
Legislative Review:	BOS File No. 210078
Name:	Administrative Code - San Francisco Reinvestment Working Group
Sponsor(s):	Supervisors Preston, Walton, Haney, Melgar, Ronen and Chan
Date Introduced:	January 26, 2021
BOS Committee:	Government Audit and Oversight Committee
Scheduled:	TBD
Related Documents:	Budget and Legislative Analyst Report – July 24, 2020 Budget and Legislative Analyst Report – November 27, 2017 Budget and Legislative Analyst Report – September 8, 2011

Existing law:

Since at least 2011, local elected officials have contemplated how the City and County of San Francisco may establish a public or community-supportive banking institution. Over the years legislative reports reached differing conclusions as to the legality of such an initiative. However, the passage of California Bill 857, the Public Banking Act, on January 1, 2020 has assured a legal pathway to establish a public bank.

Proposed changes:

This proposed legislation intends to establish a working group which would advise on a business and governance plan to establish a public bank, termed “a nondepository lending corporation wholly-owned by the City, designated as the “Municipal Finance Corporation” or MFC. This working group satisfies a recommendation made in a Budget and Legislative Analyst’s Report on the matter which was requested by then Supervisor Sandra Fewer and published July 24, 2020.

This proposed legislation would mandate that the working group consist of **nine members** as follows:

- **Seats 1-3** would be filled by technical experts in financial institutions, each of whom shall have expertise in at least one of the following: Community Development Financial Institutions; credit unions, as defined in Section 165 of the California Financial Code; small banks or intermediate small banks, as defined in Section 25.12(u) of Title 12 of the Code of Federal Regulations; bank or lending entity formation or business planning; or financial institution regulatory compliance.
- **Seats 4-7** would be filled by community representatives, each of whom shall have a commitment to economic, gender, and racial justice; a commitment to serving low-income communities, communities of color, immigrant communities, and organized labor; and experience in at least one of the following: affordable housing financing or policy; Local Enterprise lending; consumer or student lending; or environmental justice, with experience in areas such as zero-emission renewable energy sources, energy efficient building design, or sustainable food systems.
- **Seat 8** would be filled by the Controller or the Controller’s designee.
- **Seat 9** would be filled by the Treasurer or the Treasurer’s designee.

Seats 1-7 would be appointed by the Board of Supervisors.

Within one-year from the date of the first Working Group meeting, the Working Group would be expected to submit to the Board of Supervisors and to the Local Agency Formation Commission a business and governance plan for establishing and operating an MFC, which shall address the MFC's planned lending services, prioritizing investment in affordable housing production and preservation, Local Enterprise, and public infrastructure; organization and management; financial projections; and funding requirements; and which may include recommendations for modifications of City laws and regulations. The Working Group would also submit to the Board of Supervisors and to the Local Agency Formation Commission a business and governance plan for the MFC to become a Public Bank. Proposed plans submitted to the Board of Supervisor would need to be consistent with California Government Code Section 57606 which codifies state Public Bank requirements.

Issues and Considerations:

This proposed legislation intends to support the establishment of a public bank through intentional and coordinated development of business and governance plans to be submitted to the Board of Supervisors and the Local Agency Formation Commission. While a number of critical stakeholder groups are named to fill seats one-seven of the Working Group, a member with a specific background in small and/or micro business development is not required nor acknowledged. Including a stakeholder with such a background would be integral to satisfying the Working Group's mandate to promote economic security for all San Franciscans- particularly for entrepreneurs from vulnerable populations. **This proposed legislation would be strengthened by including a requirement in Section 5.16-5 that one of the nine members of the Working Group be held by a representative with a specific background in small/micro business development.**

According to data retrieved from the Small Business Administration, 22, 215 businesses in San Francisco received ~\$3 billion in Paycheck Protection Program (PPP) Loans. Just 4% of those loans were awarded to self-reported women owned businesses, with an average award amount of \$127,000. 3% of awards went to self-reported minority owned businesses, with an average award \$124,000. Comparatively, small businesses in North Dakota, were awarded more PPP loans than any other state in the first round. This is largely due to expert coordination on the part of North Dakota's public bank¹. In fact, a cursory review of the Bank of North Dakota's website highlights a dedicated focus on economic development². **This proposed legislation would also be strengthened by including more specific language in Section SEC. 5.16-4(b)(4) regarding goals for economic development and expanding economic opportunity.** Such language may include:

- Establishing lending priorities that support job creation;
- Establishing lending priorities that support borrowers who would otherwise be considered "high risk" by mainstream lending institutions; and
- Establishing lending priorities for entrepreneurs from vulnerable populations, like women and minorities.

¹ <https://www.washingtonpost.com/business/2020/05/15/north-dakota-small-business-ppp-coronavirus/>

² <https://bnd.nd.gov/business/>