



Alliance for Local Economic Prosperity

Keeping Our Public Funds Safe, Local and Working

A Public Bank For New Mexico

Legislative Summary

New Mexico Public Bank Legislation: What you need to know

The time has come for New Mexico to make the bold step of taking control of its own state finances. **New Mexico loses up to half of the money it spends on debt service in interest payments to big banks.** Let's bring that money home by creating a public bank.

A public bank is a financial institution owned by the state of New Mexico that finances New Mexico infrastructure projects and small businesses, clean energy, affordable housing, and many other economic development projects that need Local Economic Development Act (LEDA) loans, through participation loans with community banks and credit unions. The LEDA loans can be enhanced with public bank loans to support local economic development. Instead of selling bonds to out-of-state banks and investors, a public bank can replace the need for the issuance of bonds and help New Mexico by bringing the debt service payments back to New Mexico, as public bank income, and offering lower interest rates. A simple \$50 million in capital can generate as much as \$500 million in funds to leverage the projects we need.

Instead of out-of-state banks and private investors collecting interest, which can be up to 40% of the cost of a major project, **a New Mexico Public Bank can collect that money and reinvest it in New Mexico.** The revenue would circulate within New Mexico and be used for the common good of New Mexico. For example, as a result of the 2020 Infrastructure Capital Improvement Plan (ICIP) process, the Governor approved over \$33 million in improvements for Senior Citizen Facilities throughout the State. The Public Bank would be a good candidate to support lending for some of those projects. If a public bank existed now it could bring focus, efficiency and effectiveness to the emergency loan programs developed post-COVID. Instead New Mexico is paying fees to private investment firms and distributing loans through multiple agencies.

New Mexico's small businesses and our municipalities can take advantage of **the increased loan capacity that a public bank would bring.** Interest costs, fiscal agent fees and bond issuance costs add up--in 2019, they added 21% to the costs of New Mexico projects. We must do better--the public bank will enable us to save the majority of these costs. Those fees could have been used to pay for more roads, bridges, small business incentive programs, job training initiatives and much more. In Santa Fe, for example, a study determined that the city would have reduced its debt service payments by more than \$1.3 million, and the City's overall debt

would have been reduced by \$4.8 million if they refinanced more than \$119 million of bonds into public bank loans. Many of the state bank operational costs will be covered by savings on the out-of-state fees paid to bond issuers.

Lending money is ten times more powerful than saving money. A public bank can lend up to 10 times its capital, and still be profitable. Those profits would be New Mexico's next nest egg.

As a nonprofit, state-owned entity, **loans can be made at a discount to other state agencies**, such as the Higher Education department for student loans or Health and Human Services for upgraded healthcare facilities.

The New Mexico Finance Authority (NMFA) does not have the authority to take advantage of all of the possibilities a public bank could offer. It has received emergency funds to provide loans to small businesses and can provide secondary loans in support of Federal funds. **The NMFA does not have access to the Federal Reserve system and cannot expand loan capacity as a bank can do.**

BULLET BENEFITS

REVENUE POTENTIAL FOR STATES WITH PARTNERSHIP BANKS		
	PROJECTED NET 2009 REVENUE	PERCENTAGE OF 2011 DEFICIT
NORTH DAKOTA	\$30 m.	[in surplus]
HAWAII	\$61 m.	14.9%
MAINE	\$48 m.	11%
MARYLAND	\$263 m.	16.4%
MASSACHUSETTS	\$351 m.	19.5%
NEW HAMPSHIRE	\$58 m.	5.8%
NEW MEXICO	\$77 m.	18.8%
OREGON	\$155 m.	8.6%
WASHINGTON STATE	\$310 m.	10.7%

Sources: Center for State Innovation, Center on Budget and Policy Priorities⁴

*North Dakota had a budget surplus during the last recession

New Mexico's small businesses are hurting and the State Investment Council (SIC) has decided that providing long-term low-interest loans is one way to help. The SIC is lending \$100 million. But, the SIC is not expert at making these loans to small businesses. A state bank would be able to make these funds available almost immediately to those who do work on the ground with small businesses: community banks and credit unions.

Frequently Asked Questions (FAQs):

- Can you charter a public bank? Absolutely. New Mexico can charter any kind of bank it wants.
- How much will it cost? This is a saving and investment bill, not a spending bill. How much money will we need to invest? \$50 million, showing almost immediate returns. Where do we get that money? The Permanent Fund, 0.00278% of it, would capitalize the bank. An additional \$50 million of revenue from taxes and fees would be deposited in the state bank rather than in Wells Fargo.
- How will it help New Mexico? The money that today goes to Wells Fargo and JP Morgan Chase would stay in New Mexico. The money that today goes to debt service on bonds with out-of-state banks and to investors instead can be reinvested here. Funds are available more quickly, and at a lower rate. In contrast, wealthy people invest in bonds to receive tax-free income.
- What is the governance structure? The Board of Directors of the public bank will set bank policies that ensure the bank's viability and stakeholder interests, enable achievement of its public purpose, monitor the bank's overall environmental, social, and governance (ESG) performance, its compliance with its charter and regulatory authorities, and invest the Chief Executive Officer (CEO) of the bank with responsibilities, appropriate authority and accountability to execute its policies and successfully execute the business of the bank. Board members will have financial expertise and be selected through a multi-step process.
- Is this a new idea? Not at all. Germany, Japan, other countries and the state of North Dakota all rely on public banks. Bank of North Dakota (BND) has added to the state's annual operating income, \$300+ million over the past 10 years. North Dakota community banks and credit unions are thriving because of their partnerships with BND. BND originated or renewed 15,696 loans to state businesses, projects and students, totaling \$1.33 billion in 2019.
- How will the bank be staffed? The bank executive team will be made up of experienced bankers with civil servant values. They will be compensated commensurate with their experience and responsibilities.

Beginning First-Year Assumptions:

- Capitalization: \$50 million FIRST YEAR as an investment from the state permanent fund where it would begin bringing returns to New Mexico by the end of the second year.
- Beginning State Deposits: \$50 million from tax and fees revenue, simply moved from our Wells Fargo accounts to the public bank.
- Economic Impact: We estimate the public bank will lend \$44 million during its first year of operations. With the current fiscal constraints the bank would be able to expand the financial capacity to support economic development and infrastructure projects that the legislative budgeting process is not able to support.
- Reserve for Loan Loss--2% for agricultural and commercial loans; 4% for administered loans: \$1,000,000.

- Operation Costs:
 1. Payroll: 2,230,000
 2. Overhead: \$670,000/year

Distribution of Annual Net Income:

- 50% of net income would go back to the state to reinvest or allocate for spending, 50% would be kept as retained earnings.

External Working Relationships:

- The bank will serve as a state depository. The legislature will define public benefit investment priorities and policies in legislation brought forward on a yearly basis.
- Local governments may deposit their funds in the public bank but are encouraged to bank with their local community banks and credit unions. The bank shall safeguard all deposits to it, and those deposits are guaranteed by the full faith and credit of the state. The bank will comply with all applicable state, federal and international banking industry laws, regulations and standards of compliance.
- The public bank of New Mexico shall make loans to public entities for infrastructure and private entities in an unbiased and consistent manner to provide opportunities for the growth of new and existing initiatives in agriculture, clean energy, commerce, economic development, education, infrastructure and, as specified in legislative policy, other fields in the public interest in the state.
- The bank will be a banker's bank and will **not** compete with locally-owned community banks and credit unions but will create loan programs with them for local lending to private for-profit and nonprofit entities. It will also manage revolving loan funds for loans to public entities in New Mexico.

Ethics, Safety & Soundness:

To ensure the integrity and viability of the bank, its fiduciary obligations and banking operations will be managed independently of each other within the bank, to protect against fraud, self-dealing, political influence and other corrupt practices.

Elaboration:

The bank management and board of directors will be composed of banking and economic development professionals, not politicians. While the legislature will set public policies based on the public's input, it is not to interfere with the development of loan programs or the underwriting

criteria the bank advances. Local banks and credit unions will add another layer of protection, as it is those local and independent organizations that will administer the loans.

The bank's Chief Executive Officer (CEO) will report directly to the board in regard to the bank's operational performance--financial status, risk and liquidity management, loan program execution, financial accountability, adherence to Bank Charter in types of loans and infrastructure improvements made in New Mexico, transparency--and the status of its external relations, and accountability to the public.

The Chief Risk Officer (CRO) will report to the CEO, but will independently report directly to the board on the status of the bank's fiduciary obligations including the auditing division of the bank: on salaries set by board, levels of risk and risk-based ratio, and ensuring that the legislature respects regulatory standards. This will include adhering to FDIC requirements for "safety and soundness," which define ratios and liquidity.

The CRO will also report to the Board on the current and future need for effective technology for data analysis, internal system controls, risk management, credit risk, compliance monitoring and public information reporting when business practice changes or regulatory requirements occur.

The Internal Audit Function will report directly to the Board, with a dotted line reporting to the CRO for management oversight. Internal Audit will report all of the following findings directly to the Board: Annual Risk Assessment, Annual Audit Schedule, Whistle Blower Activities including: Reports and Results of Investigations, adherence to Bank Charter in types of loans and infrastructure improvements made in New Mexico, Identified Risk Assessment and Audit Issues, all Issue Resolution Plans, tracking of Issue Resolutions to Plan and completion dates and Resolution Plans that have exceeded the required completion dates and sustainability of corrective action taken.

Annually, External Auditors will report directly to the Board on the efficacy of the bank's internal controls in identifying and correcting financial and operational weaknesses, risks and sustainability of corrective actions.