



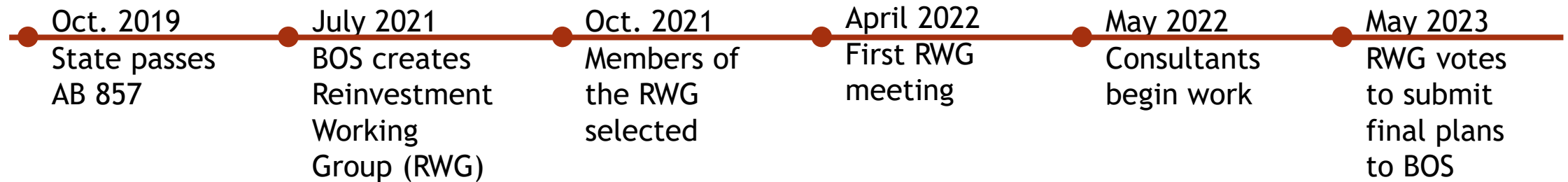
# San Francisco Public Bank: Summary of Proposed Approach

July 2023

# Agenda

1. The Public Bank Planning Process
2. What the Public Bank Is
3. Community-informed Lending Products
4. What the Public Bank Will Do
5. Next Steps

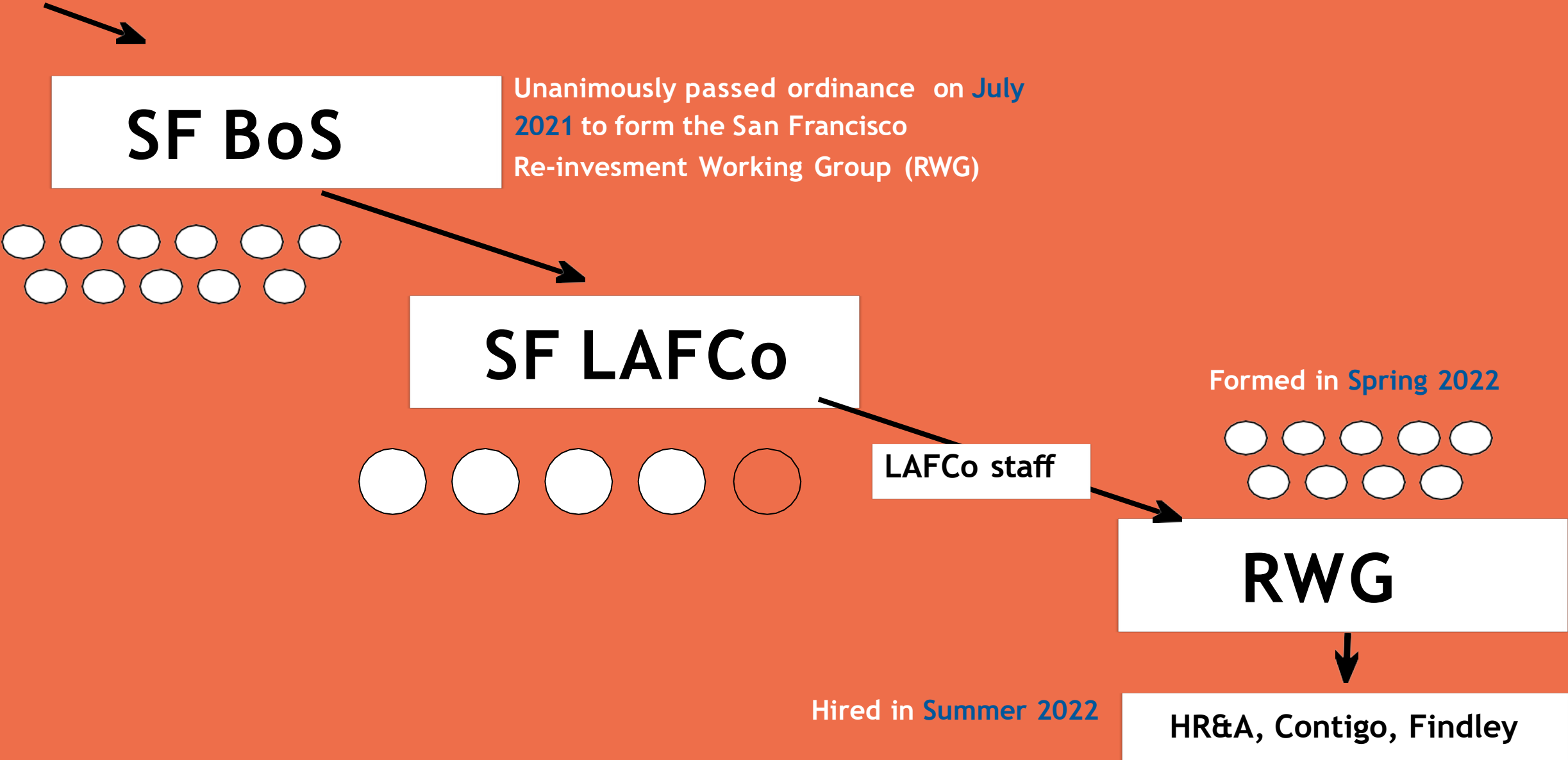
# The Public Bank Planning Process



- The business and governance plans and viability studies for the Municipal Finance Corporation (MFC) and Public Bank are the product of 1+ years of work by the San Francisco Reinvestment Working Group (RWG).
- San Francisco community members and representatives of housing, small business, environmental, community finance, and other organizations have informed the plans at every step of the process.
- The result are plans that embody San Francisco's values and aspirations to create solutions that can address historic inequities in access to affordable housing, small business finance, and the tools to create a healthy environment for all.

# How We Got Here

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



# SF BoS

## Who's Here Today

### SF LAFCo

LAFCo staff

Christin Evans  
Chair of RWG

### RWG

Giacomo Bagarella  
Director

Gary Findley  
Director

Susana Razo  
Principal and Founder

#### HR&A ADVISORS

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

#### THE FINDLEY COMPANIES

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

#### CONTIGO

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

# What the Public Bank Is

- The RWG designed the MFC and Public Bank to be professionally run, transparent, and accountable entities.
- They will be run by competent management teams with financial expertise, with oversight from San Francisco residents, and independent of political authority.
- As stewards of public funds, they will uphold financial industry best practices and rigorous financial management.

## Mission

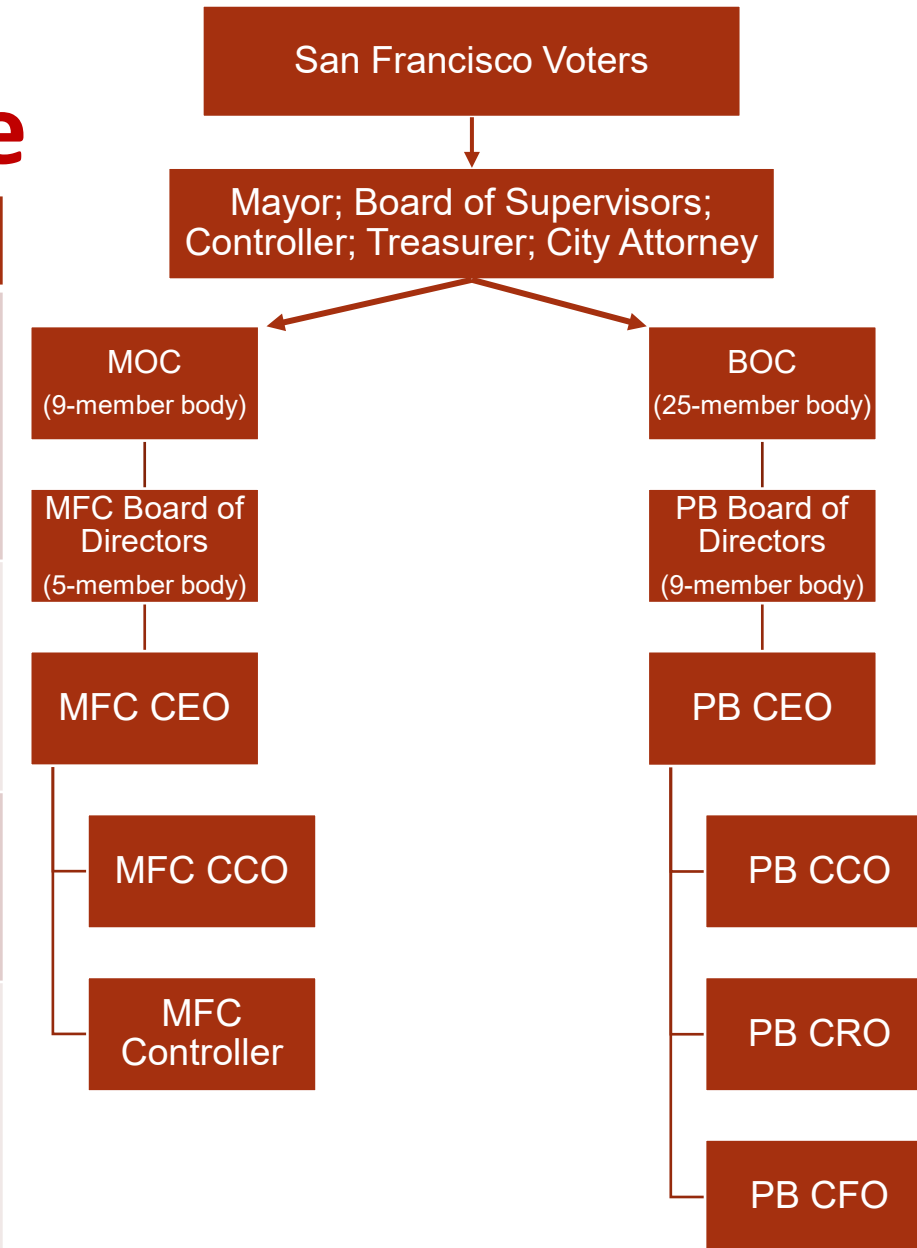
The San Francisco Public Bank will promote an economy that upholds equity, social justice, and ecological sustainability.

## Principles

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

# Governance Overview: Structure

	MFC	Public Bank
<b>Oversight Commission</b>	<ul style="list-style-type: none"> <li>9 members (4 appointed by BOS, 2 by Mayor, 1 by TTX, 1 by CON, 1 by CAT)</li> <li>Staggered terms; no elected officials; no recall</li> <li>Advisory; compensated</li> </ul>	<ul style="list-style-type: none"> <li>25 members (11 appointed by BOS, 5 by Mayor, 3 by TTX, 3 by CON, 3 by CAT)</li> <li>Staggered terms; no elected officials; no recall</li> <li>Advisory; compensated</li> </ul>
<b>Board</b>	<ul style="list-style-type: none"> <li>5 members (President/CEO, 3 outside directors, 1 MOC member)</li> <li>Committees: Audit/Risk, Loan, and HR/Governance</li> </ul>	<ul style="list-style-type: none"> <li>9 members (President/CEO, 8 outside directors); 2 BOC members as observers</li> <li>Committees: Audit/Risk, Loan, Asset-Liability, and HR/Governance</li> </ul>
<b>Management</b>	<ul style="list-style-type: none"> <li>CEO, Chief Credit Officer (CCO), Controller</li> <li>4 other staff plus external HR, auditor, legal</li> </ul>	<ul style="list-style-type: none"> <li>CEO, CCO, CFO, Chief Risk Officer</li> <li>9 other staff plus external HR, auditor, legal; in- source HR functions as soon as possible</li> </ul>
<b>Loan Activities</b>	<ul style="list-style-type: none"> <li>Participation lending with CDFIs/CFIs for affordable housing, small business, and green investments</li> <li>Lower ability to make direct loans</li> </ul>	<ul style="list-style-type: none"> <li>Participation lending with CDFIs/CFIs for affordable housing, small business, and green investments</li> <li>Greater ability to make direct, larger, complex loans</li> </ul>



# Community-Informed Lending Products

- Affordable Housing Development & Homeownership (10)
- CFIs, CDFIs, and Credit Unions (13)
- Green Investments and Environmental Justice (7)
- Small Business (10)
- City and County of San Francisco (4)
- Community and Policy Advocacy Organizations (2)
- Other Organizations (Insurance) (1)



# What the Public Bank Will Do

- 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.
- The entities are designed to partner with the community financial institutions—credit unions and CDFIs—that best know the needs of San Franciscans.
- Others like philanthropies or pension funds may also contribute to the entities' finances.

## Affordable Housing

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

## 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..

# Capitalization and Funding: Breakdown

Pre-opening costs for MFC are \$0.5M

MFC becomes depository public bank between Years 3 and 4  
(Converting MFC to PB costs is approximately \$1.0M)

	MFC			Public Bank				
<i>Millions of \$</i>	Year 1 2024	Year 2 2025	Year 3 2026	Year 4 2027	Year 5 2028	Year 6 2029	Year 7 2030	Year 8 2031
<b>Total Assets</b>	24.7	58.6	89.4	169.9	211.3	243.5	286.3	319.9
<b>Net Loans</b>	19.5	40.0	58.3	107.9	150.1	186.1	221.5	246.8
<b>Funding</b>	<b>6.0</b>	<b>30.0</b>	<b>50.0</b>	<b>110.0</b>	<b>150.0</b>	<b>180.0</b>	<b>220.0</b>	<b>250.0</b>
<i>New Funding</i>	6.0	24.0	20.0	60.0	40.0	30.0	40.0	30.0
<b>Capital</b>	<b>19.5</b>	<b>29.5</b>	<b>39.5</b>	<b>59.5</b>	<b>59.5</b>	<b>59.5</b>	<b>59.5</b>	<b>59.5</b>
<i>New Capital</i>	20.0	10.0	10.0	20.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	(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.

# San Francisco's Next Steps

- Start a Municipal Financial Corporation (MFC). Working with the City Attorney and the Board of Supervisors to find the most feasible way to incorporate the RWG's vision of an MFC into San Francisco's government.
- Pursue a variety of capitalization and funding streams. To prove concept and transition into a public bank in 3 to 5 years, the MFC needs resources. Options:
  - IRA's Greenhouse Reduction Fund
  - State grants
  - Philanthropy
  - Revenue Bonds
- Get feedback from regulators. SF has sent our public bank plans to get feedback from the FDIC, CDFPI, and Federal Reserve.
- Coordinate green finance work. One of SF's next projects is to pursue funding and to develop the MFC's first actionable lending program, while simultaneously working on coordinating the various green financing efforts around the City.



# Questions?

Provide written feedback to [khalid.samarrae@sfgov.org](mailto:khalid.samarrae@sfgov.org)



# Appendix

# What is a public bank?

1. What is a bank?

A bank is an organization that can accept deposits.

2. What is a public bank?

In California, a public bank is a bank that is owned by a city or county. [AB 857](#).

3. Is SF starting a public bank?

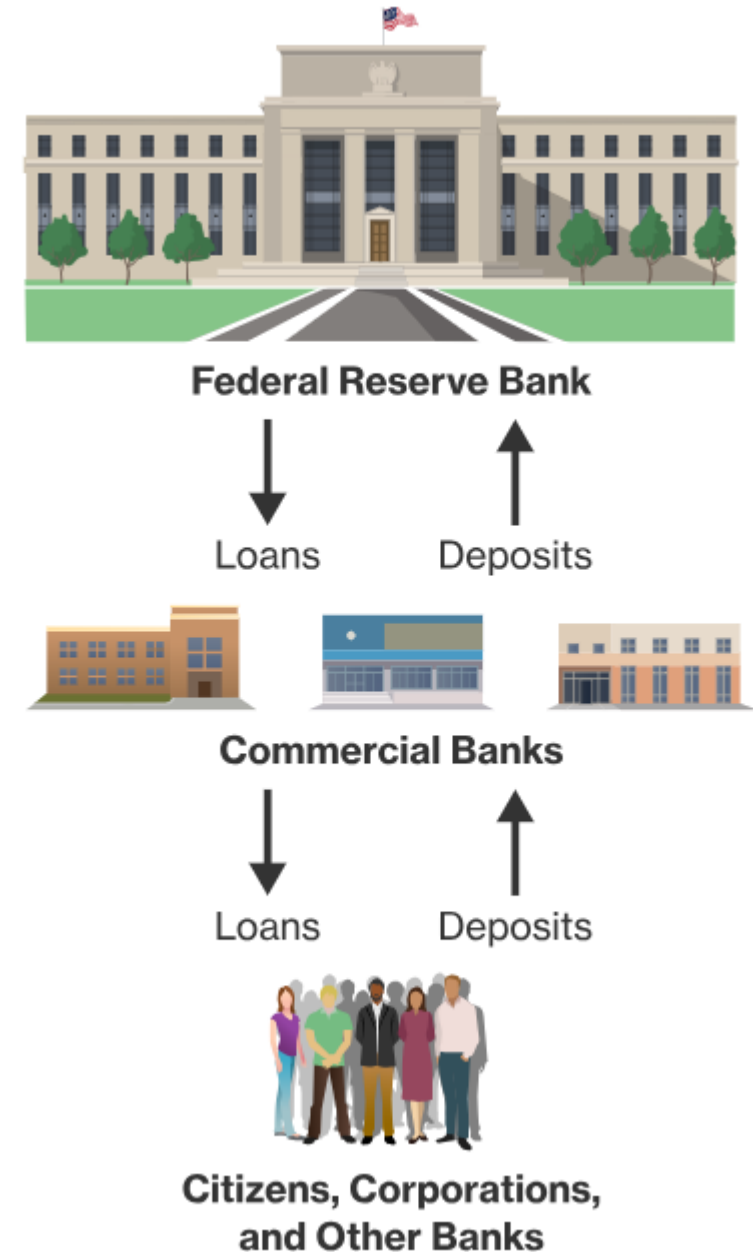
SF has developed a 2-step plan to create a public bank:

[Step 1](#) – create a lending-only (**no deposits**) corporation to prove concept. This is the MFC, which is a non-depository investment entity.

[Step 2](#) – Apply to FDIC and CDFPI to become a full depository bank (then we can accept deposits and grow faster); potentially apply to Federal Reserve.

4. A public bank is not:

- a) A retail bank for residents of San Francisco to open checking accounts.
- b) Going to take over the hundreds of bank accounts that the City needs to conduct its daily work.



## October 2019: AB 857

- California Public Banking Act (2019)
- AB857 sponsored by then Assembly Member Chiu (now SF City Attorney Chiu) created a state license for public banks that allows cities and counties in California to create a public bank

## July 2021: SF Reinvestment Working Group (RWG) Created

- RWG was created by ordinance #87-21 (Preston)
- Sponsors: Dean Preston, Shamann Walton, Matt Haney, Myrna Melgar, Hillary Ronen, Connie Chan, Gordon Mar
- Tasked with submitting to the BOS and LAFCo:
  1. a business and governance plan to establish a City-owned, non-depository lending corporation (a municipal finance corporation or MFC), and
  2. a separate business and governance plan for the MFC to become a state-licensed public bank
- LAFCo agreed to support the RWG as part of its work studying municipal financial services

# May 2023: RWG Votes to Submit Final Plans

## **Presentation on Research Conducted by the Budget Legislative Analyst (BLA) on Fiscal Policy**

*Budget Legislative Analyst (Fred Brousseau; Linden Bairey; Emily Firgens)*

[\(Packet Materials - San Francisco City Department Loan Programs\)](#)

[\(Presentation\)](#)

[\(Packet Materials - Performance Audit of Affordable Housing Financing\)](#)

[\(Presentation\)](#)

## **Presentation by HR&A Team on the Final MFC Governance Plan and Business Plan and on the Final Public Bank Governance Plan and Business Plan**

*HR&A Team*

[\(Packet Materials - Presentation\)](#)

[\(Packet Materials - Final MFC Business Plan and Governance Plan\)](#)

[\(Packet Materials - Final Public Bank Business Plan and Governance Plan\)](#)

*Please note that the following two links are for zip files containing Excel files. These zip files will automatically download when you click the link:*

[\(Packet Materials - Final MFC Financial Models\)](#)

[\(Packet Materials - Public Bank Financial Models\)](#)



# Products and Programs: Affordable Housing

Need	Solution
<b>Patient and equity-like capital, including for land and building acquisition</b>	Provide longer-term (10+ years) and low-interest loans—potentially structured as equity equivalent products—to CDFIs to finance long-term affordable housing projects including, but not limited to, preservation and building and land acquisition. Patient capital can provide CDFIs greater long-term certainty in funding availability that enables them to support larger projects over more time with greater flexibility.
<b>Short-term financing</b>	Provide pre-development loans to developers to cover a wide variety of expenses such as architectural and engineering fees and acquisition costs, among others.
<b>Gap financing</b>	Help developers address mismatches between costs and revenue and cover unexpected increases in labor and material costs through gap financing.
<b>Credit enhancement to serve customers perceived as riskier*</b>	Establish credit enhancement products to facilitate home loans to nontraditional borrowers who may lack standard credit indicators. Note that credit enhancements may be operationally complex.
<b>Guarantees*</b>	Set up guarantees—construction loan, completion, operating deficit, and tax credit—for affordable housing developers.
<b>Alternative products</b>	Support the creation of alternative products and markets for less-common structures like community land trusts, mutual housing associations, and limited equity housing cooperatives.
<b>Downpayment Assistance*</b>	Provide long-term, low-interest loans as downpayment assistance for first-time homeowners.
<b>Existing Homeowner Assistance*</b>	Provide loans to low- and moderate-income homeowners to perform a variety of home improvements, including energy efficiency upgrades, building upgrades, and the development of accessory dwelling units (“ADU”).

# Products and Programs: Small Business

Need	Solution
<b>Growth capital between CDFI cap and commercial bank minimum*</b>	Provide sufficient capital to enable CDFIs and CFIs to issue loans between \$350,000 and \$1 million, which can support businesses that are growing but still too small to receive adequate support from traditional banks. To help borrowers improve their internal capacity and loan preparedness, the MFC will provide referrals to technical assistance programs administered by both the City and its lending partners.
<b>Startup capital*</b>	Provide smaller-sized loans between \$50,000 and \$100,000 for entrepreneurs and business owners in early stages. Loans can be used for startup purposes, supplies and inventory, lease improvements, vehicles, and working capital, among other purposes.
<b>Lines of credit</b>	Provide a 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.
<b>Credit enhancement to serve customers perceived as riskier**</b>	Establish a loan loss reserve fund for CDFIs to extend more loans to nontraditional borrowers who may lack standard credit indicators. Note that credit enhancements may be operationally complex.
<b>Marketing funds</b>	Design a line of credit for brands that want to subsidize the cost of local marketing for their local partners.

# Products and Programs: Green Investment

Need	Solution
<b>Short-term loans for residential and commercial building upgrades</b>	Provide affordable, short-term financing for building-owners, homeowners, and renters to fill unmet needs in building electrification. This could include financing to address deferral issues by making necessary pre-retrofit health, safety, or structural upgrades; for electrification work, water heaters, furnaces, stoves, industrial refrigerators; promoting energy efficiency (i.e., weatherization); updating electrical systems (e.g., electrical wiring and panelboard upgrades) and insulation; and installing distributed photovoltaic, electric vehicle (“EV”) charging, and xeriscaping specifically in support of lower-income communities. The MFC should explore products that are compatible with available local, state, and federal grants and rebates.
<b>Lines of credit for contractors and property-owners</b>	Provide lines of credit to contractors and property owners performing work as described above.
<b>Subsidy and finance for electric vehicle infrastructure</b>	Harness federal funding and private financing to meet rapidly accelerating demand for EV charging infrastructure, including for public transit and public fleets.

# Products and Programs: Supplemental Needs

HR&A's Recommendation: The City will need to address several other tasks beyond the establishment of the MFC and public bank.

These include:

- Establish funding and grants to support the HR&A Team's recommended non-financial solutions that would complement the MFC and public bank (see [presentation for Oct. 20, 2022, RWG meeting](#)).
- Coordinate with CFIs and CDFIs on partnership lending programs.



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