

## **HB236/SB313 FIR**

### **Addendum**

#### Fiscal Implications

This FIR is fundamentally flawed as it failed to consider any of the significant economic (and future social) benefits of the Public Bank Act nor the Public Bank of New Mexico (PBNM). The “Revenue” chart on page 1, does not take into account the Pro Forma that was prepared by AFLEP and its financial experts. To help rectify this oversight, the Business Plan developed by the Alliance for Local Economic Prosperity (AFLEP) Banking Committee is attached for the review and consideration by the analyst and legislators. One of its members, a UNM Finance Professor with bank experience, can be scheduled for a Pro Forma discussion.)

As loans are made the PBNM will generate earnings. The Pro Forma indicates that by the end of 2022 it will be self-sufficient. Earnings not only cover operational costs; the retained earnings are added to the \$50 million capital investment from the Severance Tax Permanent Fund, increasing its value each year thereafter. (See the Equity line in the Pro Forma Balance Sheet, pg 29.)

he \$50 million designated for capitalization would be an investment and is not an expenditure. It therefore should not be viewed as an expense to the STPF. The investment will be expected to create income for the bank with traditional achievable Return on Investment (ROI) targets. Years 4 through 7 show a steady annual rate of increase. As the bank matures it is probable that it will exceed STPF’s return target. As evidence of this, the mature Bank of North Dakota has consistently produced an ROI of between 16-18% in recent years.

The annual increase in the bank’s equity represents a real return to the STPF and that return, in fact, belongs to STPF. If there are positive, annual retained earnings, they increase the bank’s equity year by year, and, by definition, the STPF’s Balance Sheet each year increases by the same amount. Because the bank can lend more than just capital, it thereby leverages a larger increase in potential retained earnings (ROI).

STO costs related to a fiscal agent bank do not take account of the millions of dollars in fees that are paid, currently to Wells Fargo, for those services. Over time, the PBNM could incrementally assume the role of providing select banking services. Assuming the fiscal agent role could also provide an opportunity for third party business development in New Mexico with the potential for state agencies’ credit card processing and more services. Another opportunity to keep New Mexico revenue working for New Mexicans.

STO deposits to PBNM would have the same liquidity as STO's deposits in any other bank. Deposits beyond the initial \$50 million, could be withdrawn for state expenses or for other fungible state purposes at any time. The bank officers will be experienced in banking liquidity management. One advantage to limiting PBNM deposits to the state is the greater predictability of the withdrawals than commercial banks have with their variety of depositors. This actually increases the bank's ability to manage its liquidity. (See White Paper: Public Banking in the Northeast and Midwest States, <https://www.nemw.org/wp-content/uploads/2019/09/Public-Banking-White-Paper.pdf>)

As to a return on deposits, PBNM could pay comparable token rates on its deposits as STO now receives on deposits in commercial banks, but that would to a small degree diminish PBNM's ability to offer lower interest rates on its loans. This is a negotiable consideration that depends on which approach brings greater value to the State of New Mexico and its people.

The anti-donation clause of the state constitution is not challenged by this Act. Loans are not gifts. They are contractual agreements to be repaid with interest.

That NMPB interest rates will be lower than market rates is due to its lower overhead – no advertising, commercial accounts to be serviced, nor taxes due to its nonprofit status. This enables community banks and credit unions to be compensated for their loan processing and lend at lower rates. Administrative costs incurred by the community banks and credit unions for processing the loans, will be incorporated into the setting of interest rates.

The PBNM will be owned by the state with independent management. Thus, the PBNM board will approve budgets and the legislature will have an oversight role.

The bank will complement the state's current finance system by adding financial capacity to better meet the financial needs of New Mexicans, especially for economic development. Potential borrowers are currently turned away from loans, especially for smaller amounts, longer terms, new businesses and other factors that are perceived to reduce earnings potential for private banks. One recent small business owner was refused a loan for \$7000 and had to engage a car title loan company that will charge her over a 500% interest rate.

By regulations, the PBNM can have either primary or secondary access to the Federal Reserve. The Bank of North Dakota guarantees deposits by the full faith and credit of the State of North Dakota. Deposits by the STO are also guaranteed with the same commitment which also contributes to the bond ratings achieved for the NMFA's bonds issuance.

Note page 7, paragraph 3, the PBNM does need an exception to the Inspection of Public Records Act.

Regarding RLD and FID concerns with respect to the jurisdiction chartering the bank the FID charters state commercial banks and could assume the chartering of the public bank. Legislation can also create the state public bank since a number of the state chartering steps will not apply, including the fact that the state is initially the single depositor. Regulatory oversight could then be delegated to the FID and other regulatory groups, including FDIC, regulations of which are committed to be followed. Also, insurance is required for the board members.

The start-up costs of the bank will not approach that of a state-chartered commercial bank, \$5-10 million was noted. (See Pro Forma and Appendix F of Business Plan for a Public Bank.) It will not be a retail operation, thus significant software and staffing needs are not projected that are specific to retail operations. There will be no branches, no ATM's. It will have a single location. It will partner with the community banks and credit unions currently serving New Mexico communities.

The makeup of the bank's board is intended to minimize the effects of political influence on the bank's operations and management. At the same time the economic development areas of focus, including small businesses and rural community development support, will have input from the legislature and the executive branch departments represented on the board.

Over time the PBNM could save governmental entities bond interest costs by providing loans that keep the interest income in the state rather than those dollars going to out-of-state investors. The current bond interest rates won't stay low and as the bank matures, a portion of the infrastructure financing could be done through more timely loans rather than through the 2+ year cycles of bond issuance.