**Office of the Treasurer & Tax Collector**
City and County of San Francisco

José Cisneros, Treasurer

# MUNICIPAL BANK FEASIBILITY TASK FORCE

# MATERIALS FOR MEETING #4

# MAY 31, 2018, 3:00-5:00PM

# CITY HALL, ROOM 305

**Office of the Treasurer & Tax Collector**
City and County of San Francisco

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# Memorandum

To: Members of the Municipal Bank Feasibility Task Force

From: Molly Cohen, Senior Policy Analyst, Banking & Investments

Date: May 22, 2018

Subject: Updates Since Task Force Meeting 3

The following memorandum outlines the work San Francisco Office of the Treasurer and Tax Collector ("TTX") staff have done between Meeting 3 and Meeting 4 of the Municipal Bank Feasibility Task Force to further the Task Force's efforts:

- Worked with banking consultant to analyze profit and loss statements for potential municipal bank lines of business
- Met with subject matter experts around small business lending, including staff at Oportun, Opportunity Fund, and Live Oak Bank to determine best practices as well as gaps in small business lending in San Francisco
- Met with Bank of San Francisco staff to learn more about their business model and answer lingering questions from Meeting 3
- Learned about current cannabis banking practices as well as gaps and opportunities from cannabis operators and consultants
- Discussed infrastructure financing work and gaps with Capital Planning Committee staff
- Updated Assembly Banking & Finance Committee staff about the Task Force and discussed relevant pending state legislation
- Discussed Accessory Dwelling Units ("ADU") financing with staff of Housing Trust Silicon Valley and researched potential programs in San Francisco
- Facilitated call with government staff working on public banking across the country with a focus on California state legislation needed to promote public banking
- Worked with government stakeholders to create existing city programs fact sheet and vet information about programs
- Spoke with staff at Chicago Treasurer's Office and Vermont State Treasurer's Office about their local investment efforts
- Presented on Task Force work at Local Agency Formation Commission ("LAFCo") meeting
- Outlined and began drafting background sections of the feasibility report
- Read Friends of the Public Bank of Oakland's report on governance structures for Oakland's municipal bank
- Read Santa Fe's Public Bank Task Force's Final Report to the Santa Fe City Council

# CURRENT CITY-FUNDED PROGRAMS IN AFFORDABLE HOUSING, SMALL BUSINESS LENDING & INFRASTRUCTURE

The Municipal Bank Feasibility Task Force has identified the following five topics as community goals a municipal bank should pursue: (1) affordable housing, (2) small business lending, (3) infrastructure, (4) un- and underbanked individuals, and (5) cannabis. This fact sheet details programs and initiatives in these areas that the City and County of San Francisco currently funds.

## 1. CONSUMER HOUSING ASSISTANCE

In San Francisco, the Mayor's Office of Housing and Community Development (MOHCD) offers financing for the development, rehabilitation and purchase of affordable housing. As part of this mission, it provides financial assistance to individuals seeking housing, by offering downpayment assistance loans and below-market purchase and rental programs.

**(1) Mortgage Assistance Programs** – MOHCD administers four mortgage assistance programs with a total of 826 active loans for a sum of $80 million (as of April 30, 2018). It also administers active loans from several inactive programs.

- **Downpayment Assistance Loan Program (DALP)** – MOHCD provides assistance of up to $375,000 to first-time homebuyers at or below 175% of Area Median Income (AMI) with no repayment for 30 years. As of April 2018, the program had 415 active loans for a total of $52.2 million. Funding is from the City's Affordable Housing Fund and state and federal programs.

- **First Responders Downpayment Assistance Loan Program** – MOHCD provides assistance of up to $375,000 to first-time homebuyers at or below 200% of AMI who are uniformed members of the San Francisco Police Department, Fire Department or Sheriff's Department. The loans have no repayment for 30 years. As of April 2018, the program had 12 active loans for a total of $2.4 million. Funding is from the San Francisco Housing Trust Fund.

- **Teacher Next Door Downpayment Assistance Loan Program (TND)** – MOHCD provides assistance of up to $20,000 for first-time homebuyers at or below 200% of AMI who are teachers in the San Francisco Unified School District (SFUSD). As of April 2018, the program had 67 active loans for a total of $1.3 million. Funding is from the General Fund and 2015 General Obligation bond.

- **City Second Loan Program (CSLP)** – MOHCD provides assistance of up to $375,000 to first-time homebuyers at or below 120% of AMI purchasing units in specific developments. As of April 2018, the program had 332 active loans for $24 million.
- **Administering Inactive Loan Programs with Active Loans** – MOHCD also manages active loans from previous programs including (1) Police in the Community Downpayment Assistance Loan Program ($80,000 in active loans); (2) Residential Rehabilitation Loan Program (over $8 million in active loans); and (3) the Seismic Safety Loan Program (over $42.8 million in active loans).

**(2) Below-Market Rate (BMR) Programs** – MOHCD also administers programs offering BMR housing for purchase and rent.

- **Purchase BMR Units** – BMR units are available for purchase for first-time buyers between 70% and 140% of AMI.
- **Rental BMR Unit** – BMR rental units are available through the Inclusionary Housing BMR program for households between 55% and 120% of AMI and the Non-Profit Affordable Rental Housing Programs for households between 20% and 60% of AMI.

## 2. AFFORDABLE HOUSING DEVELOPMENT

(MOHCD provides financing for the development, rehabilitation and preservation of affordable housing with a goal of building or preserving 10,000 affordable units by 2020.

**(1) Development –** MOHCD is currently supporting and coordinating 250 affordable housing projects for a total of 14,077 units developed and preserved using City, State and Federal funds. Each development project varies, but in general the projects progress like this:

- **Developers** – Independent non-profit and for-profit developers work with the City to develop affordable housing either via one-off projects or as part of the inclusionary program.
- **Funding** – Developers use traditional funding as well City funding sources such as the SF Housing Trust Fund, affordable housing fees, general funds and bond financing and State and Federal funding sources such as low-income housing tax credits.
- **Process** – The City acquires a site for development and puts out a Request for Proposals, Request for Qualifications, or Notice of Funding Availability for the development a4of the project and any subsequent property or asset management. Respondents are responsible for securing entitlements, obtaining project financing, performing design and construction work, and community outreach.
- **Examples** – 266 4th Street (joint MOHCD/SFMTA project for up to 90 units of 100% affordable family rental housing, including units for formerly homeless families); Francis

Scott Key Annex (100 rental units for low-, moderate- and middle-income SFUSD educators)

**(2) Preservation –** MOHCD has four main efforts aimed at preserving and rehabilitating existing affordable housing development in the City. They are:

- **Rental Assistance Demonstration (RAD) Program** – Under the RAD program, MOHCD provided approximately $100 million in 2015-2016 to rehabilitate 3,500 public housing units and transfer their ownership to local non-profits. This initiative is currently underway, and construction will be fully completed by 2020.

- **Non-Profit Affordable Housing Rehabilitation Program** – MOHCD provides asset management to over 17,000 affordable homes in its loan portfolio. Many of these units were developed decades ago and in need of periodic rehabilitation. To ensure the long-term preservation and quality of this housing, MOHCD provides rehabilitation loans to non-profits to maintain and renovate units. From Fiscal Year 2017 to 2020, MOHCD anticipates providing $13.7 million in rehabilitation loans to renovate 550 housing units.

- **Small Sites Acquisition Program** – This program helps non-profits acquire and manage rent-controlled properties at risk of conversion where low-income tenants live. The non-profits use traditional financing and City subsidies ($250,000 per unit) to purchase buildings with rent-controlled tenants and fewer than 25 units. The program launched in 2014 with $3 million. In FY2016-2017, the program helped purchase 21 properties, including 129 rental homes and 8 commercial spaces, serving 264 individuals.

- **HOPE SF:** The goal of HOPE SF is to transform federally-controlled public housing developments into vibrant mixed-income communities. The initiative will rehabilitate or rebuild existing units, build new units and minimize displacement at four main sites: Sunnydale, Alice Griffith, Potrero Terrace & Annex, and Hunter's View. For example, at Alice Griffith, 256 public housing units will be redeveloped into 506 mixed income homes. There is limited HUD funding, and more than half the financing comes from the private sector.

## 3. SMALL BUSINESS LENDING

In San Francisco, the Office of Economic and Workforce Development (OEWD) and the Office of Small Business support small businesses to promote the ongoing vitality of the City. The City has three main ways of supporting small businesses: (1) direct lending programs, (2) grant programs, and (3) support to non-profit lenders.

**(1) Direct Lending –** OEWD offers multiple programs with direct lending to small businesses, for example:

- **Small Business Revolving Loan Fund** – It offers loans up to $50,000. It is administered by Main Street Launch, a local Community Development Financial Institution (CDFI). The City covers the administrative costs, and Main Street Launch provides the capital.

Since 2009, it has issued 161 microloans totaling over $4.57 million. In 2017, it issued 20 loans totaling $816,000. Its loans range in interest from 3.5% to approximately 7.75%.

- **Emerging Business Loan Fund (EBLF)** – It offers up to $250,000 in loans to small businesses. It is administered by Main Street Launch, a local CDFI. The City covers the administrative costs, and Main Street Launch provides the capital. Since 2013, it has closed over 120 loans totaling $16.8 million. Its loans are offered at approximately 7.75%.

**(2) Grant Programs –** Aside from direct lending, OEWD also operates grant programs to small businesses, and the Contract Monitoring Division offers grants for small contractors working on city projects, for example:

- **SF Shines Façade and Tenant Improvement Program** – Since 2009, it has provided technical assistance (TA), business strengthening, and 117 grants (from $10,00 to $150,000) totaling $4.3 million for improving commercial storefront facades and business interiors. The current program budget is $1 million.

- **Americans with Disabilities Act (ADA) CASp Grant Program** – Since 2013, it has provided TA and 647 grants (from $1,000 to $3,000) totaling over $1 million for ADA compliance assessments. Current remaining budget is $125,000.

- **Disaster Relief Fund** – Since 2016, it has provided TA and 17 grants (up to $10,000 each) totaling $170,000 to assist small businesses in the aftermath of a fire or other natural disaster. Current budget is $150,000.

- **Women Entrepreneurship Fund** – It launched in 2017, and offers TA, business strengthening, and grants. So far, it has provided 13 grants (from $1,000 to $5,000) totaling $25,000 to existing women entrepreneurs in the City. The current budget is $135,000.

- **SF Bookstores Program (pilot)** – It provides TA and mini grants of up to $10,000 for bookstores. $135,000 in budget will be awarded 2018.

- **Central Subway Construction Mitigation Fund** – It launched 2017 and provides TA and grants to businesses impacted by the construction around the Central Subway. It has provided 51 grants (of up to $10,000) totaling $315,000. Current available budget is $35,000.

- **Legacy Business Grants** – It offers grants to legacy businesses of $500 per employee (capped at $50,000) and $4.50 per square foot to the landlords of legacy businesses (capped at $22,500). Legacy businesses are businesses that have existed in San Francisco for over 30 years and contributed to their neighborhood's history. It has a budget of $1 million.

- **Surety Bond & Financing Assistance Program** – This program serves underrepresented and disadvantaged contractors, offering TA and financial support. It is administered by insurance company Merriweather and Williams and offers bid, performance and payment bond guarantees to surety companies (up to 40% of the bond amount or $750,000, whichever is less), and contract financing guarantees to the bank (up to 50% of the loan or $750,000, whichever is less).

**(3) Grants to Non-Profit Lenders** – Lastly, OEWD supports non-profit lenders by providing them with grant money. (This money is used for TA and consulting and not for actual loans). In FY16-17, OEWD supported the following organizations:

- **San Francisco Small Business Development Center (SFBDC)** received $166,000. It helps small businesses package loan applications for crowdfunding, microloans and Small Business Administration (SBA) loans.
- **Mission Economic Development Agency (MEDA)** received $125,000. It provides TA and offers loans up to $100,000 from its Adelante Fund.
- **Southeast Asian Community Services Center (SEACC)** received $125,000. It offers consulting services and SBA microloans of up to $50,000.
- **Pacific Community Ventures** received $50,000. It offers mentorship and financing from its Small Business Advising Integrated Lending (SAIL) Fund of $50,000.
- **Mission Asset Fund** received $50,000. It offers lending circle financing up to $2,000
- **Energy Watch Microloan Pilot Program by Mission Asset Fund** received $40,000. It offers zero percent interest loans of up to $2,500 to small businesses that enroll in San Francisco Department of Environment's (SFE) Energy Watch program. The loan helps cover energy efficiency projects.

## 4. PUBLIC FINANCING FOR INFRASTRUCTURE

San Francisco issues and manages low-cost debt financing for large-scale, long-term capital improvements. Plans for debt-financed projects are coordinated through the City's Capital Planning Committee and must fit within longstanding policy and fiscal constraints. The City primarily gets capital for large-scale projects by issuing debt to investors, and in doing so the City must take the following into account:

- **Extremely high credit rating** – The City just recently earned its first triple-A credit rating in 40 years, allowing it to borrow at historically low rates.
- **Use of Capital Debt** – The City can only use capital financing for property it owns that will last at least 30 years (as a general rule).
- **Significant need** – The City's 10-Year Capital Plan identifies $35 billion needed for capital investments over the next 10 years, as well as $4.6 billion in deferred projects that cannot be addressed due to lack of funding.

When financing capital projects, the City has various options. It can use General Obligation bonds, Revenue Bonds, Certificates of Participation, Lease Revenue Bonds and cash to address capital needs:

- **General Obligation (GO) Bonds** – The City uses GO bonds for projects that do not raise revenue, and the bonds are repaid by property tax. These bonds have the highest rating. The City Charter limits the amount of GO bonds issued to 3% of the total assessed value of property within the City. GO bond approvals must go to voters and requires two-thirds approval to pass. They are used to finance parks, public health, transportation, and hospitals, and are administered by the Controller's Office. As of June 30, 2017, there were 31 active series with outstanding principle of $2.1 billion. Bonds on the horizon going to the voters include:
  - **Nov 2018:** $425M for seawall fortification
  - **Nov 2019**: $185M for parks improvements
  - **Nov 2020:** $290M for earthquake safety
  - **Nov 2020**: $300M for public health
- **Revenue Bonds** – The City uses revenue bonds to finance capital projects and acquisitions that generate money, such as airport renovations, and water and sewer expansions. The bonds are paid back from project profits and do not require General Fund outlays. These bonds are typically used and administered by enterprise departments. As of June 30, 2017, there is $10.8 billion outstanding in revenue bonds, and over the next 10 years, departments plan to issue $13 billion more.
- **Certificates of Participation (COPs)** – COPs are backed by a physical asset in the City's capital portfolio. COPs are typically used to finance capital projects and acquisitions that provide direct revenue benefit or cost savings (e.g. the City builds a development to get out of existing leases). COPs are repaid via money from the General Fund. No voter approval is required to issue COPs. The 10-year capital plan includes $963 million of proposed COPs, for projects such as criminal justice infrastructure improvements.
- **Lease Revenue Bonds** – The City and departments use lease revenue bonds to finance the purchase or construction of property and equipment. Lease revenue bonds are repaid by the rent a lessee (the government agency) pays to use the facility or equipment. As of June 2017, the San Francisco Finance Corporation has $182 million in outstanding Lease Revenue Bonds, and the Airport has $62 million.
- **Cash** – The City uses cash to address urgent capital needs that cannot be addressed or are not being addressed by debt finance. In the FY2017-2018 budget, $138 million in General Fund cash was allocated for capital improvements and used to improve roads, rights-of-way, parks, facilities and other public infrastructure.

# MUNICIPAL BANK FEASIBILITY TASK FORCE MEETING #4

May 31, 2018 from 3:00-5:00pm

# What questions are we answering?

- How can we capitalize the bank?
- Where can the deposits come from?
- What should the public bank focus on?

# Recap of Meeting 3

- Start-up costs (approximately $15-50M)
- 3 bank models (banker's bank, business-focused retail bank, individual-focused retail bank)
- Task Force priorities

# Recap of Basic Bank Model

| Assets | | Liabilities & Capital | |
|---|---|---|---|
| Loan Loss Reserve | $10,000 | Deposit | $870,000 |
| Loans | $1,000,000 | Capital | $140,000 |
| Total | $1,010,000 | Total | $1,010,000 |

| Income Statement | | |
|---|---|---|
| Interest Income | $35,000 | 3.5% Loan Yield |
| Interest Expense | (7,000) | 0.7% Cost of Fund |
| Net Interest Margin | 28,000 | 2.8% NIM |
| Net Charge-off | (5,000) | 0.5% Charge Off |
| Net Interest Income | 23,000 | 2.3% Net Interest Income |
| Fees | 15,300 | 20-40% Fee Income |
| **Total Net Revenues** | **38,300** | |
| Operating Expenses | (23,000) | 60% Operating Cost |
| Profit | 15,300 | |
| Net Income | 10,733 | 30% Tax Rate |

**Notes:**

- Simple community bank model, taking deposits and offering single-family mortgage loans (no cards, trading, investments)
- Low cost of funds from retail deposits, and interest rates are low because the loans are for prime customers

# CAPITALIZATION

# Capitalization Basics

**What is bank capital?** Initial equity and bank net worth

**How much would be required?** Potentially $10-30M based on other Bay Area community Banks

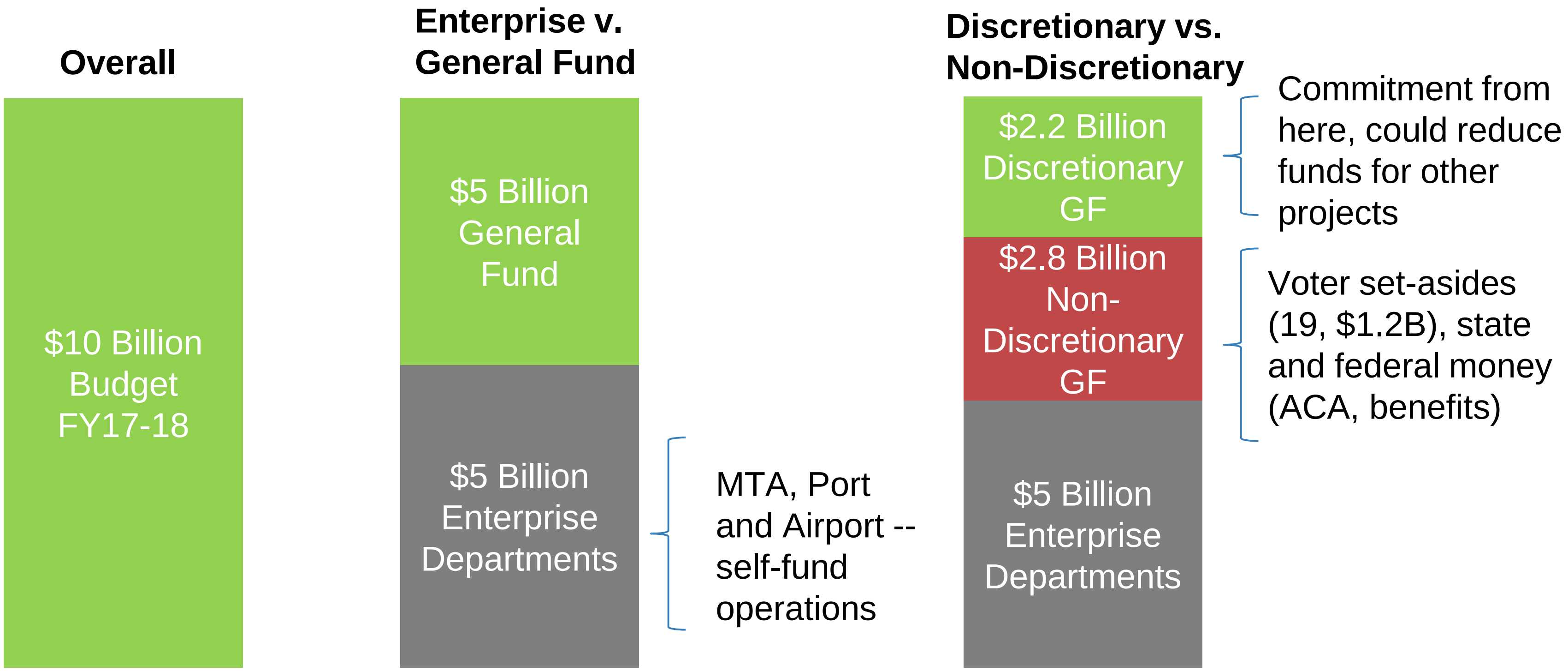
**Where could it come from:** Hypothetically (1) General Fund appropriation (2) Bond, (3) Philanthropy, (4) Other ideas? Note: Not Treasurer's Pooled Investment Fund

# Options for Capitalization

## From where?

| | | | |
|---|---|---|---|
| **Source** | General Fund | Voter-Approved Bond | Philanthropy |
| **Method** | Budget Appropriation | Capital Needs / Voters | Solicitation |

# Budget Breakdown



# DEPOSITS


THE UNITED STATES OF AMERICA
FEDERAL RESERVE NOTE
ONE DOLLAR
WASHINGTON, D.C.
E 34112707 E

# Deposit Basics

**Why?** Need a sustainable, stable source of funding for lending

**From where?** Could be wholesale or retail funding from (1) government, (2) private sector (banks, businesses, non-profits, individuals, cannabis)

**How much?** Depends on capitalization and how much you can get

# Options for Deposits

## From where?

| | | | |
|---|---|---|---|
| **Source** | Government | Private Sector | Cannabis |
| **Implications** | Legal & Operational | Insurance, Services, Cost | Legal & Liability |

# Government Deposits

## Bank Account cash ($100-150M)

- Money can be moved by TTX <u>BUT</u>
- State law: Must be collateralized at 105-150% of value
- State law: Deposits not greater than capital of bank
- Operational: Funds in accounts used daily
- Operational: Need to RFP
- FDIC insurance not an issue ($250k limit and collateralized)

## Treasurer's Pooled Fund ($10.1B)

- Can be deposited under certain conditions (Safe, Sound and Local)
- State law: Must be collateralized at 105-150% of value
- State law: No more deposits or CDs than capital of bank
- State law: only specific investments (CDs)

**Resolution: Pursue changes in state law? Implications of those changes?**

# Private Sector Deposits

**Wholesale bank: serve other banks**

**Retail bank: serve businesses, non-profits, and individuals**

- Operational: Additional costs (marketing, online banking etc.) and responsibilities
- Operational: Would need insurance (FDIC under current state law, or potentially private) or City self-insure (like Bank of North Dakota)

# Cannabis Deposits

**Deposits from in-state cannabis operators**

- Legal issues: Controlled Substance Act, FinCEN guidance, RICO (civil/criminal liability)
- Operational issues: Access to Federal Reserve, FDIC insurance
- Timeline: Potential for Congress/President to address in near future

# LINES OF BUSINESS

# Questions

(1) What do we want the bank to do?

(2) What do we never want the bank to do?

(3) What should we leave to others?

# Lines of Business

## Goals

| Affordable Housing | Small Business Lending | Infrastructure | Un- and Underbanked | Cannabis |
|---|---|---|---|---|
| 1. ADU financing<br>2. Small sites acquisition<br>3. 30-year 3% loans | 1. General contractors<br>2. New businesses<br>3. Letters of credits | 1. 15-30 year loans for investment<br>2. Purchase SF muni bonds | 1. Payday alternatives (employer-based?)<br>2. Refi high-cost debt | 1. Deposits<br>2. Payments<br>3. Lending |

# MOVING FORWARD

# Analytical Plan for Report

- Peer Banks
- Gaps Analysis
- Products & Services
- Modeling Pro Formas
- Cost-Benefit Analysis

# Evaluating Outcomes

- How many bank models do we want to evaluate?
- Between these models, should we recommend just one? Multiple? A phased approach?
- Should we use a consensus method? Ranked choice voting? Agreed-upon criteria (e.g. impact, feasibility, cost)?

# Thank you very much for your time and attention

**Molly Cohen**
Senior Policy Analyst

TREASURER
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