RWG Item 3

Letters from the Members of the San Francisco Reinvestment Working Group to the LAFCo Commissioners and to the Board of Supervisors

- At the April 20, 2023 regular meeting of the San Francisco Reinvestment Working Group (RWG), the LAFCo Policy Analyst announced a request for RWG members to provide final letters on their work. For department representatives, the LAFCo Policy Analyst requested a letter on behalf of their respective departments.
- It was announced that these RWG member letters would be included in the legislative file of the July 20th BOS Government Audits and Oversight meeting.
- Additionally, it was announced that RWG members are not required to write a letter and that they may write letters in groups or as individuals.

The following are included in RWG Item 3:

1. A letter from Anna Van Degna (the Controller's representative) and Amanda Fried (the Treasurer's representative)
2. A letter from Christin Evans, Fernando Marti, Sylvia Chi, and Michelle Pierce.
3. A letter from Rafael Morales.
4. A letter from Liz Dwyer.

Office of the Controller

Office of the Treasurer & Tax Collector

May 31, 2023

Re: Business Plans for a Municipal Finance Corporation and Public Bank

Dear Members of the Board of Supervisors and the Local Agency Formation Commission:

We appreciate the opportunity to represent the Controller and the Treasurer and serve on the San Francisco Reinvestment Working Group ("RWG") to explore the potential to establish a Municipal Finance Corporation ("MFC") that could ultimately be transitioned to a public bank ("Public Bank" or the "Bank") within San Francisco.

The RWG was tasked with submitting to the Board of Supervisors and the Local Agency Formation Commission ("LAFCo"), a business and governance plan to establish a non-depository lending corporation wholly-owned by the City, and a separate business and governance plan for the MFC to become a state-licensed public bank. The business plan models submitted by the RWG outline costs associated with the initial phase of establishing an MFC and ultimately a Public Bank. We note that as directed, the plans submitted are specific to a predetermined pathway (MFC/Public Bank) and do not provide any alternative approaches for using similar funding. The plans also do not consider whether the City could use the same lending strategy without the creation of an MFC.

To form an MFC, the business plan assumes total City appropriations of $90 million over the first three years - a City "Contributed Capital" appropriation of $40 million and $50 million of "Contributed Funding". The model assumes that the Contributed Capital appropriation would act like a grant and the Contributed Funding appropriation would act more like a forgivable loan, whereby the City would receive interest from the MFC at a rate of 3% in Year 1 and declining to 1.5% in Year 3.

The MFC plan notes that the Contributed Funding could alternatively be provided by non-City grants, foundation donations or bank contributions, but that a City appropriation is the most likely source. Under this assumption, the MFC business plan includes total City appropriations of $90 million over three years for start-up operating costs and loans. By Year 3, it is projected that the MFC will have approximately $60 million in loans outstanding, with $42 million of loans going to Community Financial Institutions ("CFIs") and Community Development Financial Institutions ("CDFIs") and $6 million each for Affordable Housing, Local Enterprises and Green Investments.

It is important to note that the MFC is largely designed to work in partnership with CFIs and CDFIs through participation and syndication lending, versus providing direct loans to affordable housing providers, small businesses, or green institutions. The MFC would be purchasing portions of loans from other financial institutions, allowing those institutions to free up their funds to re-invest as they choose. Participation lending is an effective strategy for the MFC to earn a return, however, the impact of City funds may be harder to quantify as compared to existing City programs that involve more direct lending practices.

The Public Bank model assumes that the need for City appropriations would grow to over $300 million over the first eight years. The Public Bank model builds from the MFC funding model beginning in Year 4. The Public Bank's business plan assumes the City would contribute an additional $20 million in the form of a Contributed Capital appropriation in Year 4 for a total $60 million of Contributed Capital appropriations over 4 years (Years 1-4) for the MFC/Public Bank. Additionally, the plan assumes $200 million of Contributed Funding over five years (Years 4-8). Assuming the $200 million of Contributed Funding comes from a City appropriation instead of an outside funding source, this would result in total City appropriations of $310 million over eight years. The combined MFC/Public Bank business plan assumes the $60 million in Contributed Funding would be sufficient to cover projected pre-opening costs, such as salaries, consultant fees and insurance costs, and capital assets, such as FF&E and software. By Year 8, it is projected that the MFC/Public Bank will have approximately in $253 million in loans outstanding.

Dollars in Thousands	*MFC**			Public Bank				
	Year 1 (2024)	*Year 2 (2025)*	*Year 3 (2026)*	Year 4 (2027)	Year 5 (2028)	Year 6 (2029)	Year 7 (2030)	Year 8 (2031)
Contributed Capital	19,500	29,500	39,500	59,500	59,500	59,500	59,500	59,500
Contributed Funding	6,000	30,000	50,000	110,000	150,000	180,000	220,000	250,000

** The MFC would become the Bank between Years 3 and 4 of operations under the currently planned scenario. MFC financials are not otherwise included in detail in this business plan.*

Source: San Francisco Public Bank Business and Governance Plan and Viability Study, HR&A Advisors

The RWG spent considerable time exploring whether it is feasible for the City to fund the Public Bank using deposits from the Treasurer's Pooled Investment Portfolio (the "Pool"). The plans as submitted reflect that it is not possible for the Bank to receive funds from the Pool at least within the first five years of the Bank's operation. The five-year estimate is to allow the Bank time to meet the minimum investment requirements for any entity: to be considered well-capitalized by the FDIC and have a satisfactory rating under the Community Reinvestment Act.

Should the Bank meet these criteria, any investment into the Bank must meet the Treasurer's fiduciary responsibilities and obligations including those outlined in

California Government Code Sections 27000-27013. For example, the Bank would be required to collateralize funding from the Pool at 110% of the value of the deposit; any investments would need to meet the liquidity needs of the City and have a maximum maturity of 5 years; the rate or yield required for investment must be acceptable in terms of other comparable assets and the risk to the Pool.

We believe that Reinvestment Working Group's work has added to an important discourse on meeting the needs of San Francisco's most underserved residents. The decision to fund or provide capital for the Public Bank is a policy decision for the Members of the Board of Supervisors and the Mayor. We wish to note the inherent trade-offs that policymakers must consider when reviewing the business plans submitted by the RWG. That is, given the significant costs associated with a forming MFC/Public Bank, policymakers would likely need to divert funding from other initiatives. In any case, we are thankful to all who participated in this discussion and look forward to continuing the effort to make San Francisco more equitable for all.

Sincerely,

Anna Van Degna, Controller's Office Designee
Amanda Fried, Treasurer's Office Designee

June 6, 2023

Re: Comments on Final Plans Submitted by Reinvestment Working Group

Dear Board of Supervisors,

We are writing as members of the Reinvestment Working Group (RWG) to provide further feedback and clarifications on the final plans for a Municipal Finance Corporation (MFC) and public bank which have been submitted to the Board of Supervisors. We have appreciated the opportunity to serve on the RWG over the past year and represent the interests of our fellow community members in this groundbreaking work. These plans encapsulate our shared vision for a democratic and just public financial institution that serves San Francisco as a catalyst for economic growth, social equity, and environmental justice. We are proud of the results of this sustained collaboration, and hopeful that executing these plans will help San Francisco make significant progress in the priority lending areas of affordable housing, small business, and climate and environmental justice.

In order to earn the trust of San Franciscans, the MFC and successor public bank must be intentionally designed to provide robust democratic and accountable governance and maximize transparency and oversight. Therefore, for both the MFC and public bank, we have proposed a two-tiered governance structure that is adapted from proven governance structures used by public banks in other countries. In this structure, an Oversight Commission fulfills the role traditionally played by shareholders, establishing policy guidelines, selecting members of the Board of Directors, and providing meaningful oversight over the Board's activities, as well as serving as a liaison to the City and County of San Francisco. Members of the Oversight Commission will be appointed by a mix of City officials and selected to reflect San Francisco's diversity. The Board of Directors will oversee the day-to-day operations of the MFC/public bank, be fully independent, and members shall have appropriate managerial or governance experience and financial expertise, including in the MFC/public banks' priority lending areas. We believe that this structure and its separation of powers offers insulation from political interference while still providing accountability to the public.

As described in the RWG's letter accompanying the final plans, the RWG voted to amend the final public bank plan as written by the HR&A Team to provide that the Bank Oversight Commission would have the authority to appoint and remove Board members and to set policy. The HR&A Team had recommended that the Oversight Commissions for both the MFC and public bank serve as "advisory-only" bodies, for two reasons: (1) uncertainty as to how financial regulators would evaluate whether the proposed governance structure provides sufficient independence from political processes; and (2) uncertainty as to whether the Federal Reserve would interpret an Oversight Commission with binding authority as a "bank holding company" for purposes of the Bank Holding Company Act of 1965 (12 U.S.C. § 1841, *et seq*.), which would trigger further regulatory requirements.

Both of these issues are novel legal questions that have never been tested in the United States, and which may be addressed and resolved through a variety of ways.[1] Our priority is incorporating into the MFC/public bank's governance plan structures and mechanisms to provide as much accountability, transparency, and oversight as possible. Considering the proven track record that this structure has had in other jurisdictions, we urge the Board of Supervisors to adopt this approach in taking further steps towards establishing the MFC and public bank. Notwithstanding the outstanding legal questions, it is imperative that the MFC and successor public bank both operate independently of political interference and be perceived as such.

Finally, we cannot emphasize enough the importance of high-quality staffing in establishing and operating the MFC and public bank. Our productive experience serving on the RWG was enabled by the skillful support provided by Policy Analyst Khalid Samarrae, as well as the specialized expertise provided by the HR&A Team. It is critical that in establishing the MFC, the City and County of San Francisco similarly invest in qualified staff and consultants that are dedicated to thinking creatively to solve problems, as well as to seeking out and responding to community input.

We are proud to submit the final plans for the establishment of an MFC and public bank for San Francisco, which we believe hold immense potential for unlocking gains towards the City's long-term strategic goals. Thank you once again for entrusting us with this important task, and we look forward to continuing to work together to create a public financial institution that will benefit San Francisco.

Thank you for your attention and consideration.

Sincerely,

Sylvia Chi
Christin Evans
Fernando Marti
Michelle Pierce

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[1] The Federal Deposit Insurance Corporation (FDIC) has no statutory authority to discriminate against applications from public banks, and has never articulated a standard for evaluating how any applicant can demonstrate the ability to operate independently from the political process. In 1998, FDIC promulgated a policy statement which states that in the case of applications from financial institutions owned by domestic governmental units, "the FDIC emphasizes that it has no intention of exceeding the statutory criteria for evaluation of deposit insurance application, nor does the agency propose to apply different standards among deposit insurance applicants." 63 Fed. Reg. 44752, 44755 (Aug. 20, 1998).

To: City & County of San Francisco Board of Supervisors & Local Agency Formation Commissioners
From: Rafael O. Morales, Member, San Francisco Reinvestment Working Group
RE: San Francisco Municipal Bank and Municipal Finance Corporation
Date: June 7, 2023

Dear Board of Supervisors and LAFCo Commissioners:

I have had the honor of serving as an appointed member of the San Francisco Reinvestment Working Group (RWG) since the Fall of 2021, with formal meetings commencing in April 2022. Our charge under the RWG was to draft initial business plans for a Municipal Finance Corporation (MFC) and full Public Bank that could achieve break-even within a 3-5 year timeframe respectively, and soon after, profitability, to grow the available resources that could advance City and County priorities in housing, small-business and green financing.

Specifically, we hope the MFC and Public Bank will expand resources to promote affordable housing protection, preservation and production for San Francisco's diverse working families; support access to credit and capital to grow our small businesses (especially those owned and operated by people of color); and to expand the City's "green infrastructure" investments, all while addressing the key needs, priorities and approaches noted by working families, businesses, nonprofits, CDFIs/CFIs, community-based partners, and policymakers in San Francisco.

Over the past ~13 months, the RWG met monthly through regular meetings, ad-hoc special meetings, and several rounds of internal and external stakeholder interviews with RWG staff, RWG consultants, LAFCo, the San Francisco Treasurer's and Controller's offices, the Mayor's Office of Housing and Community Development, the Office of Economic and Workforce Development, CDFIs/CFIs, and others, to ensure the business plans guiding the creation of the MFC and Public Bank reflect the goals and intent of the legislation that enacted this effort, while also meeting the needs of key City government agencies, and CDFI/CFI partners and allies in San Francisco who will be the front line of this work in community.

As part of this work, we heard from experts from the national public banking movement and others working on public banking in California, to model our approach based on what has worked well in other regions, while tailoring our plan to the unique needs and fiscal environment of San Francisco. This included extensive deliberation on the business plans, activities and governance structures we recommend for both entities to ensure the intended impact; public accountability; and economic, business, racial, ethnic, and gender representation, to guide the formation and activities of these new institutions.

While not perfect, we are proud to submit final business and governance plans for the MFC and Public Bank, with the goal of having the MFC begin deploying high-impact capital by the end of this year or early next year, while continuing the effort to charter and launch a full Public Bank by the end of year 4, at which point the MFC could be rolled into the Public Bank, or remain as an affiliate entity depending on the approach that would most directly support the goals of the City and County.

In terms of funding, we recommend funding of at least $50 million from the City and County by the end of year 3. Based on our financial models, we hope to see break-even or initial profitability for the MFC by the end of that year, at which point the Public Bank should be close to being chartered, and additional investments from the City and County could flow into that entity to further capitalize its planned activities and ongoing growth.

That said, we are entering a particularly challenging economic environment with looming inflation and rising interest rates, and want to urge the City and County's flexibility with these plans, given these and other environmental changes that may be material to both the MFC and Public Bank launch plans, and to the work of the CDFI/CFI partners these institutions will support.

Recognizing CDFIs/CFIs come in all shapes and sizes, and have different levels of internal capacity and sophistication, technical assistance dollars and grants to help partners be even more impactful in advancing the goals of the City and County would be especially useful. As such, I strongly encourage both the MFC and the Public Bank to continue to consult with CDFI/CFI partners over the coming years to explore mechanisms to boost partner capacity through grants, provision of loan capital, and co-investment/mezzanine debt financing for projects that may be too large for individual CDFIs/CFIs to close on their own, while also leveraging state and federal funding opportunities such as the statewide Energy for All program, the federal Greenhouse Gas Reduction Fund, Bond Guarantee Program and others, to maximize the impact of the MCF and Public Bank on our communities.

We suspect this may require additional tailoring based on shifts in funding opportunities at the local, state and federal levels, and urge the City and County to keep abreast of identified needs and early learnings through the MFC/Public Bank launch efforts – especially those from participating CDFI/CFI partners – to advance the goals and intent of the Reinvest SF enabling legislation.

On a personal note, as a resident, community advocate and homeowner in San Francisco, I applaud the Board of Supervisors (and especially Supervisor Preston and his team) for their leadership in advancing this vision, and supporting the work of the RWG to expand resources for housing, small business and green infrastructure needs of San Francisco. I also want to recognize the LAFCo team (and especially Khalid Samarrae who convened us for the past year+); the consultant team from HR&A Advisors who distilled a huge amount of information and data to keep our work moving forward; and of course, the other RWG members, who like myself, volunteered their time and energy to passionately advise on this effort to launch a San Francisco Public Bank that will truly benefit the residents and businesses of San Francisco, especially those led by and focused on, diverse working-class communities.

I want to thank you for the opportunity to contribute to this work, and look forward to seeing continued progress. I stand ready to support the City and County of San Francisco in the future, should it be needed and/or helpful.

Yours in appreciation,

Rafael O. Morales
San Francisco Reinvestment Working Group Member;
San Francisco Resident; and
Senior Manager, Development Policy & Impact,
Self-Help Federal Credit Union

Board of Supervisors
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
City Hall, Room 244
San Francisco, CA 94102-4689

May 31, 2023

Re: Reinvestment Working Group

To the SF Board of Supervisors:

For more than a year, I have had the privilege and responsibility of serving on the Reinvestment Working Group (RWG) as a technical expert in financial institutions. I was appointed through my role as Director of Fondo Adelante CDFI at Mission Economic Development Agency (MEDA) through 2022, which I continue to serve as CDFI Consultant in 2023.

(Please note: I am writing this letter as a Member of the RWG, not as a representative of MEDA's Fondo Adelante CDFI – views expressed here are my own.)

As a leader of a San Francisco-serving CDFI – Community Development Financial Institution – I know first-hand the deep need for a reliable, trustworthy, mission-aligned, locally-led public bank to deliver much-needed capital to the City's most under-resourced nonprofit lenders, small businesses, affordable housing developers, and residents.

CDFI lending is the least risky lending happening in San Francisco today; default rates for loans made to San Francisco small business owners and self-employed workers are less than 3% in many cases. Public Bank lending to CDFIs would not put City finances at risk.

Demand for low-cost loans that are accessible to those banks reject is higher than ever, yet local CDFIs' capacity to lend is constrained by their own lack of access to low-interest rate loan guarantee programs and equity equivalent investments. The proposed San Francisco Public Bank would exponentially increase local CDFIs' ability to strengthen neighborhoods, grow residents' incomes, and shore up small businesses' ability to compete with national chains and maintain San Francisco's unique local character. The payoff of a Public Bank would be immense – both for the City's finances and culture, and residents' quality of life.

As an RWG Member, I urge the SF Board of Supervisors to move forward plans to create a San Francisco Public Bank or to create a non-bank City-led loan fund model.

Sincerely,

DocuSigned by:

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Elizabeth Dwyer
Member, Reinvestment Working Group