

An aerial photograph of San Francisco, California, taken at dusk or dawn. The city's dense urban landscape is visible, with numerous high-rise buildings and residential structures. The Golden Gate Bridge is faintly visible in the distance, spanning across the water. The sky is a mix of dark blues and oranges, suggesting the time is either early morning or late evening. The overall tone is somewhat somber and professional.

Lending Gaps and Priorities Analysis

Reinvestment Working Group Meeting

October 20, 2022

HR&A
Analyze. Advise. Act.

DISCLAIMER ON LEGAL ADVICE

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Agenda

Approach

Findings

- Small Business

- Affordable Housing

- Green Initiatives

Next Steps

Appendix

01

Approach

THE CONSULTANT TEAM RESEARCHED THE ORDINANCE'S PRIORITY SECTORS

Starting from the priority sectors described in Ordinance 87-21, the HR&A Team evaluated the current lending landscape to inform the public bank's business plan and viability study. We focused on affordable housing, small business support, and green initiatives.

SMALL BUSINESS SUPPORT



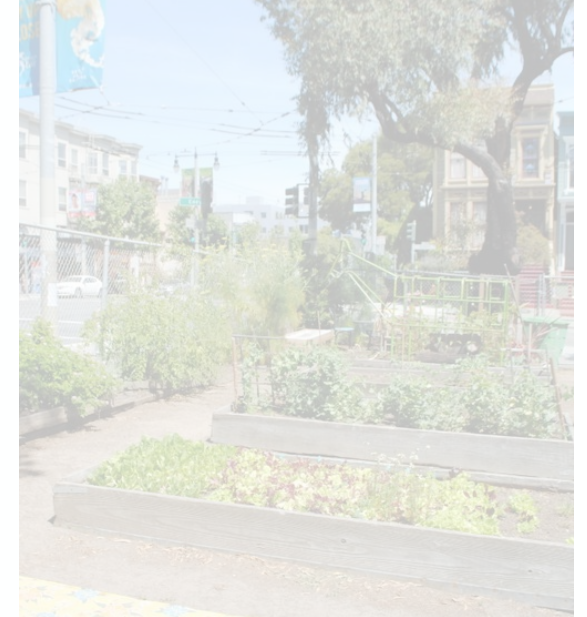
AFFORDABLE HOUSING



GREEN INITIATIVES

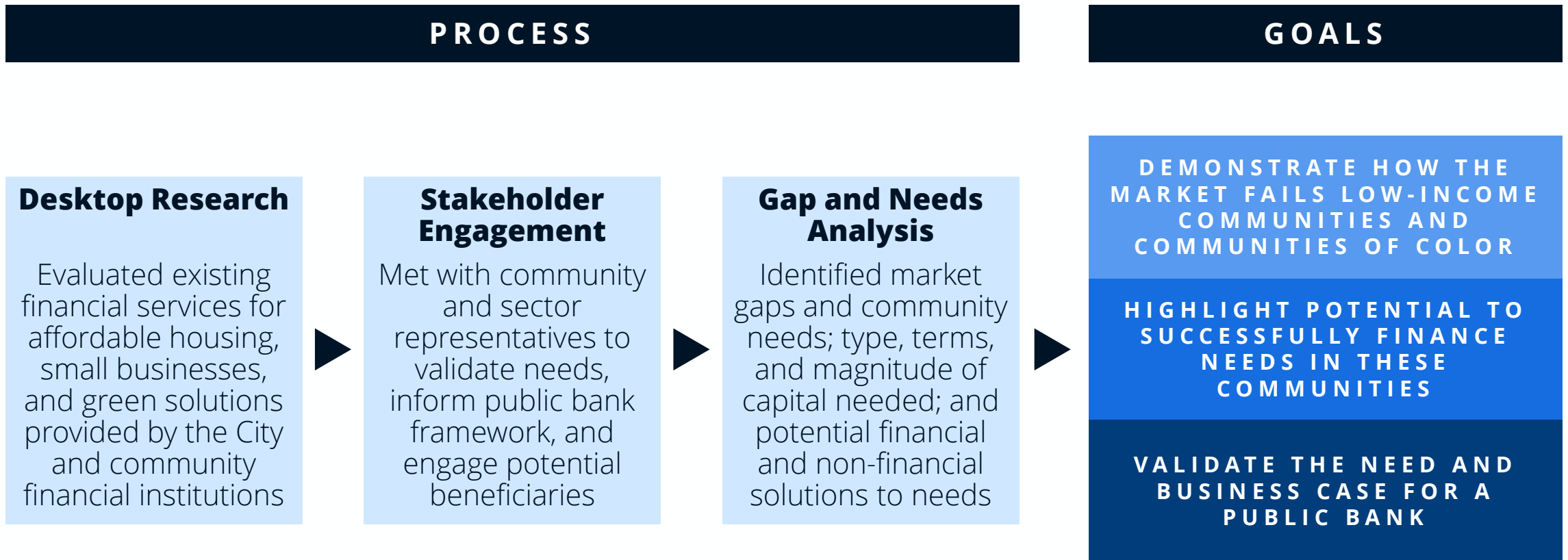


OTHER PRIORITIES (Public Lands, Food Systems, Student Loans)



WE ASSESSED THE NEEDS THAT A PUBLIC BANK COULD ADDRESS IN EACH SECTOR

For each of these 3 sectors, the HR&A Team performed research to evaluate unmet financing needs and barriers to access for underserved populations and to identify the potential financing programs to meet those needs.



WE ENGAGED A BROAD RANGE OF ORGANIZATIONS TO INFORM OUR FINDINGS

We engaged organizations that would partner with and/or benefit from the public bank's programs to learn about their market, inform the creation of community-responsive programs, and establish collaboration. The organizations we met with serve diverse and financially underserved communities, including communities of color, low-income people, immigrants, and women.

Community Financial Institutions

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
Momentum Capital
Pacific Community Ventures
San Francisco Federal Credit Union
Self-Help Federal Credit Union
Working Solutions

Affordable Housing

Council of Community Housing Organizations
Episcopal Community Services of SF
Housing Rights Committee of SF
SF Community Land Trust
SF Housing and Development Corporation
Tenderloin Neighborhood Dev. Corporation
Young Community Developers

Small Business

California Reinvestment Coalition
Literacy for Environmental Justice
National Association of Minority Contractors
North-East Business Association
Project Equity
SF Small Business Commission

Small Business Majority

Green Initiatives

Bayview-Hunters Point Community Advocates
Emerald Cities
Just Solutions Collective
SF Climate Emergency Coalition
SF Electrical Contractors Association

City of San Francisco

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

Other Organizations

PODER
SPUR

WE FOUND SERVICE GAPS IN FINANCIAL AND NON-FINANCIAL SERVICES FOR SMALL BUSINESS, AFFORDABLE HOUSING, AND GREEN INITIATIVES

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. We spoke to more than 35 organizations to learn about what is most needed by San Francisco’s diverse communities.

Solutions Identified

Area	Small Business	Affordable Housing	Green Initiatives
Financial solutions	<ul style="list-style-type: none"> • Growth capital • Startup capital • Lines of credit • Credit enhancement • Marketing funds 	<ul style="list-style-type: none"> • Patient and equity-like capital • Short-term financing • Gap financing • Credit enhancement • Guarantees • Alternative products • Subsidy for complex projects 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Equitable credit requirements • Technical assistance • Increased trust in finance • Revamped small businesses inventories • Shift services online • Serve as a banking-relationships steward 	<ul style="list-style-type: none"> • Zoning and permitting aligned with public bank lending • Trainings for developers and home buyers • Reformed underwriting rules • Match processing times to industry needs 	<ul style="list-style-type: none"> • Outreach and engagement for prospective borrowers

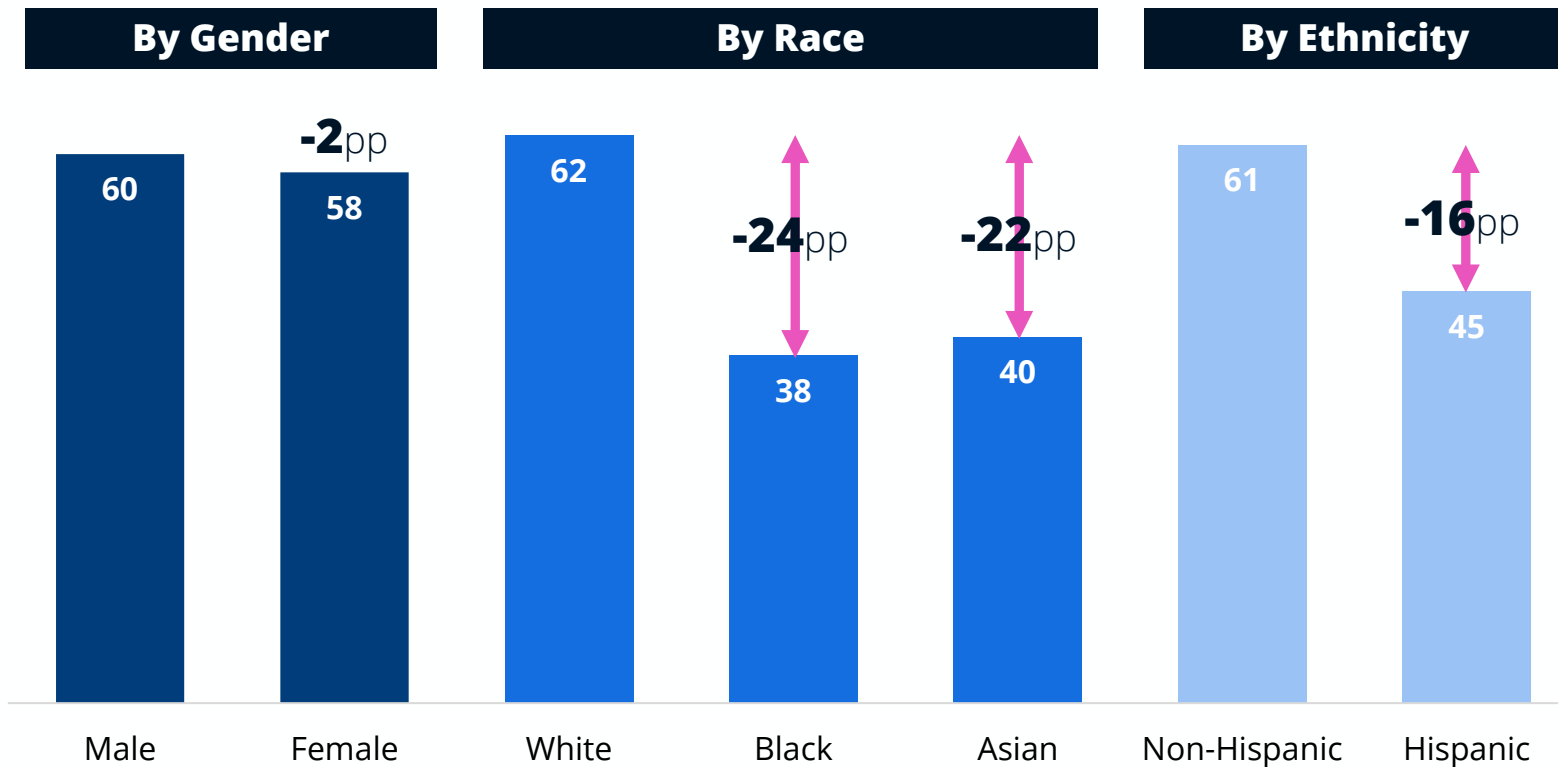
02

Small Business

HISTORICALLY UNDERSERVED BORROWERS CONTINUE TO FACE BARRIERS TO ACCESS

National disparities in loan application outcomes show that barriers to access persist for many borrowers, especially people of color.

Share of Small Businesses Receiving All Requested Funding by Gender, Race, and Ethnicity



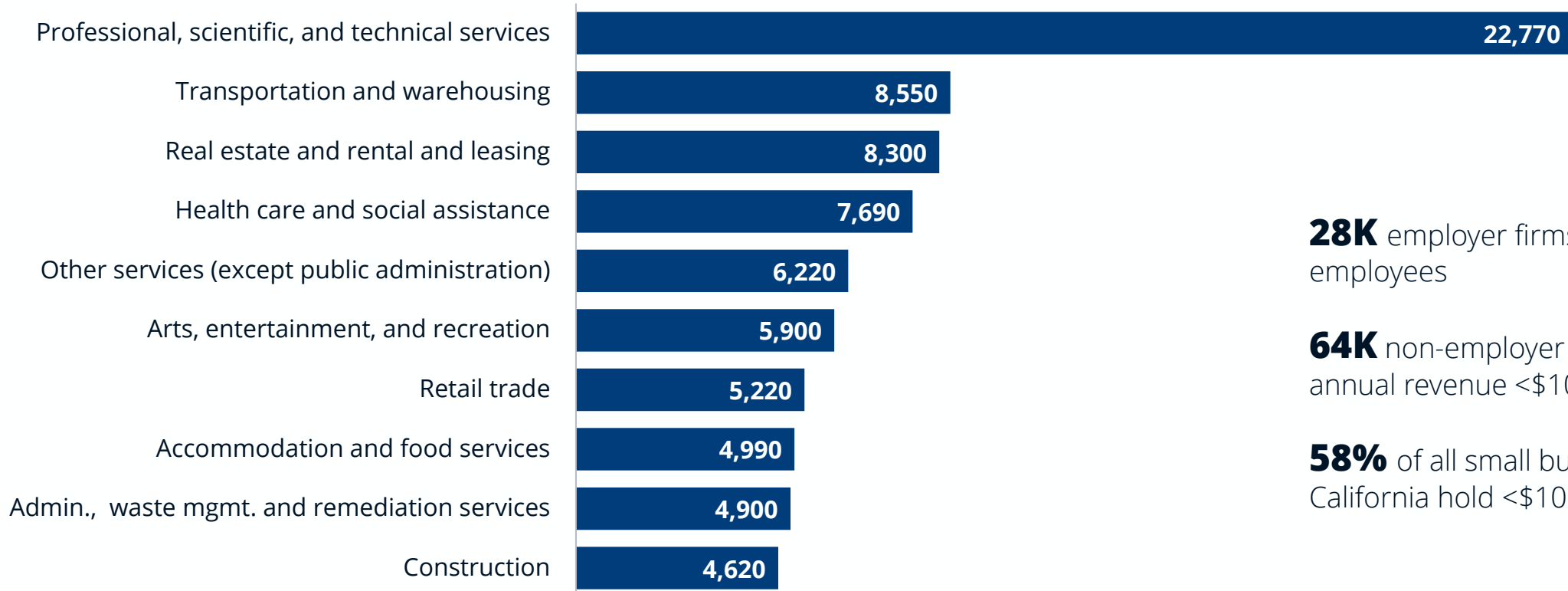
Common obstacles include collateral and credit score requirements and lack of trust in the financial industry.

Sources: U.S. Federal Reserve, Availability of Credit to Small Businesses, 2022.

HIGH CONCENTRATION OF SMALL BUSINESSES IN A FEW PRODUCTIVE SECTORS

Of the 92,000 small businesses in San Francisco, 86% operate in the 10 largest industries. Serving even just a tenth of these firms would benefit large numbers of San Francisco's owners and workers.

Top 10 Industries by Number of Firms



28K employer firms with <100 employees

64K non-employer firms with annual revenue <\$100K

58% of all small businesses in California hold <\$100K in debt

Sources: National Small Business Credit Survey (Non-Employer Businesses), 2020; National Small Business Credit Survey (Employer Businesses), 2020.

THE CITY AND MULTIPLE COMMUNITY BANKS SERVE SMALL BUSINESS BORROWERS

San Francisco benefits from a small business lending landscape that includes multiple programs run by the City and by community financial institutions (CFIs). These programs predominantly offer micro- and medium-sized loans ranging from a few thousand dollars to \$250,000.

Provider	Loan Size	Terms	Annual Volume (Order of Magnitude)
<p>City of San Francisco The City offers 4 programs operated by CFIs. One program prioritizes Black borrowers.</p>	Up to \$350,000	<p>3.50-9.25% Interest rate</p> <p>Up to 10 year Duration</p>	Less than \$10M
<p>CFIs At least 7 CFIs provide small business loans to low-income, female, and non-white borrowers in addition to multiple credit unions and larger commercial banks.</p>	<p>Up to \$350,000</p> <p>Smaller programs lend up to \$2,500, most lend up to \$100,000</p>	<p>0-13.00% Interest rate</p>	\$10-50M

Sources: HR&A research based on City and institution data; see Appendix for more information. Does not include pandemic response programs.

OUR FINDINGS INDICATE A NEED AND POTENTIAL SOLUTIONS FOR SMALL BUSINESSES

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.

OUR FINDINGS INDICATE A NEED AND POTENTIAL SOLUTIONS FOR SMALL BUSINESSES

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.

OTHER CONSIDERATIONS

Conversations with industry stakeholders and community representatives revealed additional challenges, considerations, and recommendations related to small business lending.

- Short-term debt is currently abundant due to pandemic support programs, but it does not address all financing needs, especially for established businesses. Longer-term products could fill this gap.
- CFIs are at maximum lending capacity with the current levels of personnel. They require more staff and funding for operating costs to absorb additional demand for loans.
- Some small businesses may seek financing to purchase their building or space, which would require a combination of real estate loans with small business support services. This could help prevent displacement.
- Banking platforms should be accessible to diverse populations in terms of language and user friendliness.
- Cannabis business are poorly served due to federal restrictions, though these would likely constrain public bank operations as well.

Sources: HR&A Team interviews and focus groups.

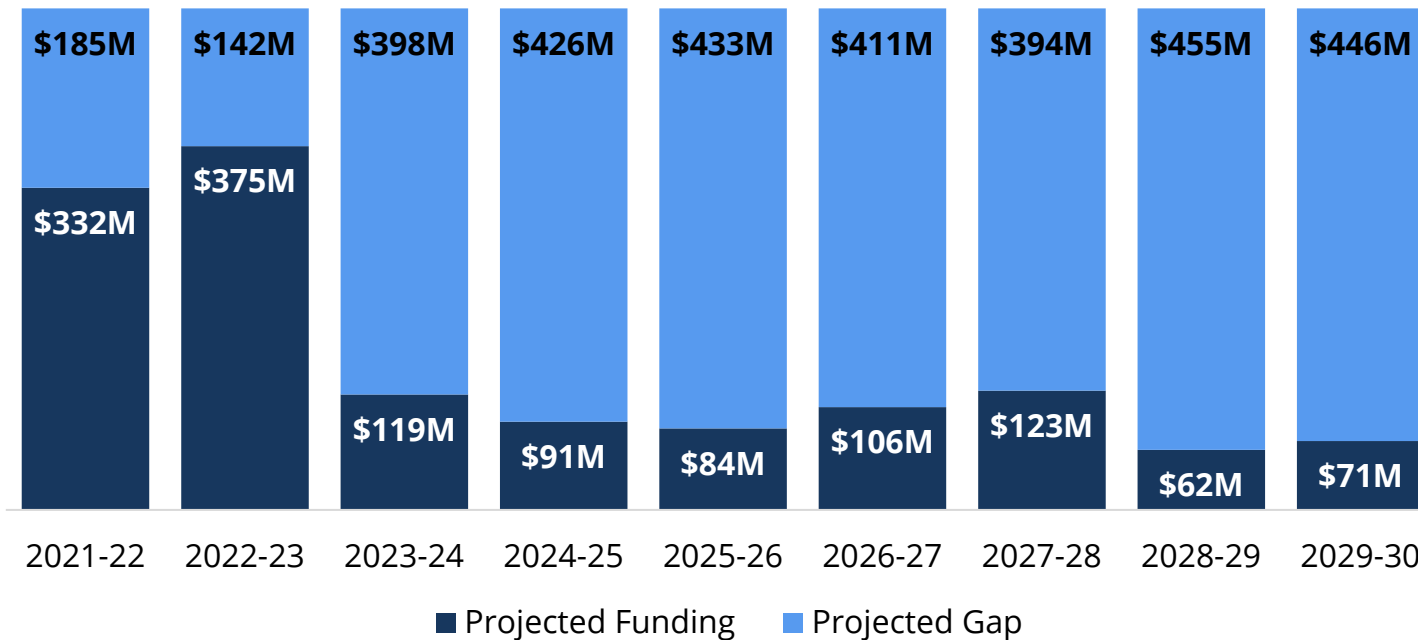
03

Affordable Housing

AFFORDABLE HOUSING FUNDING GAP IS LARGE AND GROWING

San Francisco contributed significant public sources to new affordable housing, but to meet the City’s goal of producing approximately 2,700 new affordable units per year requires new and reliable sources. Available funding is expected to decline in 2023 as current bond financing and federal transfers are fully allocated.

Projected City Sources and Gap for Affordable Housing



1,670 new and 1,075 preserved
Annual unit production goal

\$517M
Estimated annual demand for financing

\$390M
Minimum estimated annual funding gap

Sources: HR&A summary of [MOHCD and Strategic Economics' Affordable Housing Funding, Production, and Preservation White Paper, 2020](#).

MOST PROGRAMS SUPPORT AFFORDABLE RENTAL PRESERVATION AND DEVELOPMENT

San Francisco’s affordable housing developers can access multiple programs run by the City and by community financial institutions for affordable housing preservation and for land acquisition and development of new properties. Most programs focus on rental housing.

Provider	Loan Size	Terms	Annual Volume (Order of Magnitude)
<p>City of San Francisco The City provides subsidies to non-profit organizations to buy small rent-controlled assets.</p>	Up to \$375,000 per unit	3.00% Interest rate	\$10-50M
<p>Community Institutions CFIs provide financing alternatives for affordable housing preservation land acquisition, construction and maintenance.</p>	Up to \$15M Smaller programs lend up to \$5M	4.00-10.00% Interest rate	\$50-100M

Sources: HR&A research based on City and institution data; see Appendix for more information. Does not include pandemic response programs.

THE CITY OFFERS NO-INTEREST, FORGIVABLE LOANS TO SUPPORT HOMEOWNERSHIP

Prospective homeowners can access down payment assistance for up to \$375,000, with conditions that can make it forgivable. Several programs prioritize first responders and educators.

Provider	Loan Size	Terms	Annual Volume (Order of Magnitude)
City of San Francisco The City offers 6 programs operated by the Mayor's Office of Housing and Community Development.	Up to \$375,000 in forgivable loans	0% Interest Rate Up to 30 Years	Less than \$10M

Sources: HR&A research based on City and institution data; see Appendix for more information. Does not include pandemic response programs.

OUR FINDINGS INDICATE A NEED AND POTENTIAL SOLUTIONS FOR HOUSING

We found gaps in various products and services for affordable rental and homeownership.

Financial Needs and Solutions

Need	Solution
Patient and equity-like capital	Provide longer-term (10+ years) and low-interest (no more than 2 percent) loans – potentially structured as equity equivalent products – to CFIs 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.
Subsidy for complex projects	Projects that are deeply affordable or require significant restorations require subsidy, not debt, to be viable. This is something the City could provide, but not a public bank.

Sources: HR&A Team interviews and focus groups.

OUR FINDINGS INDICATE A NEED AND POTENTIAL SOLUTIONS FOR HOUSING

Alongside financial solutions, supporting affordable housing requires policy reforms, technical assistance, and other interventions to remove obstacles to production and preservation.

Non-Financial Needs and Solutions

Need	Solution
Zoning and permitting aligned with public bank lending	Establish coordination between public bank, developers, and City zoning and permitting agencies to streamline the entitlements process and reduce project costs and duration.
Trainings for developers, buyers from underrepresented communities	Provide training to developers (like Capital Impact Partners' Equitable Development Initiative program) and aspiring homeowners from underrepresented communities. These measures can expand and diversify these groups and support wealth creation.
Reform underwriting rules	Examine and reform discriminatory appraisal and underwriting practices that cause disparate outcomes for neighborhoods that are predominantly white versus those that are predominantly inhabited by people of color.
Match processing times to industry needs	Guarantee efficient underwriting and disbursement rules so that smaller developers can count on public bank financing for development projects, including when they need to make decisions on short turnaround.

Sources: HR&A Team interviews and focus groups.

OTHER CONSIDERATIONS

Conversations with industry stakeholders and community representatives revealed additional challenges, considerations, and recommendations related to affordable housing finance and homeownership support.

- Due to intense competition, homes tend to sell above the initial asking price. Home purchase loans must therefore be commensurate with these inflated values.
- Mortgage support for low- and moderate-income people and people of color is a pressing need. Borrowers pursuing home loans lack funds for down payment and closing costs.
- Lending at higher loan-to-value (LTV) incurs in higher risk. Subsidies to offset a high LTV could provide needed security to lenders.

Sources: HR&A Team interviews and focus groups.

04

Green Initiatives

SUPPORTING CLIMATE ACTION IN SAN FRANCISCO

Existing State and City policies and programs require a transition to climate neutrality by 2040-2045. While federal, State, and City funds are being committed to the many types of investments needed, more resources are required to cover billions in investments and accelerate this process for households, businesses, and others.

“AB 1279 establishes a clear, legally binding, and achievable goal for California to **achieve statewide carbon neutrality as soon as possible**, and no later than 2045, and ensures an 85% emissions reduction as part of that goal.”



Sources: California Climate Commitment; City of San Francisco Climate Action Plan, 2021.

FINANCING AVAILABLE FOR GREEN INITIATIVES IS LIMITED

Even though several City and CFI programs exist, individual loan amounts and annual volumes are low in the context of a growing appetite for implementing green solutions for businesses, building- and homeowners, and individuals.

Provider	Loan Size	Terms	Annual Volume (Order of Magnitude)
<p>City of San Francisco The City offers 2 programs operated by non-profit organizations.</p>	Up to \$2,500	0% Interest rate	Less than \$10M
<p>Community Institutions At least 2 organizations provide financing for local sustainability projects in waste reduction, sustainable food systems, green real estate, clean energy, among others.</p>	Up to \$50,000 (Solar Panel Loans)	7.00-11.00% Interest rate	\$10-50M

Sources: HR&A research based on City and institution data; see Appendix for more information. Does not include pandemic response programs.

OUR FINDINGS INDICATE A NEED AND SOLUTIONS TO ACHIEVE CARBON NEUTRALITY

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.

OTHER CONSIDERATIONS

Conversations with industry stakeholders and community representatives revealed additional challenges, considerations, and recommendations related to green initiatives.

- The existing supply of loan products is limited. While support for building energy upgrades is more common, financing for broader climate justice initiatives appears rarer.
- A public bank could provide CleanPowerSF and other City-established entities such entities with more affordable loans if their credit ratings limit their ability to borrow at favorable conditions from other sources.
- The SF Public Utilities Commission is leading an effort to secure full public ownership of the City's electrical grid, transitioning to 100% hydroelectric power from Hetch Hetchy. A public bank could support this initiative.
- The current interest rate environment has complicated electrical contractors' ability to secure affordable financing for building improvements.

Sources: HR&A Team interviews and focus groups.

05

Next Steps

POTENTIAL MFC AND PUBLIC BANK PRODUCTS SHOULD TARGET MARKET GAPS

As the next step, the HR&A Team will develop a viability study and business plans for the non-depository municipal financial corporation (MFC) and public bank based on the market gaps we identified.

- We will focus on the identified gaps and potential solutions so new programs are additive to existing ones.
- We will evaluate potential solutions by their impact in San Francisco and their ability to create an MFC and public bank that are financially self-sustaining. This may involve prioritizing products in the three sectors based on the factors below.
- However, success will also depend on complementary, non-financial services that the City or other organizations will have to provide separately from the public bank.

Area	Loan Size	Loan Number	Time to Deploy	Time to Impact	Market Maturity
Small business	Small (<\$500K)	Large	Shorter (4-6 weeks)	Months	High
Affordable housing	Large (\$5M+)	Small	Longer (3+ months)	Years	High
Green initiatives	Small (<\$500K)	Large	Shorter (4-6 weeks)	Months	Low

06

Appendix

SMALL BUSINESS | CITY PROGRAMS

Program	Loan Size Range (\$)	Administrator	Description
Small Business Revolving Loan Fund (SBRLF)	\$10K – \$50K	Working Solutions	Provide microloans to start-up and existing small businesses.
Emerging Business Loan Fund (EBLF)	\$10K – \$350K	Main Street Launch	Support high impact businesses and projects with the potential to increase local economic activity and create jobs for low-and moderate-income individuals.
African American Revolving Loan Fund (AARLF)	Up to \$50K	Main Street Launch	Helps stabilize San Francisco’s Black-owned and Black-serving small businesses given disproportionate impacts of the pandemic.
SF Small Business Recovery Loan Fund	Up to \$100K	Multiple CDFIs*	Support new and existing businesses left out of current relief programs and those who face greater barriers to accessing capital.

*KIVA, Main Street Launch, Mission Economic Development Agency, CDC Small Business Finance, Pacific Community Ventures, National Asian American Coalition.

SMALL BUSINESS | CFI PROGRAMS

Organization	Loan Size Range (\$)	Program Name	Description
Working Solutions	\$5K - \$100K	Small Business Loans	
Mission Economic Development Agency	Up to \$100K	Fondo Adelante	Support businesses underserved by traditional banks.
Pacific Community Ventures	\$50K - \$200K	Small Business Advising Integrated Lending (SAIL) Fund	Support high-growth Bay Area businesses creating meaningful jobs in underserved communities.
Mission Asset Fund (MAF)	Up to \$2.5K	Business Microloans	Support small business owners and entrepreneurs in California
Southeast Asian Community Center (SEACC)	\$1K - \$50K	SBA 7(m) Microloan Program	Support existing and start-up businesses typically unable to qualify for a conventional bank loan.
Pacific Community Ventures (PCV)	Up to \$250K	Small Business Loans	Help small business owners from the most vulnerable communities stay open, create high-quality jobs, and build back better from the COVID pandemic.
Momentum Capital/CDC Small Business Finance	\$20K - \$350K	Small Business Loans	

AFFORDABLE HOUSING | CITY PROGRAMS

	Max. Loan Amount (\$)	Administrator	Description	
Small Sites Program	Unknown	Mayor's Office of Housing and Community Development	Provides loans to nonprofit organizations, to buy small rent-controlled buildings before an investor does. The buildings are then converted to permanently affordable housing.	
Preservation and Seismic Safety Program	Unknown		Supports seismic retrofits for unreinforced masonry buildings, acquisition/rehabilitation, and preservation of affordable housing	
Homeowner Emergency Loan Program (HELP)	Up to \$50K		Provides a one-time emergency financial assistance loan due to an unforeseen financial hardship.	
Downpayment Assistance Loan Program (DALP) - General	Up to \$375K		Provides a silent second loan for downpayments that requires no monthly payments.	
First Responders Downpayment Assistance Loan Program (FRDALP)	Up to \$375K			
Below Market Rate Downpayment Assistance Loan Program (BMR-DALP)	Up to 20% of sales price			
Teacher Next Door Program (TND)	Market-Rate Unit: Up to \$40K BMR Unit: Up to \$20K			Provides a downpayment loan or SFUSD educators.
City Second Loan Program (CSLP)	Up to \$375K			Provides a downpayment loan to bid on a collection of properties also advertised on the open market.

AFFORDABLE HOUSING | CFI PROGRAMS

	Loan Size (\$)	Program Name	Description
San Francisco Housing Accelerator Fund	Unknown	N/A	Streamlines financing so affordable housing providers can acquire land and buildings more easily, leveraging capital from philanthropic and private sources in coordination with public funds.
Capital Impact Partners & Local Initiatives Support Corporation	Up to \$10M	Bays' Future Fund	Comprised of 6 products that support projects serving 0-120% AMI.
	Up to \$15M	Community Housing Fund	Supports projects with at least 20% of its tenants at 30% AMI or Below.
Housing Trust Silicon Valley	Short-term: Up to \$15M Long-term: Up to \$5M	Developer Financing	Provides financing for development of affordable homes and maintenance of stabilized multifamily properties in the greater Bay Area

GREEN INITIATIVES | CITY PROGRAMS

	Max. Loan Amount (\$)	Program	Description
SF Environment	10% of property's assessed value	GreenFinanceSF	Utilizes the "open market" PACE program, enabling the property owner to hire a contractor for implementation of an energy efficient retrofit while private investors compete to provide funding for the project.
BayREN	\$2.5K	Business Microloan	Offers interest-free microloans up to \$2,500 for energy-saving upgrades for small businesses, covering ENERGY STAR certification, LED lighting, smart thermostats, and appliances.

GREEN INITIATIVES | CFI PROGRAMS

	Max. Loan Amount (\$)	Program	Description
Community Bank of the Bay	Unknown	Bay Area Green Fund	Provides financing available for local sustainability projects in waste reduction, sustainable food systems, green real estate, clean energy, and environmental stewardship.
SF Fire Credit Union	Unknown	Solar Loans	Offers loans to install solar panels on single-family homes.



Lending Gaps and Priorities Analysis

Reinvestment Working Group Meeting

October 20, 2022

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Analyze. Advise. Act.