

CITY OF MINNEAPOLIS

Response to Staff Direction on Banking Services

Presented to Ways & Means
Committee

Staff Direction

December, 2016

- Directing Finance and Property Services staff to report to the Ways & Means Committee no later than the end of the second quarter of 2017 with potential scenarios for the City of Minneapolis to divest and stop doing business with financial institutions that invest in the fossil fuel industry and in projects such as the Dakota Access Pipeline. The potential scenarios review shall include a series of options to meet the City of Minneapolis' banking needs including but not limited to exploring the possibility of establishing a municipal bank or participating in a publicly-owned banking operation.

City's Relationships

- City has business relationships with a wide variety of financial institutions in more than a dozen roles
 - Pay fees for specific banking services
 - Borrow money
 - Lend money
- City has prioritized low cost, data security, quality/breadth of services, and local presence in recent RFPs
- Banks are not all “plug and play”
 - Differences in services, cost, size, and/or capacity

Banking Services

- Bank and banking services continue to change
 - Acquisitions commonplace
- Technology has enabled efficiency gains to lower costs over the past 15 years
 - Reduced number of City staff
 - Improved services to customers
 - Increased expectations for services
- City issues around banking also evolving
 - City passed responsible banking ordinance (RBO) in 2013
 - Concerns over foreclosures, local lending
 - Applies to only a few banking services

Research and Preparation

- Learned from other cities
 - Seattle, NYC, Santa Fe, and St. Paul
- State law
- Legal Perspective – how is city different from a consumer and regulator?
 - RBO and 2015 U.S. District Court case in New York
 - Seattle actions
- Forecast the “if/then”
 - Cost and potential impacts on taxpayers and customers with changing banks

Definitions - Banking

- Major Activities and Fees
 - Depository Banking
 - Investments and related services
 - Debt through bond issuance and related services
 - Merchant card (credit card) processing
 - Lending to housing, businesses, and neighborhoods
 - Underwriting and servicing of City loans
 - Health Reimbursement Account

City's Depository Banking

- City's "checking account"
 - Processing of City's transactions including:
 - Checks, cash, ACH, wires, payroll
 - One vendor – Wells Fargo selected from RFP in 2014.
 - Three responses: U.S. Bank, BMO Harris, Wells Fargo
 - Bidder's fee spread was approximately \$70,000/year
 - State law on collateralization
 - \$269,000 in fees paid to vendor in 2016
 - Three year contract through 3/31/18 with option of two one-year extensions
 - Change means significant cost to City and inconvenience to customers

Investment of City's Cash

- Separate set of financial institutions invest \$600 million to \$700 million of City cash
 - Reserves for infrastructure, self-insurance, IT investments, bond reserves, and development resources
 - Four vendors overseen by independent advisor
 - PFM, Galliard (Wells Fargo subsidiary), RBC, Advantus
 - RFP in 2014
 - 19 responses:
 - Bidder's fee spread was over \$100,000
 - \$586,000 per year in fees paid to vendors in 2016
 - Three year contract through 9/30/17 with two one year extension options at City's discretion

Custodial Bank for City Investments

- Holds “title” to City investments
 - Necessary in world of modern transactions that are not certificates of deposit investments
- Necessary for electronic banking
 - One vendor – Wells Fargo
 - RFP done with depository banking in 2014
 - \$38,000 per year in fees
 - Three year contract through 3/31/18 with option of two one-year extensions
 - Staff considering this to be a separate service in future as it is less difficult to change providers

City Loans to Other Entities

- City acts as a bank or partners with private bank
- CPED loans
- NRP loans

- City issues bonds and re-lends
 - Common Bond Fund
 - Special assessments
 - Housing improvement area

CPED Bank Participation Loans

- 2% Loans, Commercial Corridor Loans, Alternative Financing Program and Business Development Fund
- 240 participation loans outstanding for a total principal balance of \$6.6 million
- Originated with 55 different participating lenders
- No City payment of fees to partner banks



Participating Institutions in CPED Loans

Metropolitan Consortium of Community Developers (MCCD)

Anchor Bank

African Development Center (ADC)

University Bank

Wells Fargo

Northeast Bank

Western Bank

Franklin Bank

North American Bank

Park State Bank

Center for Energy and Environment (CEE)

Central Bank

Park Midway Bank

First Children's Finance

Bridgewater Bank

Neighborhood Development Center (NDC)

Highland Bank

US Bank

Bremer Bank

Bankwest

Crown Bank

Venture Bank

Bank Cherokee

Women Venture

Sunrise Banks

Mid Country Bank

Fidelity Bank

Vision Bank

Platinum Bank

Latino Economic Development Center (LEDC)

Woodlands National Bank

First Western Bank

Pioneer Bank

Premier Bank

Nonprofits Assistance Fund

First Resource Bank

Flagship Bank Minnesota

Drake Bank

Bell Bank

TCF

People's Bank and Commerce

Citizens

Community Reinvestment Fund (CRF)

Klein Bank

MN Department of Employment and Economic Development (DEED)

East Bank

M&I (Has been bought out by BMO Harris)

First Commercial Bank of Bloomington

Union Bank

Signature Bank

Metropolitan Economic Development Association (MEDA)

State Bank of Faribault

Saint Paul Port Authority (SPPA)

Ridgedale Bank

1st Bank

Marquette Bank

CPED Loans

- Loans originated and serviced by CPED staff (Loan C)
 - Mostly for housing but also economic development
 - 795 loans outstanding (balance - \$256 million)
- Loans originated by Greater Metropolitan Housing Corp. (GMHC) and Build Wealth MN
 - Primarily for home improvement & mortgage assistance
 - 813 loans outstanding (balance - \$8.6 million)
 - Fees paid by City to vendors – approximately \$100K
 - RFP in 2016, contract expires on 12/31/17
- Loan servicing by Community Reinvestment Fund (CRF)
 - Annual cost to City - \$15,000 (2017 estimate)
 - RFP in 2016, contract expires in 2026

NRP Loans

- Loans
 - Primarily for home improvement & mortgage assistance
 - 1,074 loans (outstanding balance - \$15.8 million)
- Originated by:
 - Greater Metropolitan Housing Corp. (GMHC) (288 loans)
 - Center for Energy & Environment (CEE) (726 loans)
 - Neighborhood Housing Services (NHS) (60 loans)
 - Contracts expire: varies by neighborhood & program
- Loan servicing by CPED (384 loans), CRF (630 loans) and NHS (60 loans)
 - Contracts expire: varies by neighborhood & program
- Total origination and servicing costs in 2016: \$186,146

Common Bond Fund

- Loan fund secured first by a reserve then a limited City levy as back-up
- City provides real estate loans to businesses
- Reserve has exceeded minimums
 - Plan to draw down for Parks/Streets
- Two banking vendors
 - Piper Jaffray and RBC as underwriters
 - Fees are % of bond issue (\$270,000 estimate)
 - Need to do an RFP in next year
- Debt service paid by borrower, not City

G.O. Bond Issue Relationships

- Vast majority of City bonds sold as a commodity in a single transaction through a public bid
 - \$330,000 fees to winning bidder of \$80M issue (Baird)
- Purchasers of G.O. Bonds can be banks or underwriters (also known as “investment banks”)
- City’s AAA rating attractive to buyers
 - Competitive bid for each issue or series of bonds
 - Bank/underwriter takes a fee and resells the bonds in a securities transaction
 - No long-term relationship with bank/underwriter

Bank Loan (As City Bond Issue) Relationships

- Direct placement of bonds pursuant to RFP
 - Short-term (one year or two year with renewals)
 - Variable rate much lower than long-term
- Used initially for longer, larger construction projects
 - Nicollet Mall
 - Target Center
- Also used as refunding for primarily parking fund
- By policy, variable rate no more than 25% of debt
- Currently utilize Wells Fargo and U.S. Bank
- Banks make money on interest rate spread

Bond Trustee

- Occurs when bonds are primarily paid by revenues rather than G.O. pledge
- Selected by issuer of bonds
- Fiduciary to bond holders
- Paid by revenues of financing
- Trustees usually large banks – state law requirements
- Difficult to change due to fiduciary responsibility
- City of Minneapolis bond issues with trustee
 - TIF revenue bonds (U.S. Bank) \$9,000 per year
 - Common Bond Fund (Wells Fargo) \$31,000 per year

Merchant/Credit Card Services

- Processing of credit cards used by customers to pay City services
- One vendor – U.S. Bank
- RFP done late 2014/early 2015
- Nine responses included some non-banks
 - Fee spread was less \$25,000 for top three bidders and then over \$100,000 for remainder in RFP response
- \$253,000 per year in fees to vendor (plus card fees)
- Three year contract with two, one-year extensions
- Expires August 31, 2018

Health Reimbursement Arrangement Trust

- City payments to employees for health expenditures
- Invested by U.S. Bank
- Contract initiated in 2005 and renewed periodically, most recently in 2015
- \$25,000,000 average balance
- \$20,000 to \$30,000 per year in fees

Options and Recommendations



Municipal Bank Summary

- Staff's conclusion is that a municipal bank that takes public deposits is not feasible.
- No other City in the nation operates a public bank
 - Requires special legislation from State of MN
 - Regulatory approval not guaranteed
 - Taking deposits from public is a typical bank requirement
 - Requires enormous up-front investment in capital, technology, underwriting expertise, and specialty staff
 - Highly competitive Twin Cities market means City would need to subsidize costs and with little assurance of a profit in the future.
- Elements of public banking services already exist in the City and could be expanded where private market is not adequately serving public

Current Municipal Bank Traits

- City is a lender already
 - Common Bond Fund: Fills market niche of long-term real estate financing and resulted in City surplus revenues
 - Housing Improvement Areas: Fills unmet market for associations but no City surplus
 - Street special assessments: Offers convenient option
 - Gap financing for affordable housing
 - Single family deferred loans
 - CPED loans
 - NRP loans
- City participates in State of MN public banking
 - Public facilities authority loans for water projects

Municipal Bank - Options

- City has started to lend itself money
 - Can expand this option
- City council approved NOAH strategy in 2016
 - Partnering with Freddie Mac on preserving affordability
- Seek special legislation for other community needs not met by market like HIAs
- City could support other non-profit or private entities to meet goals of access to banking services for all

Fossil Fuel Industry

- Staff is not aware of a definitive, 3rd party measure of banking institutions' support of fossil fuels
- City would need to create definitions
- Larger banks have environmental policies



Framework for Options

- Staff direction asks for options
- Question arises about how to stop doing business with certain firms
- Legal perspective in light of Seattle/NYC experiences
 - Can we restrict who bids on services?
 - If so, how?
- How should we change the RBO, if at all?
 - History and content of RBO today relates to lending practices to businesses and citizens in City

Options

- Option A: Continue to choose banks relationships based upon with lowest cost, breadth and quality of services, and security with the existing RBO lens
- Option B: Choose larger contracts on factors in Option A and break apart some contracts when feasible with an emphasis on supplier diversity and elements of municipal banking
- Option C: Rebid all contracts as soon as practical with new City preferences for business after updated the RBO and completing a new RFP selection criteria for strong preferences rooted in fossil fuel attributes

Option A

- Keep lowest cost, breadth and quality of services, and security as primary criteria for selecting banking firms
- Leave almost all of current contracts in place for five year term
- Work with GFOA and banking groups on long-term plan to increase competition for certain services
 - Work on building capacity of smaller banks to compete for certain services such as depository banking

Option B

- Keep lowest cost, service delivery, and security as primary criteria for selecting banking firms
- Enhance supplier diversity in broader sense of term to utilize minority owned firms and smaller institutions for smaller contracts where there is competition
- Increase number of firms as eligible institutions for banking and investments
 - Investments
 - Bond underwriters
- Continue and incrementally expand municipal banking services on a case-by-case basis.

Option C

- Issue new RFPs for services as soon as practical for all services after the following:
 - City Council defines “fossil fuel industry” and other socially responsible attributes within RFP
 - Determination of weighting scale of these elements in RFP
 - Update RBO to reflect new City priorities



Staff Recommendation

- Option B is the recommended option to continue to reduce City costs while providing opportunities for smaller banking institutions and WMBE owned firms and increase competition over the long-term.

