How We Got Here

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

SF BOS

Unanimously passed ordinance on July 2021 to form the Reinvestment Working Group (RWG)

Sponsors: Dean Preston, Shamann Walton, Matt Haney, Myrna Melgar, Hillary Ronen, Connie Chan, Gordon Mar

SF LAFCo

Formed in Spring 2022

San Francisco Reinvestment Working Group (RWG)
Technical experts in financial institutions (3)
Community representatives (4)
Controller's designee (1)
Treasurer's designee (1)

Who Did the Work

HR&A ADVISORS

Leaders in inclusive economic development, investment, governance, and stakeholder and community strategies.

- Advised Cities of Seattle, Philadelphia, and Lancaster (CA) on public banking
- Supported SEIU on California Public Banking Option Act (AB1177)

THE FINDLEY COMPANIES

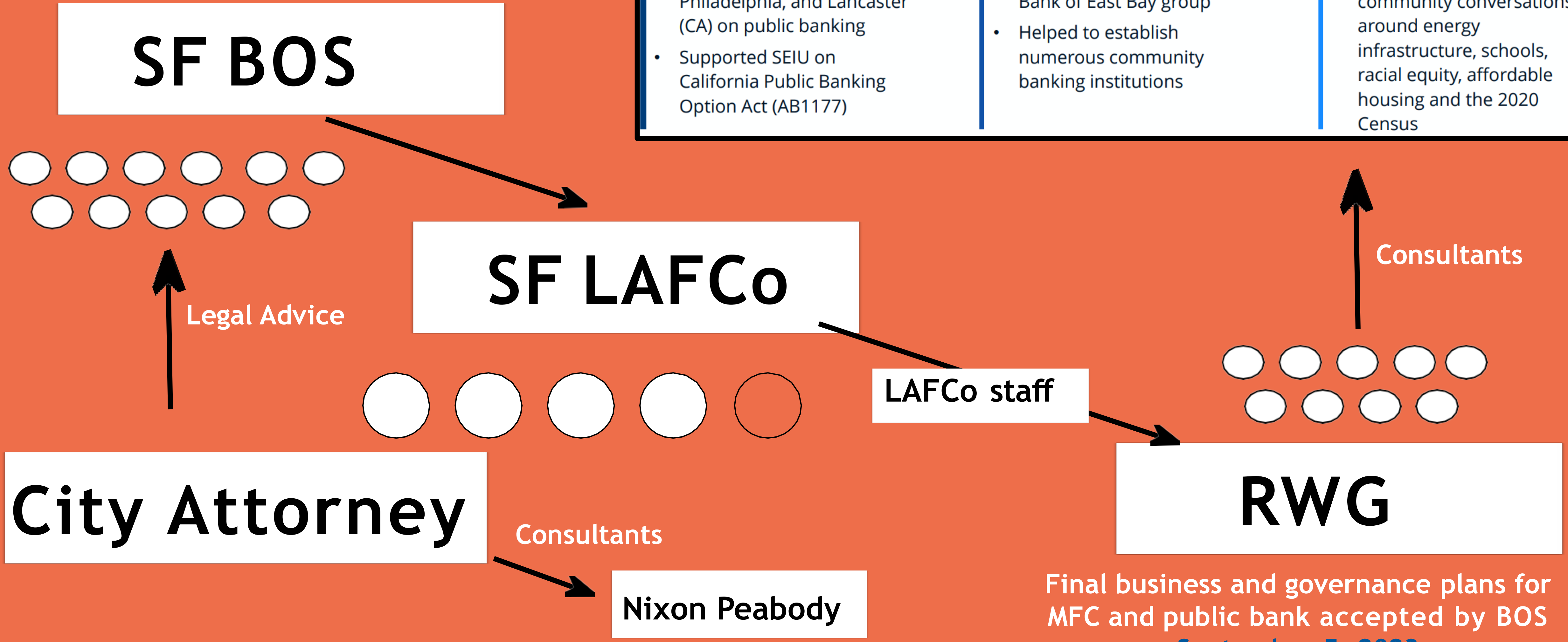
Experts in establishing *de novo* banks and providing guidance on management, operations, and compliance in California.

- Currently advising Public Bank of East Bay group
- Helped to establish numerous community banking institutions

CONTIGO

San Francisco-based practitioners who co-construct solutions that reflect the needs of community members.

- Guided outreach and community conversations around energy infrastructure, schools, racial equity, affordable housing and the 2020 Census



Final business and governance plans for MFC and public bank accepted by BOS September 5, 2023

Market Gap Analysis: Focus Groups & Interviews

Affordable Housing Development & Homeownership
- 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

CFIs, CDFIs, and Credit Unions
- Beneficial State Bank
- 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

Green Investments and Environmental Justice
- Bay Area Climate Adaptation Network member
- Bayview-Hunters Point Community Advocates
- Emerald Cities
- Just Solutions Collective
- San Francisco Climate Emergency Coalition
- San Francisco Electrical Contractors Association
- Bicis del Pueblo

Small Business
- 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

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 Justice
- SPUR (the San Francisco Bay Area Planning and Urban Research Association)

MFC and Public Bank: Function and Purpose

The MFC and Public Bank will use funds to make below-market loans for affordable housing, small businesses, and green investments. These loans will be designed to be repaid, with an expectation of return to achieve financial self-sustainability.

Short-term Strategy

The MFC will initially operate through loan participations and syndications by partnering with the community financial institutions—credit unions, community banks, and CDFIs—that best know the needs of San Franciscans.

- Participation and syndication are two strategies deployed by lenders to manage risk, increase loan size, and improve operations and performance.
- With this strategy, the MFC will work with institutions that already have relationships with local communities and a potential pipeline of deals in the target lending areas and will deploy capital to and through them.
- This enables the MFC to deploy capital more quickly while upholding a collaborative approach and supporting the three priority areas identified.

Long-term Strategy

After achieving a profit, and at the discretion of its professional banking leaders, the MFC and/or the Public Bank will initiate loan origination to further fill in the market gap.

Affordable Housing

- Patient and equity-like capital, including for land and building acquisition
- Short-term financing
- Gap financing

Small Business

- Lines of credit
- Marketing funds

Green Investments

- Short-term loans for residential and commercial building upgrades
- Lines of credit for contractors and property-owners
- Subsidy and finance for electric vehicle infrastructure

Not all products listed. Please refer to the plan for a full list.

Charter Amendment: Municipal Finance Corporation & Public Bank

- Amends SF Charter
  - adds Article IXB
- Authorizes creation of
  - Municipal Finance Corporation (MFC) and
  - Public Bank (later phase)
- Establishes for both MFC and Bank:
  - Mission,
  - Principles, and
  - Governance and Oversight
- Charter amendment does **<u>not</u>** fund/capitalize

Charter Amendment: Preamble/Findings

- Traditional banks have underserved low-income communities & communities of color
- Major funding gaps in:
  - Affordable housing (12,600+ approved units unfunded)
  - Small businesses
  - Climate infrastructure
- Public banking shown to support:
  - Local economic development
  - Financial inclusion
  - Lower public borrowing costs
- Continuation of prior SF efforts
  - AB 857 [2019]
  - Reinvestment Working Group plans

Charter Amendment: Mission & Core Principles

- Mission: Promote equity, social justice, and ecological sustainability
- Key Principles:
  - Public ownership (profits reinvested locally)
  - Local control & community input
  - Community wealth building
  - Support underserved communities
  - Collaboration with local financial institutions
  - Transparency & accountability
  - Independence from political influence
  - Ethical investing (avoid harmful sectors)
  - Respect for Indigenous rights

Charter Amendment: Municipal Finance Corporation (MFC)

- Non-depository financial institution
- Focus areas, mainly through participation lending
  - Affordable housing & homeownership
  - Small business financing
  - Climate & environmental projects
- Works in partnership with:
  - Credit unions
  - Community development financial institutions (CDFI's)
  - Community banks
- Designed as foundation for eventual Public Bank

Steps to start MFC:

1. Pre-opening funding acquired (~$2.6)
2. TTX hires MFC Coordinator – experienced banker
3. Coordinator updates RWG plans, including identifying sources of capital and funding
4. TTX, Coordinator, and CAT (and outside law firm) create articles of incorporation and bylaws for public benefit nonprofit (MFC)
5. City files with State to create MFC
6. Acquire funding and capitalization
7. Start operations as MFC

Charter Amendment: MFC Governance

- MFC Oversight Commission (MOC)
  - 9 members Appointed by multiple city authorities (BOS, MYR, CAT, CON, TTX)
  - Independent decision-making
  - Sets direction via advisory opinions, appoints MFC Board of Directors, ensures accountability via removal authority under a very high threshold
  - Qualifications: residents or subject matter experts; appointed by TTX, CON, CAT, MYR, or BOS, who will jointly develop a list of qualifications; no elected officials or anyone who ran for office in 10 years
- MFC Board of Directors:
  - 5 members - Includes CEO + 3 outside directors + MOC member
  - Manages operations and strategy
  - Qualifications: substantial professional experience in the MFC's lending areas and as a professional manager; experience as a member of a board of directors, chief executive, or other executive of a financial organization

Charter Amendment: Transition to Public Bank

- Can begin after 3rd year of MFC operation
- Requires:
  - Financial viability
  - Regulatory approvals (FDIC and CDFPI)
- MFC assets, liabilities, and capital transfer to Bank
- MOC and Board of Directors can transfer over to Bank
- Decision to initiate can be made by MFC Board or Oversight Commission, but Board controls timing and process
- Public Bank is full depository institution, expands services beyond MFC, and operates under stricter regulatory framework
- AB857 prohibits public banks from competing with private banks, cannot offer products already being offered

<u>Steps to start Bank:</u>

1. MOC or MFC Board votes to initiate process
2. MFC Board controls process and develops corporate documents and applications to regulators (FDIC and CDFPI)
3. MOC approves documents
4. MFC Board applies to FDIC and CDFPI
5. Get approved by regulators
6. Start operations as Public Bank

Charter Amendment: Public Bank Governance

- Bank Oversight Commission (15 members):
  - Broad, diverse representation
  - Independent from political control
  - Qualifications:
    - residents or subject matter experts;
    - appointed by TTX, CON, CAT, MYR, or BOS, who will jointly develop a list of qualifications;
    - no elected officials or anyone who ran for office in 10 years
- Bank Board of Directors (9 members):
  - CEO + 8 experienced banking professionals (+ 2 BOC member as observers)
  - Oversees operations and compliance
  - Qualifications:
    - substantial banking operations or bank directorship experience;
    - substantial community development financial institution or community financial institution experience; or
    - substantial professional experience in the Bank's lending areas.

Appendix:

- Comparison of MFC and Public Bank
- Capitalization and Funding Breakdown (2023)
- Recommended Products and Programs

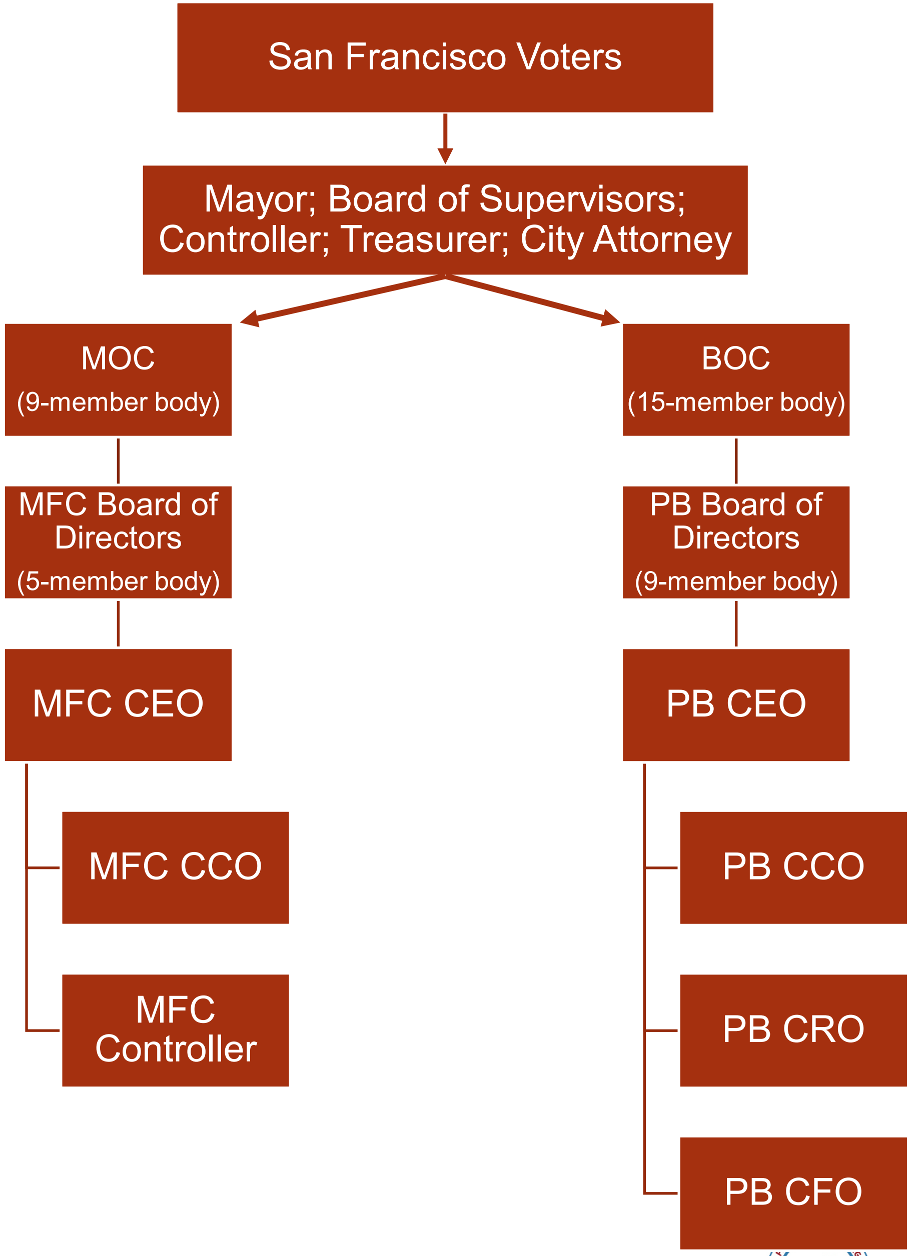
MFC vs Public Bank

The MFC and public bank are designed so that the MFC can be created rapidly, can achieve initial objectives in 3 years, and can transition to an effective public bank.

	MFC	Public Bank	Same?
Description	• Non-depository investment entity • Public benefit corporation registered with the State • No banking-specific regulations	• Depository bank • Public benefit corporation registered with the State • Regulated by the FDIC and CDFPI	• ✗ • ✓ • ✗
Three-Tier Governance Structure	• Oversight commission (diverse experience, appointed by elected officials) • Board (majority have banking experience) • Management staff (banking professionals)	• Oversight commission (diverse experience, appointed by elected officials) • Board (majority have banking experience) • Management staff (banking professionals)	• ✓ • ✓ • ✓
Loan Activities	• Participation lending with CDFIs/CFIs for affordable housing, small business, and green investments • Lower ability to make direct loans	• Participation lending with CDFIs/CFIs for affordable housing, small business, and green investments • Greater ability to make direct, larger, complex loans	• ✓ • ✗
Capitalization & Funding (amount)	• $2.6M in start-up costs • $39.5M in capital by end of Year 3 • $50.0M in funding by end of Year 3	• $59.5M in capital by end of Year 8 • $250.0M in funding by end of Year 8	• ✗ • ✗ • ✗
Capitalization & Funding (source)	• Cannot accept deposits • GO Bond not viable • TTX investment pool not viable • Tax, Gen Fund, SFERS, Philanthropy	• Can accept deposits • GO Bond not viable • TTX investment pool viable after year 5 • Tax, Gen Fund, SFERS, Philanthropy	• ✗ • ✓ • ✗ • ✓

Governance Comparison

	MFC	Public Bank
Oversight Commission	• 9 members (4 appointed by BOS, 2 by Mayor, 1 by TTX, 1 by CON, 1 by CAT) • Staggered terms; no elected officials; no recall • Advisory; compensated	• 15 members (6 appointed by BOS, 3 by Mayor, 2 by TTX, 2 by CON, 2 by CAT) • Staggered terms; no elected officials; no recall • Advisory; compensated
Board	• 5 members (President/CEO, 3 outside directors, 1 MOC member) • Committees: Audit/Risk, Loan, and HR/Governance	• 9 members (President/CEO, 8 outside directors); 2 BOC members as observers • Committees: Audit/Risk, Loan, Asset-Liability, and HR/Governance
Management	• CEO, Chief Credit Officer (CCO), Controller • 4 other staff plus external HR, auditor, legal	• CEO, CCO, CFO, Chief Risk Officer • 9 other staff plus external HR, auditor, legal; in- source HR functions as soon as possible
Loan Activities	• Participation lending with CDFIs/CFIs for affordable housing, small business, and green investments • Lower ability to make direct loans	• Participation lending with CDFIs/CFIs for affordable housing, small business, and green investments • Greater ability to make direct, larger, complex loans



Capitalization and Funding Breakdown (2023)

Pre-opening costs for MFC are $2.6M

MFC becomes depository public bank between Years 3 and 4

	MFC			Public Bank				
Millions of $	**Year 1 2024**	**Year 2 2025**	**Year 3 2026**	**Year 4 2027**	**Year 5 2028**	**Year 6 2029**	**Year 7 2030**	**Year 8 2031**
Total Assets	24.7	58.6	89.4	169.9	211.3	243.5	286.3	319.9
Net Loans	19.5	40.0	58.3	107.9	150.1	186.1	221.5	246.8
Funding	**6.0**	**30.0**	**50.0**	**110.0**	**150.0**	**180.0**	**220.0**	**250.0**
New Funding	*6.0*	*24.0*	*20.0*	*60.0*	*40.0*	*30.0*	*40.0*	*30.0*
Capital	**19.5**	**29.5**	**39.5**	**59.5**	**59.5**	**59.5**	**59.5**	**59.5**
New Capital	20.0	10.0	10.0	20.0	0.0	0.0	0.0	0.0
Net Income	(0.9)	(0.1)	0.6	0.4	1.4	2.2	2.8	3.6

How to read table:

- *By the end of year 1 of operation, the MFC will have $24.7 million in assets and $19.5 million in loans. The MFC received $6 million in new funding and $20 million in new capital. The MFC's net income was a loss of $900,000.*
- *By the end of year 3 of operation, the MFC will have $89.4 million in assets and $58.3 million in loans. The MFC received $20 million in new funding and $10 million in new capital. Over its first three years, the MFC has received $50 million in funding and $39.5 million in capital. The MFC's net income was a profit of $600,000.*

SF Market Gaps: Financial and Non-financial Services

For small business, affordable housing, and green initiatives, the HR&A Team evaluated unmet financing needs and barriers to access for underserved populations and identified the potential financing programs to meet those needs.

Solutions Identified

Area	Small Business	Affordable Housing	Green Initiatives
Financial solutions	• Growth capital • Startup capital • Lines of credit • Credit enhancement • Marketing funds	• Patient and equity-like capital • Short-term financing • Gap financing • Credit enhancement • Guarantees • Alternative products • Subsidy for complex projects	• Short-term debt for building electrification • Public funding and patient capital for pollution cleanup • Subsidy and finance for electric vehicle infrastructure • Tax credits
Non-financial solutions	• Equitable credit requirements • Technical assistance • Increased trust in finance • Revamped small businesses inventories • Shift services online • Serve as a banking-relationships steward	• Zoning and permitting aligned with public bank lending • Trainings for developers and home buyers • Reformed underwriting rules • Match processing times to industry needs	• Outreach and engagement for prospective borrowers

SF Small Business: Financial Needs and Solutions

Business-serving community financial institutions and small businesses have gaps in various products and services, particularly in growth capital, lines of credit, and credit enhancements for CFIs that serve small businesses. Future programs should also address non-financial barriers to lending.

Financial Needs and Solutions

Need	Solution
Growth capital between CFI cap and commercial bank minimum	Provide loans between $350K and $1M to support businesses that are growing but still too small to receive adequate support from traditional banks.
Startup capital	Provide microloans between $50K and $100K 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 CFIs 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.

Sources*: HR&A Team interviews and focus groups.*

SF Small Business: Non- financial Needs and Solutions

Alongside financial solutions, small businesses need a range of services that help entrepreneurs gain the skills they need to start and establish their firms successfully.

Non-Financial Needs and Solutions

Need	Solution
Equitable **credit requirements**	Remove credit requirements that are implicitly discriminatory.
Technical assistance	Provide application and management coaching and support for first-time borrowers.
Increased trust in finance	Partner with trusted institutions to inform underserved communities (especially people of color, immigrant, and non-English-speaking communities) of trustworthy financial services.
Better information on small businesses for outreach or funding purposes	Improve the quality of the information available on small businesses to promote equitable access to funding regardless of business location, size, ownership, and industry.
Shift services **online**	Enable online application and underwriting processes to simplify and expedite loan disbursement.
Durable and reliable **small business-bank relationships**	Protect banking relationships between small businesses and community banking institutions so that branch closings do not negatively impact owners' probability of getting funding.

Sources: *HR&A Team interviews and focus groups.*

SF Green Initiatives: Needs and Solutions

State and local mandates related to carbon neutrality require the creation of new loan products and complementary services to catalyze green infrastructure improvements for businesses, households, and others.

Financial Needs and Solutions

Need	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.

Non-Financial Needs and Solutions

Need	Solution
Outreach and engagement for prospective borrowers	Raise awareness among target populations for the existing Community Choice energy program and service providers (i.e., CleanPowerSF) as well as other prospective loan products related to building decarbonization.

***Sources**: HR&A Team interviews and focus groups.*