizations will form strategic alliance with one or more established CDFI and/or community banks.

The loans that the CFL will provide will be for the purpose of economic development within the City and its environs. These loans will bridge lending gaps for small and MWBE business created by commercial bank lending barriers. Given its focus on local development, the CFL is a better vehicle to disburse public monies to local businesses and ensure that disbursements go to businesses in need of financing to foster economic growth in the region.

The CFL will provide reasonably priced loans to local small businesses which will make this funding vehicle attractive to City stakeholders and assist the community its growth strategy. The revenue from the loans will be used by the City to reduce the reliance on municipal taxes.

The CFL will go through the process of becoming a Certified Community Development Financial Institution.

On an annual basis, the CFL will submit an Annual Certification and Data Collection Report (“ACR”) to ensure it continues to meet the CDFI’s requirements. The ACR is comprised of four main sections:

- Section 1: Organizational Information
- Section 2: Financial Data Detail
- Section 3: Financial Products Portfolio Breakdown Detail
- Section 4: Development Services Detail

Organization

- Ownership: 100% owned by the City of Lancaster.
- Board of Directors
- Management Team: Independent of the City. (subject to legal review)
- Key executives include CEO, CFO, Chief Lending Officer, COO and Risk/Compliance.
- Operating Platforms: loans and cash management, under contract with the partner bank to minimize the number of FTEs.
- Audit/compliance/insurance: timely report/interface with the regulatory agencies.

Organization Structure and Governance

Subject to further legal review, the CFL will develop a governance structure like a traditional bank with a separate, dedicated management team and an independent board of directors. The city and other municipalities will have representation on the board of directors to ensure that the needs of the local communities are considered as part of the CFL’s decision processes.

The board of directors will be responsible for setting the standards and strategic direction of the CFL as it looks to transition to a public bank. Management will be responsible for the day-to-day management

of the CFL and making decisions on underwriting, investments, and services to be provided to local communities.

The CFL will be staffed by individuals with the requisite financial/banking experience and will be independent from the municipality and related entities.

City staff will be able to staff the CFL and be part of the CDFI subject to further legal study and review with outside counsel.

Target Markets

Reflecting the CDFI mission.

Initial opportunities

- Community Development Projects to include a \$45mm event/evacuation center
- \$15mm veterans and job training center
- Affordable housing/CRA
- Small business loans, in conjunction with SBA

Future opportunities

- Renewable energy
- A \$800mm hospital project (Medical Mainstreet)
- A \$400mm Urban Wealth / Opportunity Fund
- Municipal bond repos program
- CDFI guaranteed bond issuance

Banking Partners

BRG will assist the city management to identify prospective banking partners and select the appropriate candidate if deemed necessary. Preferably, the banking partner ("Partner") will be a California bank.

The Partner's operation platforms will provide a "one stop shop" for the City, though it may in turn, outsource some of the services to a third party. Bond issuance and related services are good examples in this regard since not all California banks are licensed to conduct such businesses. However, the partner bank may have affiliates or correspondent arrangements with other financial institutions that will enable them to provide you with a one stop service.

At a minimum, the Partner will provide a full range of cash management services, investment services, commercial loans, and infra-structure financing. It will stand ready to participate in all CRA activities and possibly tax credit deals.

Banking partnerships can help the City achieve the following:

1. Lower the cost banking services
2. In return the bank(s) will invest in the projects jointly with the City.

Partnership with Other Cities

Per our conversation to date, in addition to the City of Lancaster, the future Public Bank will service neighboring cities in a cooperative. Initial targets will include but not limited to the nine cities that are the incumbent members of your energy portfolio service.

It is anticipated that the key banking services will include cash management (ACH, lockbox, online banking etc.), equipment loans/leases, infra-structure loans (solar project, convention center, low-income housing development etc.), investment service, bond issuance and related services, trust service among others. Legal counsel opinion may be needed prior to deciding on the final products offerings. We shall also explore other public-private partnership opportunities beyond the agency services for the targeted cities in the plan.

Existing CDFI Partnership Option

An existing alternative option for the City is to partner with an existing CDFI and co-operate for a period of time through an LLC before forming a standalone CDFI. In this alternative option, the City forms a separate entity that enters into an LLC with an existing CDFI and operates under that existing CDFI. The City and CDFI partner inject additional capital as needed.

The LLC will focus on affordable housing in its first year to satisfy a key initial objective for the City. The City will gain experience in the processes and procedures of an operational CDFI through co-operation with the partner entity.

The new LLC will operate under the existing CDFI for its first year or other agreed upon timeframe. After a year (or other agreed upon timeframe), the City's separate entity can form its standalone CDFI and begin to operate as such.

Advantages for this route include being quicker to market, reliance on existing experience, the ability to apply for CDFI grants immediately, a time buffer for the City to learn how to be a CDFI while operating as one, shared resources and capabilities with the other entity, and the option to eventually form its own CDFI independent of the LLC.

Disadvantages include shared responsibility and risk with another business entity, additional legal considerations when partnering with another business entity, and the sharing of profit or revenue.

Key steps in this alternative option:

- The City will form a separate entity for the purpose of a municipal finance corporation
- The separate entity forms a Limited Liability Company (LLC) with an existing CDFI
- The LLC injects the CDFI with additional capital
- The LLC operates as a CDFI under the CDFI Fund over a one-year period, applying for appropriate grants
- The LLC focuses on affordable housing
- After a one-year period, after the LLC has established its operational capabilities, the City's separate entity applies to become a standalone CDFI
- The standalone CDFI begins operations

Legal Analysis

Questions requiring additional legal analysis:

1. Question #1: Can A public entity such as a city be exempt from CFL requirements?
2. Question #2: Public law – Does a charter city have the authority to engage in such financial activities?

DRAFT

Financial Analysis

City of Lancaster

Source of Capital

The CFL will be funded by the City with any incremental money invested from the City as well. This investment allows for appropriate liquidity management with a dollar-for-dollar match and provide sufficient funds to be loaned to local community projects and businesses.

Our understanding is that the CFL will be wholly owned by the City of Lancaster. It will be prudent to consider proformas with other investors, but the primary can be a wholly owned option.

Analysis of Banking Needs

As a separate line of inquiry in Phase II, BRG can assist with creating a more efficient approach to the City's banking services.

Currently, the City maintains operating accounts at River City Bank for its involvement in Choice Energy and at Wells Fargo for its ongoing City operations (e.g., tax receipts, payroll).

Account	Institution	Balance at 4/30/22
California Choice Energy Authority "Operating Account"	River City Bank	\$ 657,819.96
City of Lancaster DBA Lancaster Choice Energy as Pledgor for Multiple Secured Creditor River City Bank as Secured Agent	River City Bank	\$ 4,983,745.35
City of Lancaster PUBAGT	Wells Fargo	\$ 30,893,903.90

The City currently has an investment portfolio that will remain at its current location until the CFL has the appropriate staff, governance structure, and procedures to manage an investment portfolio.

U S Bank - Safekeeping					\$ 42,124,471
US Treasury Notes		1.67%	\$ 17,267,941		
Federal Government Agencies		1.46%	\$ 11,881,587		
Corporate Securities		2.82%	\$ 8,116,356		
Municipal/Provincial Bonds		1.09%	\$ 4,777,997		
Cash & Equivalents		0.00%	\$ 80,590		
Chase Bank					\$ 150,965
Certificate of Deposit		1.00%	\$ 150,965		
Local Agency Investment Fund (LAIF)		52.00%	\$ 21,881,975		\$ 21,881,975
Successor Agency for the Lancaster Redevelopment Agency					
Local Agency Investment Fund (LAIF)		52.00%	\$ 10,397,102		\$ 10,397,102

US Bank				
LRA Combined 2004 Fire Protection Facilities Project Bonds		0.18%	\$	865,574
LRA Combined 2004 Sheriff Facilities Prjct Refunding Bonds		0.18%	\$	1,815,606
LPA Solar Renewable Energy Issue of 2021		0.01%	\$	12,659
SA Combined Project Areas Refunding Bonds 2015A & B		0.18%	\$	13
SA Combined Project Areas Refunding Bonds 2016 A-1 & A-2		0.18%	\$	15
SA Combined Project Areas Refunding Bonds 2016B		0.18%	\$	6
LFA 2016 Assessment Revenue Bonds (Streetlights Acquisition)		0.18%	\$	1
LFA LRB 2018 Construction and Improvements		0.18%	\$	2,394,546
LFA 2018 Lease Revenue Bonds		0.18%	\$	561,691
LFA LRB 2019 Street Improvements		0.18%	\$	55,632,374
Total Restricted Cash/Investments Held in Trust			\$	61,282,485

Amount of Capital

For illustrative purposes: \$10mm

Startup - \$2mm

Sub A - \$5m

Sub B - \$5m

Pro Forma 5 year Projection

Year 1 – CFL

Year 2 – CDFI

Year 3 – CDFI

Year 4 – CDFI

Year 5 – Public Bank

APPENDIX 1 - BRG Statement of Work

Attachment A Statement of Work & Project Plan

The following summarizes our discussion regarding the project plan to form the Bank. Phase I will include developing a high-level business plan and preparing for regulatory meetings. Phase II will include implementation steps to form the Bank.

Phase I – Business Plan and Preliminary Meetings (Estimate of 6-8 weeks)

- Assist the Client with preparation of financial projections and the business plan to satisfy the FDIC and DFPI's five-year requirements.
 - (a) Business Plan: Per our conversation to date, in addition to the City of Lancaster ("City"), initial targets will include but not limited to the nine cities that are the incumbent members of your energy portfolio service. It is anticipated that the key banking services will include cash management (ACH, lockbox, on-line banking etc.), equipment loans/leases, infra-structure loans (solar project, convention center, low income housing development etc.), investment service, bond issuance and related services, trust service among others. Legal counsel opinion may be needed prior to deciding on the final products offerings. We shall also explore other public-private partnership opportunities beyond the agency services for the targeted cities in the plan.
 - (b) Banking Partner: BRG will assist the city management to identify prospective banking partners and select the appropriate candidate if deemed necessary. Preferably, the banking partner ("Partner") will be a California bank. The Partner's operation platforms will provide a "one stop shop" for the City, though it may in turn, outsource some of the services to a third party. Bond issuance and related services are good examples in this regard since not all California banks are licensed to conduct such businesses. However, the partner bank may have affiliates or correspondent arrangements with other financial institutions that will enable them to provide you with a one stop service. At a minimum, the Partner will provide a full range of cash management services, investment services, commercial loans and infra-structure financing. It will stand ready to participate in all CRA activities and possibly tax credit deals.
 - (c) Financial Projections: BRG will assist you to determine the optimal paid in capital amount and to develop a five year plan per FDIC guidelines. In order to achieve these goals, we shall request you to provide a detailed listing of your financing needs, including cash and investment activities reports (frequency and average dollar amount of each transaction and aggregate) on a monthly basis, equipment financing (types of equipment, terms and conditions etc.), timeline and dollar amount of each infrastructure project and other financing needs. This data will also help us to derive the estimated paid in capital requirement. It is understood that the City of Lancaster will be the sole owner of the public bank while the partner bank may enjoy a stream of banking service fees, interest income from loans and CRA credit.
 - (d) PowerPoint: BRG will summarize the above items and the overall plan.
- Prepare the Client for preliminary meetings with bank regulators and the FDIC regarding formation of a bank.
- Schedule, attend and assist with any follow up regarding these regulatory meetings.

- Develop other audit, internal control and risk management elements that will be expected by the FDIC to be in place prior to opening the Bank;
- Assist in identifying IT and other systems infrastructure needs that will optimally support the Bank's growth and development;
- Assist in developing and implementing risk measurement models and analytical tools;

Phase II – Implementation (Estimate of 12-16 weeks – Prepare and file applications and assist Client with implementation.)

- Prepare the uniform de novo and FDIC deposit insurance applications required to form the Bank. This includes policies and procedures that must be submitted with the application.
- Maintain contact with regulators as needed during the approval process to secure timely approvals.

BRG will assist the Client to create and execute implementation plans (See sample below). These plans will include premises, locating board members and executive staff, technology systems, risk management policies and procedures.

Some of the important implementation action steps that BRG will assist the Client include:

- Assist management with the implementation of the risk management process that will set the foundation for the control structure at the Bank. In our focus on risk management, we will identify all risk categories that the institution is exposed to, and we will build a risk management infrastructure for each that will meet regulatory expectations;
- Assist in structuring management and Board-level committees that will oversee and direct risk and other management functions, including committee charters;
- Develop risk and other management reports that will be provided to the Board and senior management to assist them in monitoring the Bank's risk and performance;
- Prepare the Institution for the initial regulatory examination; and
- Provide training to the Board and management as necessary.

APPENDIX 2 – CA Assembly Bill No. 857

As a municipal entity, the City of Lancaster is committed to economic development through a cost-effective financing vehicle and has a need for a variety of banking services that it currently receives from several financial institutions. While the services are provided at market rates, these rates are ultimately a drain of financial resources that could be better spent on community development and city infrastructure. Therefore, the city has been exploring the idea of creating a public bank under California Legislation Assembly Bill 857.

Under AB 857, a public bank is a corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority (see below for AB 857).

The City has undertaken a series of steps to analyze the process of establishing a public bank. The goal of a public bank will be for economic development and funding for specific projects in Lower-Middle-Income areas. Such needs include low-income housing, an evacuation center, medical and job training facilities, energy projects and small business loans in addition to reducing the City's banking expenses that are currently charged by the commercial banks.

Due to the unlikelihood of the FDIC approving a public bank or other such an entity in the near term, along with the cost-prohibitive nature of a public bank, the City has concluded that a fully-functioning public bank may not be the most effective path forward in the near term.

Assembly Bill No. 857 **CHAPTER 442**

An act to amend Sections 5130 and 7130 of the Corporations Code, to amend Sections 119, 1004, and 1100 of, and to add Section 1008 to, the Financial Code, to amend Sections 6254.26, 23007, 53601, 53635, and 53635.2 of, to add Division 5 (commencing with Section 57600) to Title 5 of, and to add Sections 6254.35, 54956.97, and 54956.98 to, the Government Code, and to add Section 23701aa to the Revenue and Taxation Code, relating to public banks.

[Approved by Governor October 2, 2019. Filed with Secretary of State October 2, 2019.]

Legislative counsel's digest

AB 857, Chiu. Public banks.

Existing law, the Financial Institutions Law, regulates the activities of various financial entities, including commercial banks, industrial banks, trust companies, credit unions, and savings associations. The Banking Law defines and regulates state banks and commits the enforcement of banking laws to the Commissioner of Business Oversight.

Existing law prohibits a county from giving or loaning its credit to, or in aid of, any person or corporation. Existing law requires a local agency, as defined, to deposit all money belonging to, or in the custody of, that local agency into specified state or national banks, as defined. Existing law regulates the investment of public funds by local agencies.

Existing law, the Nonprofit Corporation Law, regulates the formation and conduct of a nonprofit mutual benefit corporation and a nonprofit public benefit corporation.

This bill would define the term “bank” for purposes of the Financial Institutions Law and the Banking Law to include a public bank. The bill would define the term “public bank” to mean a corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

The bill would require a public bank to obtain a certificate of authorization to transact business as a bank from the commissioner and to obtain and maintain insurance, subject to specified requirements. The bill would prohibit the commissioner from issuing more than 2 public bank licenses, as defined, in a calendar year and would prohibit the commissioner from authorizing more than 10 public banks at one time. The bill would require a public bank to include a specified purpose statement in its articles of incorporation and make conforming changes. The bill would require a local agency to conduct and approve, as specified, a study of the viability of a public bank containing specified elements before submitting an application to the commissioner to organize and establish a public bank and would require the local agency to include a copy of that study in the application submitted to the commissioner. The bill would require a local agency that is not a charter city to obtain voter approval of a motion to submit an application to the commissioner, as specified. The bill would authorize a county to lend its available funds to a public bank. The bill also would authorize a local agency to deposit funds in a public bank, and to invest in a public bank, subject to certain requirements. The bill would authorize a public bank to make distributions to its members. The bill would require, as specified, a public bank to conduct retail activities in partnership with local financial institutions and would prohibit a public bank from competing with local financial institutions.

The Corporation Tax Law imposes a franchise tax on financial corporations, but provides that the tax is in lieu of all other state and local taxes and licenses, with certain exceptions. That law also exempts specified classes of entities from the franchise and income taxes imposed by that law, including state-chartered credit unions.

This bill would additionally exempt from those franchise and income taxes any public bank. This bill would also exempt a public bank from all other state and local taxes and licenses, with certain exceptions.

Existing law, the Ralph M. Brown Act, requires that all meetings of the legislative body, as defined, of a local agency be open and public and all persons be permitted to attend unless a closed session is authorized.

This bill would authorize the governing board of a public bank or a committee of that governing board to meet in a closed session to consider and take action on matters pertaining to a loan or investment decision, a decision of the internal audit committee, the compliance committee, or the governance committee, and a meeting with a state or federal regulator. The bill would authorize a public bank to make all information received by a shareholder, member, or owner of a public bank confidential, as specified.

Existing law, the California Public Records Act, requires that public records, as defined, be available to the public for inspection and made promptly available to any person.

This bill would exempt specified information and records of a public bank, and related decisions of the directors, officers, and managers of the public bank, from the disclosure requirements of the act, including, among others, records related to alternative investments of the bank, as specified, meeting materials of any closed session, a record containing information regarding a portfolio position in which the public bank invests, information related to a specific account in the bank, and specified correspondence related to meetings with, or a memorandum or letter received from, state and federal banking regulators.

Existing constitutional provisions require that a statute that limits the right of access to the meetings of public bodies or the writings of public officials and agencies be adopted with findings demonstrating the interest protected by the limitation and the need for protecting that interest.

This bill would make legislative findings to that effect.

The California Constitution requires local agencies, for the purpose of ensuring public access to the meetings of public bodies and the writings of public officials and agencies, to comply with a statutory enactment that amends or enacts laws relating to public records or open meetings and contains findings demonstrating that the enactment furthers the constitutional requirements relating to this purpose.

This bill would make legislative findings to that effect.

APPENDIX 3 - CFL Licensing

<https://dfpi.ca.gov/california-financing-law/california-financing-law-about/>

California Financing Law (Fin. Code, § 22000 et seq.) requires the licensing and regulation of finance lenders and brokers making and brokering consumer and commercial loans, except as specified; prohibits misrepresentations, fraudulent and deceptive acts in connection with making and brokering of loans; and provides administrative, civil (injunction and ancillary relief) and criminal remedies for violations of the law. The regulations under the California Financing Law begin with section 1404 of title 10 of the California Code of Regulations (Cal. Code Regs., tit. 10, § 1404 et seq.). A finance lender is defined in the law as “any person who is engaged in the business of making consumer loans or making commercial loans.”

A finance lenders license provides the licensee with an exemption from the usury provision of the California Constitution. There are a number of “non-loan” transactions, such as bona fide leases, automobile sales finance contracts (Rees-Levering Motor Vehicle Sales and Finance Act) and retail installment sales (Unruh Act), that are not subject to the provisions of the California Financing Law. In addition to requiring a license for certain lending activity, the California Financing Law requires a license for certain brokering activity.

A “broker” is defined in the law as “any person engaged in the business of negotiating or performing any act as broker in connection with loans made by a finance lender.” A broker license authorizes brokering of loans to licensed finance lenders; it does not authorize brokering of loans to those who are not licensed finance lenders. The requirements for a license are set forth in Financial Code section 22100 et seq. The law requires applicants to have and maintain a minimum net worth of at least \$25,000 and to obtain and maintain a \$25,000 surety bond. In general, principals of the company may not have a criminal history or a history of non-compliance with regulatory requirements.

Who is Required to Obtain a Finance Lenders License?

In general, any person engaging in the business of a finance lender or finance broker in California is required to obtain a license under the California Financing Law. The California Financing Law contains a number of exemptions for persons licensed by other regulatory agencies.

Definitions

“Finance lender” includes any person engaged in the business of making consumer loans or making commercial loans.

“Finance broker” includes any person engaged in the business of negotiating or performing any act as broker in connection with loans made by a finance lender. A broker license authorizes brokering of loans to licensed finance lenders; it does not authorize brokering of loans to those who are not licensed finance lenders.

If you are applying for a new license under the California Financing Law, apply through NMLS by selecting “Getting Started” on the [NMLS Resource Center](#) page. Follow the [California Financing Law Checklist](#) for the requirements specific to new applicants under the California Financing Law.

Do I need to authorize my branch office(s) through NMLS?

In addition to the main office identified on the California Financing Law license, a license is required for each branch location that conducts business with California consumers.

All branches of companies must obtain a license through NMLS. [Instructions for a branch license through NMLS](#)

Who does not need a branch license?

Any physical location of a licensee not engaged in lending or brokering activities for California residents does not require a branch license.

DRAFT

APPENDIX 4 - CDFI Certification

<https://www.cdfifund.gov/programs-training/certification/cdfi>

CDFIs are private sector financial institutions that focus primarily on personal lending and business development efforts in poorer local communities requiring revitalization in the US CDFIs can receive federal funding through the US Department of the Treasury ("US Treasury") by completing an application. They can also receive funding from private sector sources such as individuals, corporations, and religious institutions.

These entities are the direct result of the Community Reinvestment Act of 1977, which was due to banking and economic development inequalities throughout communities in the US

Types of CDFI

CDFI Type	Regulation	Funding Sources	Financial Products & Services Offered
Community Development Bank or Bank Holding Company	The Federal Reserve, Office of the Comptroller of the Currency and state banking agencies federally regulates and insures through the Federal Depository Insurance Corp	Funding sources are deposits (often below market investments) from individuals, institutions, and the government	Mortgage financing; home improvement, commercial business, nonprofit and student loans; consumer banking services
Community Development Credit Union	Federally and state regulated and insured by the National Credit Union Administration	Funding sources are member deposits and limited non-member deposits from social investors, the government	Consumer banking services (e.g., savings accounts, check cashing, personal loans, home rehabilitation loans
Community Development Loan Fund	Regulations are self-regulated; except for non-profit 501(c)(3) restrictions and state securities laws where applicable	Foundations, banks, religious organizations, corporations, the government, insurance companies and individuals	Construction; affordable housing development; facilities, small business start-up and microenterprises loans
Community Development Venture Capital Fund	The variable; depends on funding sources	Foundations, corporations, individuals, the government	Commercial equity investments and loans with equity features

To be eligible for CDFI Certification, an organization must meet the following criteria:

- Is a legal entity at the time of Certification application.
- Has a primary mission of promoting community development
- Is a financing entity.
- Primarily serves one or more target markets;
- Provides development services in conjunction with its financing activities;
- Maintains accountability to its defined target market; and
- Is a non-government entity and not under the control of any government entity (Tribal governments excluded).

Certification applications and approvals are submitted and granted on a rolling basis. As of July 2022, there are 1,372 certified CDFIs in the US (108 in California).

Type	Number
Bank Holding Company	143
Bank or Thrift	175
Credit Union	469
Loan Fund	570
Venture Capital Fund	15
Total	1,372

APPENDIX 5 - CDFI Bond Guarantee Program

<https://www.cdfifund.gov/programs-training/programs/cdfi-bond>

This US Treasury program is administered by the CDFI Fund. Through the CDFI Bond Guarantee Program, CDFIs must be certified to participate in the CDFI Fund program. A certified CDFI, once designated as a Qualified Issuer will issue bonds that are guaranteed by the Federal government and use the bond proceeds to extend credit to the broader CDFI industry for community development purposes or to refinance certain existing obligations.

To receive Qualified Issuer status, an organization must demonstrate the expertise, capacity, and experience to issue taxable bonds and make loans for Eligible Community and Economic Development Purposes. A Qualified Issuer must:

- Be a Certified CDFI (as designated by the CDFI Fund), or its designee.
- Be able to issue bonds and make loans; and
- Demonstrate the capacity to perform specialized administrative functions, including loan servicing and financial reporting.

As a Qualified Issuer, a Certified CDFI applies to the CDFI Fund for authorization to issue bonds worth a minimum of \$100 million. The CDFI Fund provides a 100 percent guarantee on these bonds, up to \$1 billion per year.

The Qualified Issuer then sells the government-backed bonds to the Federal Financing Bank (“FFB”) – a government corporation that ensures that Federal obligations are financed efficiently. Each bond has a maximum maturity of 30 years. The Qualified Issuer must use the proceeds from the bond sale to extend credit to other CDFIs. As a result, Qualified Issuers serve as a “go-between” financier to the broader CDFI industry.

These CDFIs have the opportunity to borrow capital from Qualified Issuers for long-term, large-scale community investments. Such projects may include such activities as the development of small businesses, commercial real estate, housing units, shelters, charter schools, daycare or healthcare centers, and municipal infrastructure, among others. In addition to these projects, Eligible CDFIs may use the capital to extend credit to other community development borrowers (or Secondary Borrowers) or refinance existing loans at below-market interest rates.

Unlike other CDFI Fund programs, the CDFI Bond Guarantee Program does not offer grants or direct loans but is instead a federal credit subsidy program. The bond proceeds are debt instruments that must be repaid.

The CDFI Bond Guarantee Program is designed to function at no cost to taxpayers.

Bonds (including principal, interest, and call premiums) are 100 percent guaranteed by the US government. The FFB is the sole purchaser of bonds issued under the CDFI Bond Guarantee Program.