
SF Public Bank Draft plans

San Francisco Public Bank Coalition &
SF Reinvestment Working Group

Agenda

- How we got here, who's who, and timeline going forward
- Why a public bank
- Areas to Consider Giving Feedback
 - Public bank governance
 - Lending activities
 - Capitalization of a public bank

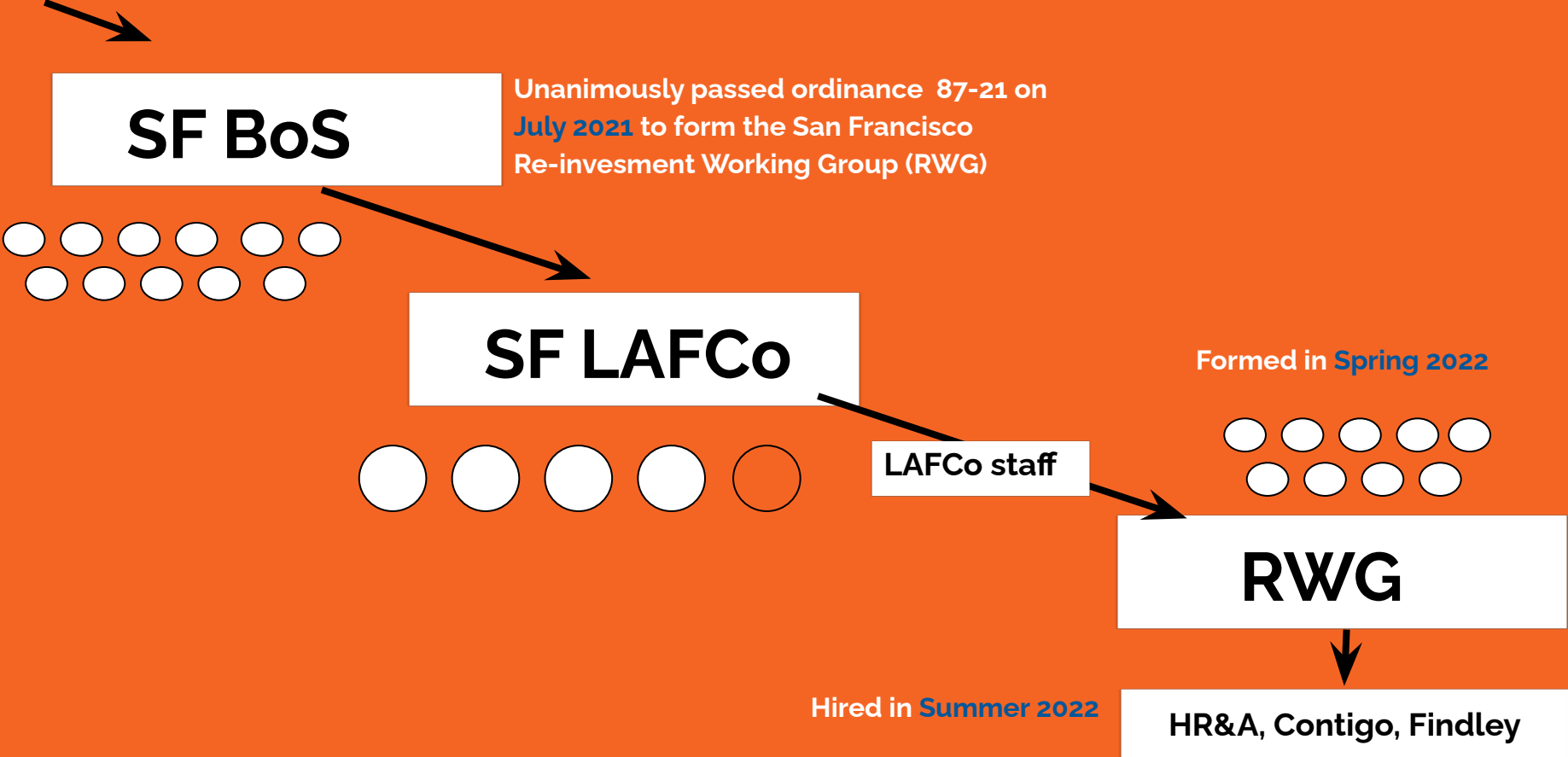
WHY
SAN FRANCISCO
NEEDS A
PUBLIC BANK

“The fundamental need for a City-owned Bank stems from the historic inability of traditional financial institutions to equitably serve the needs of low-income communities and communities of color and to deliver financial services that are not extractive or damaging to those same communities.”

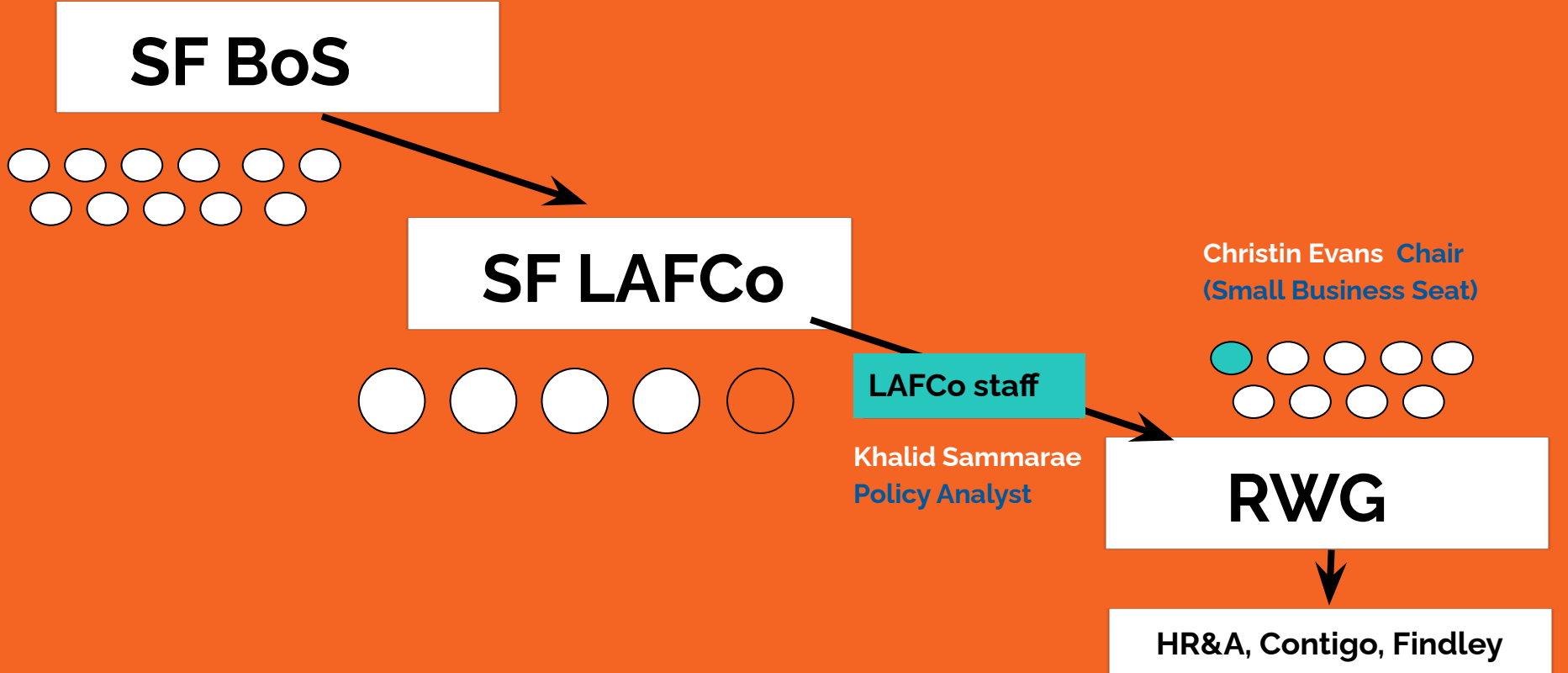


How We Got Here

California Assembly Bill 857 (David Chiu) passed in 2019 allows municipalities to create public banks



Who's Here Today



RWG Task

Develop & submit to the BOS and LAFCo:

- a business and governance plan to establish a City-owned, non-depository lending corporation (a municipal finance corporation or MFC)
- a separate business and governance plan for the MFC to become a state-licensed Public Bank



MFC Plan

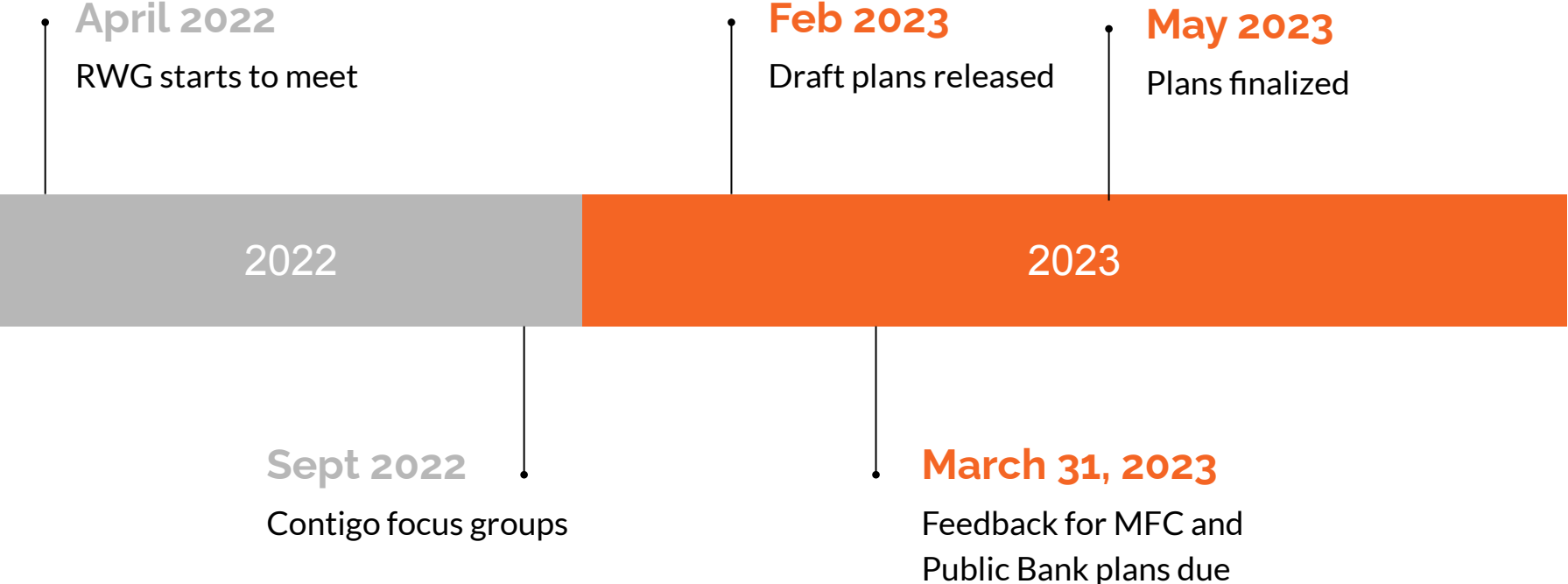


MFC is the precursor entity which applies to become a Public Bank



Public Bank Plan

RWG Milestones



September 2022: Contigo Focus groups

Affordable Housing Development & Home ownership

- Council of Community Housing Organizations
- Episcopal Community Services of San Francisco
- Homeownership San Francisco
- Housing Rights Committee of San Francisco
- Mission Economic Development Agency
- Mission Housing Development Corporation
- San Francisco Community Land Trust
- San Francisco Housing and Development Corporation
- Tenderloin Neighborhood Development Corporation
- Young Community Developers

Green Investments & Environmental Justice

- Bay Area Climate Adaptation Network member
- Bayview-Hunters Point Community Advocates
- Emerald Cities Collaborative
- Just Solutions Collective
- San Francisco Climate Emergency Coalition
- San Francisco Electrical Contractors Association
- Bicus del Pueblo

CFI's, CDFI's, and Credit Unions

- California Credit Union League
- EastWest Bank
- Enterprise Community Loan Fund
- Housing Trust Silicon Valley
- ICA Fund Good Jobs
- Main Street Launch
- Mission Economic Development Agency
- Momentus Capital
- Pacific Community Ventures
- San Francisco Federal Credit Union
- Self-Help Federal Credit Union
- Working Solutions

Small Businesses

- California Reinvestment Coalition
- Chinatown Merchants Association
- Literacy for Environmental Justice (provided input related to small businesses and green energy)
- National Association of Minority Contractors
- North-East Business Association
- Project Equity
- San Francisco Small Business Commission member
- Small Business Majority
- Sunset Mercantile
- Multiple small businesses

Other Input Gathered Through Interviews

City and County of San Francisco

- Contract Monitoring Division
- Office of Economic and Workforce Development
- Office of Small Business
- Port of San Francisco

Community and Policy Advocacy Organizations

- People Organizing to Demand Environmental and Economic Rights (PODER)
- SPUR (San Francisco Bay Area Planning and Urban Research Association)

Other Organizations (Insurance)

- Merriwether & Williams

February 2023: Draft MFC and Public Bank Plans Released

Governance

Lending

Capitalization

Public Bank & MFC

Governance Structure

Mission

The San Francisco Public Bank will promote an economy that upholds equity, social justice, and ecological sustainability.

Principles

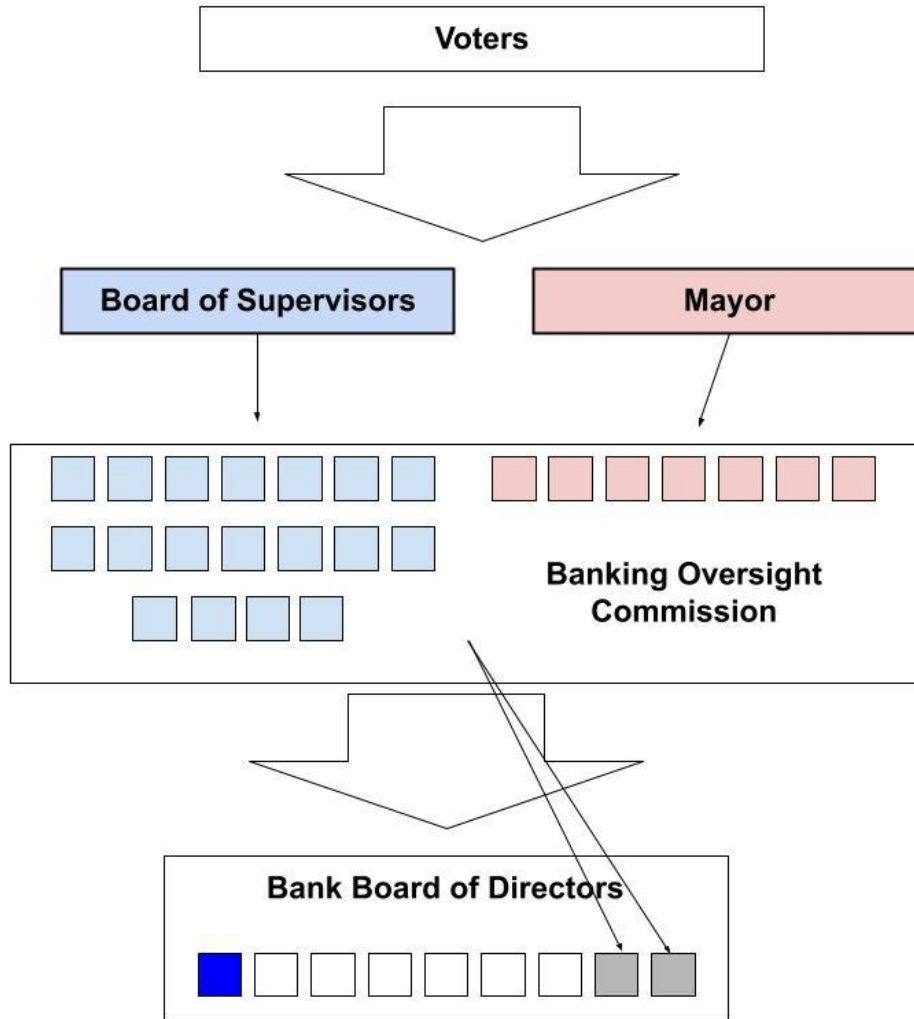
- Public ownership
 - Community wealth building
 - Local control
 - Public welfare & restorative finance
 - Indigenous rights
 - Harm avoidance
 - Cooperation with existing community bank institutions
 - Accountability & transparency
-

Both MFC and Public Bank draft plans include democratic control.

The outline on this slide demonstrates one of the public bank proposals.

The MFC and public bank will have similar governance structures.

The RWG is currently gathering feedback on proposed governance models.



Public Bank & MFC Lending



Policy-based lending needs

- The City projects that **affordable housing development** will require **more than \$400 million dollars a year** through 2030 in addition to funds it has already committed. Affordable homeownership will require additional funds.
- Local enterprise lending for **small businesses** unsupported by traditional banks likely runs to **several tens of millions of dollars annually**.
- Lastly, green investments constitute a vast and urgent need for San Francisco. The City has established an ambitious **Climate Action Plan** to reach net zero greenhouse gas emissions by 2040. The University of California, Berkeley's Center for Law, Energy, and the Environment estimated that implementing this plan could require up to \$21.9 billion—approximately **\$1.3 billion per year by 2040**.



Urgent Housing Equity Needs

- Black households, which make up 9% of the population, receive less than 1% of home purchase loans, while Hispanic households, which make up 16% of the population, receive only 4% of such loans.
- A significant proportion of these communities, 51% of Black and 45% of Hispanic households, are forced to allocate more than 30% of their income towards rent
- Minority and other ethnic groups continue to experience substandard housing than white city residents. 5 For instance, 20% of Hispanic and Asian/Pacific Islanders, and 8% of African Americans live in overcrowded housing, compared to 3% of the city's white population.

Affordable Housing Lending Products and Solutions



Product	Solution
Patient and equity-like capital	Provide longer-term (10+ years) and low-interest loans— potentially structured as equity equivalent products—to CFIs and CDFIs to finance long-term projects.
Short-term financing	Provide pre-development loans to pay for a wide variety of expenses such as architectural and engineering fees, acquisition costs, among others.
Gap financing	Help developers address mismatches between costs and revenue and to cover unexpected increases in labor and material costs through gap financing.
Credit enhancement to serve customers perceived as riskier	Establish credit enhancement products to facilitate home loans to nontraditional borrowers who may lack standard credit indicators.
Guarantees	Set up guarantees—construction loan guarantees, completion guarantees, operating deficit, and tax credit—for affordable housing developers.
Alternative products	Support the creation of alternative products and markets for less-common structures like land banks, community land trusts, and tenancy-in-common



Urgent Local Enterprise Equity Needs

- Even after controlling for credit score and income, minority owned businesses often face more stringent procedures and suboptimal terms and interest rates. According to the Federal Reserve, only 25% of Hispanic-owned firms with low credit risk received all the non-emergency financing they sought, compared to 48% of white-owned firms. The same study also showed that only 35% of Black-owned small business received all requested funding, compared to 60% for their white-owned counterparts.
- Only 1.5% of employer businesses in San Francisco were owned by African Americans, compared to 2.5% nationally. This disparity is stark as African Americans make up 9% of the city's population. Only 3.5% of small businesses are owned by Hispanic residents, as opposed to the national average of 5.5%, and much lower than the 16% of total Hispanic residents in San Francisco.
- In San Francisco 14% of total bank branches closed in the period between 2008 and 2016, mainly affecting Black and Hispanic residents. These communities are disproportionately likely to have limited access to traditional banking services, with many living in “banking deserts.”

Local Enterprise Lending Products and Solutions



Product	Solution
Growth capital between CDFI cap and commercial bank minimum	Provide loans between \$350,000 and \$1 million to support businesses that are growing but still too small to receive adequate support from traditional banks
Startup capital	Provide microloans between \$50,000 and \$100,000 for entrepreneurs and business owners in early stages
Lines of credit	Provide line of credit servicing for businesses, especially those whose accounts receivable are on longer terms and whose accounts payable are on shorter terms (for example, construction businesses) to provide liquidity for immediate needs.
Credit enhancement to serve customers perceived as riskier	Establish a loan loss reserve fund for CDFIs to extend more loans to nontraditional borrowers who may lack standard credit indicators.
Marketing funds	Design a line of credit for brands that want to subsidize the cost of local marketing for their local partners.

Green Investment Lending Products and Solutions



Product	Solution
Short-term debt for building electrification	Provide affordable, short-term financing for building- and homeowners to electrify appliances (water heaters, furnaces, etc.), specifically targeting low-income communities
Public funding and patient capital for pollution cleanup	Provide longer-term (3-10 years) and low-interest loans to finance long-term infrastructure projects for environmental remediation.
Subsidy and finance for electric vehicle (EV) infrastructure	Harness federal funding and private financing to meet rapidly accelerating demand for EV charging infrastructure.
Tax credits for solar and storage	Leverage federal tax credits to support solar and storage in low-income communities

Public Bank & MFC Capitalization

Where will the money come from?



“We understand that there are legal and other considerations around these sources that the RWG has discussed in its past meetings. Although we do not require a final decision on the capitalization and funding sources before the end of our scope to deliver business and financial plans for the MFC and public bank, greater clarity in how the City might proceed could help us refine the plans.” -Draft Plan

Potential Sources

- General Fund Appropriation
- Treasurer's Pooled Investment Fund
- Locally Controlled Revenue Tax
- San Francisco Employee Retirement System
- Philanthropy
- Crowdsourcing
- State Funds
- Federal Funds

MFC Financial Models

MODELS 5-8 SHOW POTENTIAL PATHS TO BREAKEVEN WITH DIFFERENT CAPITAL AND FUNDING AMOUNTS

Under these assumptions, all models break even by the end of Year 3 after incurring some losses in Years 1 and 2. Model 6 could offer most reasonable scenario.

How much capital and funding is the City willing and able to provide, and at what conditions?

	Capital (Year 3)	Funding (Year 3)	Net Income (Year 3)	Total Net Income (Years 1-3)
Model 4: <i>February draft</i>	\$20.00M	\$50.00M	\$4,000	(\$1.27M)
Model 5:	\$19.75M	\$50.00M	\$28,000	(\$1.25M)
<ul style="list-style-type: none"> • Pre-opening expenses • Minor changes to staff structure • Lower cost of funding 				
Model 6:	\$39.75M	\$50.00M	\$682,000	(\$0.13M)
<ul style="list-style-type: none"> • Increase capital to \$40M 				
Model 7:	\$39.75M	\$102.00M	\$1,945,000	\$1.11M
<ul style="list-style-type: none"> • Increase funding to \$102M • Add personnel 				
Model 8:	\$39.75M	\$202.00M	\$3,829,000	\$2.61M
<ul style="list-style-type: none"> • Increase funding to \$202M • Add personnel 				

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These financial models were presented to the RWG at the March 16, 2023 regular meeting.

Potential Source of Capitalization: Greenhouse Gas Reduction Funds

A non-depository institution like the MFC would have less complicated process participating in and accessing the Greenhouse Gas Reduction Fund at the federal level.

“Given the alignment of objectives between the proposed MFC and a potential green bank, HR&A therefore recommends that—if the City seeks to establish a green bank—the **City consider making the MFC, or a structure within the MFC, the green bank entity for San Francisco.**”

Main Takeaway:

MFC would be sustainable within 3 years of operations & \$20 mil capitalization.

There are a variety of outside funding opportunities, including potentially the **new IRA climate bill funds**

RWG Timeline Going Forward

- March 31st Deadline for Feedback on Public Bank Draft Plans
- May 10th Final Draft Release
- May 18th RWG Meeting on Final Draft
- Before September (our target is June): Submit plans to LAFCO and Board of Supervisors

Small Business Commissioners can provide feedback via email to khalid.samarrae@sfgov.org