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Arts, Parks, Health and Aging Committee
Los Angeles City Council
c/o City Clerk
Room 395, City Hall
Attention: Adam Lid

REPORT BACK: COMMUNITY DEVELOPMENT DEPARTMENT (CDD) REPORT BACK ON THE DEVELOPMENT OF A CITY SERVICE CARD

BACKGROUND

At the request of the Arts, Parks, Health and Aging Committee, the CDD was asked to provide information on the development of a City Service Card for the City of Los Angeles.

On August 14, 2012, Los Angeles City Councilman Alarcón introduced a motion which called for the city to re-envision the role Libraries can play in promoting literacy in the 21st century. The motion further requested to begin this expansion of "literacy" with the integration of financial literacy, particularly the initiatives managed by the Community Development Department. Given the current economic downturn, access to financial education is critical in order to help city residents recover from the financial stress caused by unemployment, displacement due to foreclosure, increased debt, and other barriers.

As the social service delivery system in the City of Los Angeles, the FamilySource Centers, managed by the Community Development Department, all provide a comprehensive menu of programs and services that help families build assets. Services include free tax preparation, connecting unbanked individuals with banks and credit unions, and on-going financial education seminars. The CDD has also recently partnered with the Los Angeles Public Library (LAPL) to co-sponsor the 3rd Annual Financial Planning Day, which will offer free financial planning advice from certified financial planners to hundreds of residents. For CDD, collaboration with the Los Angeles Public Library will bring the City's financial empowerment initiatives to greater scale.

Libraries serve as the hub in communities across the city, are free and open to all, offer a wealth of information in all formats (print, digital, audiovisual), provide public access to technology and expert staff to guide the public to the best resources for their needs. **In FY 2011-12, LAPL reported over 15 million visits across all 73 city libraries and a global audience logged on to the library's website, www.lapl.org over 114 million times.**

Acknowledging that both the Los Angeles Public Library and the Community Development Department have the potential to reach a significant number of city residents each year, the motion further moved to instruct the CDD to prepare a report on how the city could integrate financial literacy efforts across all Libraries and to outline the process for creating a City Service Card for Los Angeles residents. The card will offer multiple components that will include a library card with banking functions to bank the unbanked, and as a form of identification.

CITY OF LOS ANGELES – CITY SERVICE CARD

A growing number of cities across the country are creating a "City Service Card". The City Service Card is a step forward in strengthening benefits for students, the elderly, the homeless, immigrants, and transgender individuals who currently lack acceptable forms of financial tools. Without access to financial institutions, many of these city residents are unable to open bank accounts, which lead them to seek higher cost alternative financial services that are often predatory and can present higher risks to their personal safety. In other cities, anyone living in the jurisdiction and able to provide proof of residency based on criteria developed by the city would be eligible for a City Service Card.

Although close to a dozen cities have issued a City Service Card, only two cities are including an optional prepaid debit card feature. These cities include Oakland (CA) and Richmond (CA). The CDD staff has been in contact with staff from the City of Oakland to learn how Oakland's process has evolved and recommends that the Los Angeles City Service Card be closely modeled after the product being offered there, with modifications deemed necessary to meet the needs of the City of Los Angeles. The CDD further recommends that the Los Angeles City Service Card also adopt the basic principles for prepaid debit cards as introduced by the Cities for Financial Empowerment Coalition, which the City of Los Angeles is a member of. (Attachment A)

THE OAKLAND MODEL

As mentioned, the card with a prepaid debit card feature is being implemented in Oakland and Richmond. The Oakland model appears to be the most secure and economically feasible.

The Oakland Municipal ID card program will be managed in its entirety by a third-party and will be connected directly to a financial institution. This will ensure that the cardholder's personal information will be maintained private through the Right to Financial Privacy Act². Additionally, Oakland's model does not require the city to pay for the implementation and management of the ID/prepaid debit card program. The program is sustained by revenue from sale of the card and nominal fees charged to cardholders that opt to activate the prepaid debit card function.

In Oakland, the card will be issued at an authorized city site with proof of identity and residency. Third-party staff will verify documentation, collect fees, take resident's picture and input resident's name, address, date of birth, phone number, and identification information into a secure web-based program. Staff will forward the online application to the issuing-bank, where the card is manufactured and mailed directly to the resident in 7-10 business days. If desired, the resident can call a customer service center to activate the debit component and load cash onto the card at participating businesses, load centers, and/or via direct deposit.

WHY A DEBIT CARD FUNCTION?

Many residents access to affordable banking services. According to the most recent survey conducted by the Federal Deposit Insurance Corporation (FDIC), one in four U.S. households are either unbanked or underbanked, which revealed a slight increase from their 2009 survey.³ In Los Angeles, 12.1% or approximately 200,000 households are unbanked, which makes city residents more likely to be victims of theft and unable to safely access money during emergencies. These residents are forced to rely on predatory and/or high-priced financial services. The Brookings Institution's Metropolitan Policy Program has estimated that a typical unbanked individual working full-time could potentially save as much as \$40,000 during his career simply by relying on alternatives to check-cashing services.

Residents who do not have an option of keeping their money in a bank or prepaid debit card account are at risk of losing money or having money stolen. Lost or stolen cash is rarely recovered. On the other hand, when a bank card or prepaid debit card is lost or stolen, a resident can report it to the corresponding financial institution and funds on the lost/stolen card are easily recovered.

Cardholders will not be required to activate the debit function of their City Service Card. The debit card function is optional. Even for cardholders who opt not to activate the debit function of their ID, their privacy is still protected under the Right to Financial Privacy Act since the cardholder's personal information is only housed in a financial institution's database.

NEXT STEPS

With Mayor and City Council approval, the CDD will issue a Request for Proposals (RFP) to solicit proposals from eligible institutions or agencies that will provide and issue the City Service Card. The proposer will be required to work with a bank or credit union that will allow city residents to access banking products and services in Los Angeles. Ultimately, the provider will offer the following services on the prepaid card or debit card (to include at minimum but not limited to):

- **Identification-** This function would provide a photo, full name, street address, date of birth, hair color, eye color, height and weight to be available for all city residents.
- **Financial Security** - Funds loaded on the card will be FDIC-insured and protected by issuing-bank's Zero Liability policy. The card can be structured so that it cannot be overdrawn and it can prevent individuals from the public safety hazard of carrying large sums of cash.
- **Payment Options** – Residents can pay bills, make reservations and purchases on line, over the phone and via debit transactions at millions of ATM locations.
- **Direct Deposit** – Eliminates exorbitant check-cashing fees and lowers overhead borne by employers in issuing paper checks. Residents can also sign up for direct deposit for their paychecks or government benefits such as Social Security.
- **Reasonable Fees**-There will be no overdraft fees and no minimum balances to maintain the account with a low initial deposit. Monthly fees will also be transparent and low-cost.
- **Local Access**-Ability to reload the card with cash or checks and/or withdraw at local ATM's or bank branches in Los Angeles.
- **Check Balances**-Receive online or paper statements and access to a customer service representative.

REQUESTED ACTION

The CDD requests the Committee and Council to:

1. AUTHORIZE the release of a Request for Proposals (RFP) subject to City Attorney review to solicit proposals to implement the City Service Card according to the attached guiding principles.
2. INSTRUCT the CDD to report back in 120 days with the results of the RFP, final program design and recommendations for implementation.



RICHARD L. BENBOW
General Manager

ATTACHMENTS: (A) Cities for Financial Empowerment-Principles for Prepaid Debit Cards
(B) Proposed Guiding Principles for the City Service Card Request for Proposals (RFP)

Cc: Larry Frank, Deputy Chief of Staff, Mayor Antonio R. Villaraigosa
Torie Osborn, Deputy Mayor
Ivania Solvabarro, Office of Chief Legislative Analyst
Beryl Taylor, City Administrative Office
Sarah Brennan, Los Angeles City Council, District 7

¹ Los Angeles Public Library Annual Report

² FDIC Financial Institutions Regulatory and Interest Rate Control Act of 1978, Title XI, Right to Financial Privacy

³ FDIC 2011 National Survey of Unbanked and Underbanked Households



Cities for Financial Empowerment

The Cities for Financial Empowerment (CFE) Coalition's Principles for Prepaid Debit Cards

September 2011*

A wide variety of providers are increasingly turning to general purpose reloadable (GPR) prepaid cards in the transactional financial services arena. Governments, employers, retailers, and even banks are promoting reloadable prepaid cards. Some are turning to these products as means of reducing the costs of delivering payments, some as alternative banking products that can provide a pathway to the financial mainstream, and others simply to make a quick profit. While GPR prepaid cards merit close attention by policymakers, business, and consumers, they are not equal or a preferred substitute to safe mainstream banking accounts.

GPR prepaid cards may offer many advantages for those distributing payments and, if properly structured, might also be highly advantageous for consumers and benefit recipients when compared with paper checks. In fact, GPR prepaid cards offer opportunities to introduce unbanked individuals to the financial mainstream in two ways. First, GPR prepaid cards can be structured to resemble transactional banking accounts. Second, government agencies turning to GPR prepaid cards can use the opportunity to increase take-up of safe and affordable banking accounts. GPR cards may also be a useful transitional option for consumers who do not qualify for entry-level bank accounts due to negative records in ChexSystem caused by prior issues with banking accounts, such as repeated overdrafts. Payroll cards and federal and state benefit and payment cards should be afforded further consumer protections according to their purpose and method of issuance.

The Cities for Financial Empowerment (CFE) Coalition coordinates large scale access to banking initiatives in major cities across America. Cities are uniquely situated in positions of power, sitting at the intersection of two directives: a fiduciary responsibility to the taxpaying public and a mandate to improve the lives of residents. Cities must carry out the first directive by paying city benefits and wages reliably and cheaply. And increasingly, they are taking innovative approaches to the second, using safe banking initiatives to promote greater financial security for residents. CFE speaks for cities working to improve the economic stability of residents through financial empowerment initiatives and hereby sets forth the following principles for GPR prepaid cards.

**1.) Strong consumer protections are necessary for all general purpose reloadable (GPR) prepaid cards.
CFE recommends the following consumer protections to GPR prepaid card accounts:**

- All GPR prepaid card accounts should be required to have full ("pass-through") FDIC insurance.
- To ensure that all GPR prepaid card account holders have the same basic and comprehensive protections, Regulation E should be applied to all GPR prepaid card accounts (e.g. overdraft provisions, protection from unauthorized use, error resolution rights).
- All GPR prepaid card providers should be required to provide and clearly display an easy-to-understand fee schedule for their products. This fee schedule should contain the name, amount, and a brief description of each fee. No fees should be charged that are not expressly identified and easy to understand when they will be charged.
- GPR prepaid card accounts should not be linked to abusive forms of credit, credit practices, and fee-based overdraft programs. Overdraft fees should be prohibited. Fees for declined transactions, overdraft shortage, cash advance, and payday loans should be prohibited.

2.) GPR prepaid cards should provide basic features for free or at low cost:

- Cards purchased by the consumer should be reloadable for a reasonable cost at widely available physical locations and online.
- Card account holders should be able to load funds into their accounts by direct deposit for free, including direct deposit from multiple payment accounts.
- Cardholders should be provided free access to account information by phone, online, at ATMs, via text message, and through email alerts. Cardholders should be provided with paper statements upon request.

- Cardholders should be able to withdraw money for free, up to their entire account balance.
- Cardholders should be able to make point-of-sale purchases without any fee (unless credit and debit cards would also be charged the same clearly identified fee).
- Electronic bill pay should be offered for free or at low cost.
- Cards should have asset building features, such as linked savings and the ability to make recurring transfers. Recurring transfers to external bank accounts should be available for free.

3.) Payroll cards and federal and state benefit and payment cards should be afforded further consumer protections according to their purpose and method of issuance.

- Cardholders should have access to their full wages or government payments at least once per pay period, without cost.
- Payroll cards should be available at no cost to employers.
- There should be no initiation fees, monthly account maintenance fees, inactivity fees, or card-closing fees paid by the cardholder (or their employer). Cardholders should not be assessed a fee for a replacement card unless they have already received one free replacement card during the calendar year.
- Cardholders should be provided with multiple free telephone calls to a live customer service representative each month.
- Employers and government agencies that offer payroll or tax refund/benefit payment cards should first offer direct deposit to a checking or savings account established at a bank or credit union of the employee or recipient's choosing.
- The funds in a payroll or government benefit card account shall not expire. [This principle does not override state escheat laws.]

4.) Safe mainstream banking accounts best meet the needs of the unbanked.

GPR prepaid card accounts are not equal or preferred substitutes for safe, mainstream banking accounts. CFE believes all efforts should first be made to increase uptake of such accounts. CFE urges policy makers and providers who turn to prepaid debit cards as part of their banking access or payment programs to treat them as a fall-back option. Reloadable prepaid debit cards can rate higher than paper checks and check cashers on the continuum of financial products available, but even affordable reloadable prepaid cards with the appropriate features described above do not offer all of the advantages of safe, affordable banking accounts. The advantages of safe mainstream banking accounts include:

- Access to a broader range of long-term asset building opportunities.
- A wider range of means to access your money and add funds without fees.
- In-person, face-to-face resolution of issues through branch networks. This is particularly important in cases of limited education, access to technology, or language skills, and the elderly.

** Note: These principles reflect the CFE Coalition's viewpoint on prepaid cards, as of September 2011. Given the myriad regulatory and market forces currently transforming the access to banking landscape, our principles may evolve and change over time, and these should not be attributed to the CFE Coalition without further inquiry. In addition, these principles do not discuss CFE cities' stand on the appropriateness of interchange regulations for prepaid cards.*

The Cities for Financial Empowerment (CFE) Coalition is a network of eleven cities committed to advancing innovative financial empowerment initiatives locally and nationally. CFE cities across the country are designing and implementing large-scale programs to help the millions of residents disenfranchised from the mainstream banking system to gain access to affordable financial services through both specialized account-based bank access programs and "Bank On" campaigns. The CFE Coalition is co-chaired by New York City and San Francisco. Members include Chicago, the County of Hawai'i, Los Angeles, Miami, Newark, Providence, San Antonio, Savannah, and Seattle. For more information about CFE visit www.CFECoalition.org.

ATTACHMENT B

PROPOSED GUIDING PRINCIPLES FOR THE CITY SERVICE CARD- REQUEST FOR PROPOSALS (RFP)

VISION

The City Service Card will provide Los Angeles residents with a tool to access city services and financial resources. The City Service Card will introduce residents to library services that not only offer traditional literacy tools and computer classes, but also include financial literacy, job search assistance, and citizenship classes. The card will also serve an important function as a secondary source of identification for the most vulnerable populations in our City.

CONTRACT TERM

The initial contract term shall be from July 1, 2013 to June 30, 2015 with the option to renew after program evaluation demonstrates benefit for City residents.

TARGET POPULATION

The City Service Card will offer unbanked individuals with an opportunity to connect to the financial mainstream. The unbanked population in Los Angeles was recently reported at 12.1% (approximately 200,000 households), which is higher than the state's 7.7%.

The Los Angeles City Service Card will also greatly benefit students, the elderly, the homeless, immigrants, and transgender individuals who currently lack acceptable forms of identification.

FUNDING

The City Service Card will be sustained by revenue from the sale of the card and nominal fees charged to the cardholders who opt to activate the debit card function. The City will be reimbursed out of fees generated for any costs associated with the RFP. The anticipated cost for the card will be \$10.00 to \$20.00 to the cardholder.

PROGRAM DESIGN

The City Service Card will include three basic functions: identification for City residents, library card and an optional prepaid debit card. The **identification component** will provide photo, full name, street address, date of birth, hair color, eye color, height and weight, and would serve all city residents. The card will provide added benefits to a regular **library card** (free library cards will remain on offer at all libraries) by tangibly cohering several City initiatives, including adding more financial literacy offerings at our City libraries, and providing a pre-screened, safe debit card for those currently at the fringes of the Los Angeles economy who are unbanked or under-banked.

At a minimum, the **prepaid debit card** feature of the City Service Card will provide basic consumer protections as defined by the Cities for Financial Empowerment (CFE) Guiding Principles for Prepaid Debit Cards and outlined below:

- City Service Card with the selected prepaid debit card feature will be required to be Federal Deposit Insurance Corporation (FDIC) insured.
- City Service Card residents who activate the prepaid debit card feature will have the same basic protections from excessive overdraft fees; point-of-sale (POS) purchase fees, and protection from unauthorized use/fraud.

- Cardholders should be able to make point-of-sale purchases with no or minimal fees. It is strongly preferred that fees should also be set monthly and not for every single POS purchase.
- All fees on the City Service Card will be transparent, reasonable, and meet FDIC and Bank on Los Angeles standards.
- City residents seeking to activate the prepaid debit card feature should be able to reload the card for a reasonable cost at widely available physical locations in Los Angeles and online.
- Cardholders should be able to reload the card via direct deposit for free, including direct deposit from multiple payment accounts.
- Cardholders should be provided with free access to account information by phone, online, at ATM's or via text and email messages. Paper statements should also be available upon request.
- Cardholders should be able to withdraw money for free, at participating ATM branches.
- In-person, face-to-face resolution of issues at specified locations is strongly preferred. This is particularly important in cases of limited education, limited access to technology, limited language skills and for the elderly.

The City reserves the right to contract with more than one proposer or not to select a proposer from the RFP if it determines that there was no responsive proposer. Prior to contract award, the successful proposer(s) may be required to attend negotiation meetings where contract requirements, prices, service level agreements, detailed scope of work specifications, ordering, invoicing, delivery, receiving and payment procedures will be discussed and negotiated.

ELIGIBLE PROPOSERS

In addition to standard corporate status requirements such as being in good standing with the California Secretary of State's Office, all proposers must have demonstrated experience in developing innovative banking initiatives that promote safe and affordable products and services which result in greater financial security for vulnerable populations.

Favorable consideration will be given to entities or financial institutions that intend to provide City residents with low-cost and local access to financial products and services.

The City will entertain multiple approaches to this project as long as they are aligned with the City Service Card-program design. Financial institutions can submit a joint proposal if they intend to offer the prepaid debit card at multiple participating financial institutions.

EVALUATION CRITERIA

All proposals shall be evaluated on the following categories:

- Demonstrated Ability
- Program Design
- Cost Neutral for the City of Los Angeles
- Cost Reasonableness for the City and its Residents