Affordable Housing Revolving Loan Fund

Under the current framework of public finance, cities are constrained less by a lack of productive resources (labor, materials, and equipment) than by their financial capacity. Relying solely on revenue from taxes and bonds is not sufficient for critically needed housing. The common practice in municipal financing is to float bond measures to provide funds to pay for services, one time infusions that temporarily increase public spending capacity. Alternatively, establishing a revolving loan fund would create a perpetual stream of money for interest free loans for public projects.

MODEL for a Revolving Loan Fund

Assumptions used for the example:

- All loans are financed at interest-free rates on a 30-year term.
- Incoming loan service payments will be immediately re-lent to new projects. As payments become smaller over numerous waves of lending, many of these payments can be combined in order to make larger loans

Example:

1. San Francisco passes a $1B bond measure to finance the development of affordable and/or municipal housing.
2. The $1 billion is placed in the Fund to lend to municipal agencies (ex. MOHCD), which in turn pays approx. $33 million per year back into the loan fund
3. With each annual payment of $33 million, the Fund loans to community organizations for the development of new 100% affordable housing, paying approx. $1 million per year, originating up to 30 new loans for an additional $1 billion in housing investment.
4. With each incoming payment of ~$1 million, the Fund would loan to housing developers to incentivize additional affordable units, with an average annual repayment of $33,333.

5. This cycle is repeated over and over again, multiplying the original $1B bond approximately ten times before starting over, multiplying a $1 billion debt into $10 billion in public investment before lending for permanent growth in perpetuity!

Through the creation of a municipal revolving loan fund, the city would amplify the impact of taxpayer revenues and traditional debt financing by creating a framework for circular debt financing for permanent real estate assets to serve San Francisco residents and meeting our housing needs to stabilize the market. This efficient financial mechanism will foster greater public trust in future revenue measures. The City & County of San Francisco has been impaired in its ability to meet the demand of the worsening affordability crisis by neglecting its status as a potentially powerful market actor and failing to fully capture the value of its revenues by taking on the duties of an entrepreneurial state.

In 2020, Montgomery County, MD established a similar program, the Housing Production Fund, funded with an initial $50 million appropriation capable of financing 3,500 units of affordable housing just from the initial funding. As San Francisco is significantly more equipped with the financial resources to make meaningful investments, the replication and scaling up of Montgomery County's Housing Production Fund would create a vital tool for the City to meet the pressing needs of residents and begin an ambitious and impactful program to build social and affordable housing.