



Alliance for Local  
Economic Prosperity

*Keeping Our Public Funds Safe, Local and Working*

# SMALL AND RURAL BUSINESS INVESTMENT CREATES LOCAL ECONOMIC PROSPERITY

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ECONOMIC & RURAL DEVELOPMENT & POLICY COMMITTEE

ALLIANCE FOR LOCAL ECONOMIC PROSPERITY

AUGUST 29, 2023



# Alliance for Local Economic Prosperity

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**AFLEP's Mission:** To create local economic prosperity by maximizing equitable access to, and opportunities for, financial resources that support thriving economies throughout NM, including focus on rural communities and agricultural adaptation to climate change, food production, processing and distribution.

AFLEP: a state-wide, non-partisan nonprofit with a small professional staff and many dedicated volunteers, including more than 1,700 supporters from across at least 35 New Mexico communities.

Member of NM Food & Agriculture Policy Council, Southern NM Green Chamber, Sustainable Equitable Economic Democracy (SEED NM), NM C3 Network; affiliated with American Sustainable Business Network

# The Problem: Lack of Equitable Access to Capital

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Allied organization members and Community Conversations participants consistently identify lack of equitable access to capital as a gap in rural and small business development.

- *Empower and Collaborate: New Mexico's Economic Path Forward*, NMEDD. Oct, 2021. New Mexico's 20-year Econ Dev Plan identified priorities (addressing gaps) including:
  - Increase regional capacity for economic development and sustainability.
  - Increase equitable access to resources for local rural and tribal small business owners.



# Lack of Equitable Access to Capital

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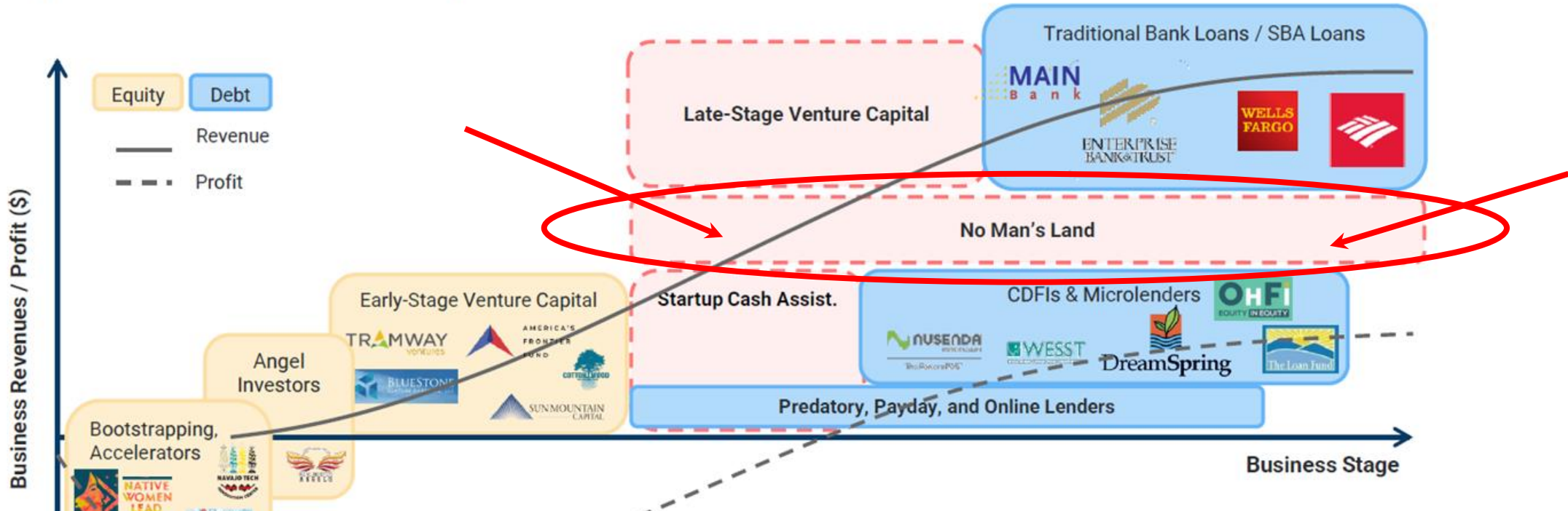
The NMFA/Next Street report to Oversight Committee, July 28, 2023, stated a gap exists between local prosperity and current financing opportunities. Identifying the underserved segment of the market identified as “No Man’s Land.”

**The Landscape Report affirms research and interviews conducted by AFLEP over the past 4 years** where we have identified this same gap overlapping into adjacent segments. (Capital Landscape: Local Providers, pg 5)

*New Mexico Small Business Ecosystem Landscape* findings included:

- Most capital for NM small businesses comes from banks and the Small Business Administration (SBA). In the past 10 years banks have reduced small business investments by more than half of 2007 amounts, a reduction of \$500 million, while doubling their average loan size, primarily to larger businesses.
- Credit access has decreased disproportionately for small businesses over the past 15 years.
- Small business lending in NM is currently focused on the Albuquerque and Santa Fe metro areas.
- Access to PPP funds was more limited for rural businesses, in part due to lack of digital services.

# Capital Landscape: Local Providers



Overall Availability of Capital

	Pre-Rev	Early Stage	Growth	Mature
Main Street Businesses				
Growth Businesses				

# Capital Landscape: *Summary*

	Idea + Seed Stage Revenue \$0	Early Stage Revenue <\$250k	Growth Stage Revenue >\$250k	Maturity Stage Revenue >\$5M
Characteristics	INITIAL IDEA AND TEAM BUILDING	INITIAL DELIVERY AND MARKET TESTING	INITIAL MARKET TRACTION & BUSINESS MODEL REFINEMENT	PRODUCT MARKET FIT / SCALE
NM Capital Options for High Growth Industries			<p><b>Impact VC Gap:</b> Limited number of high capacity VC funds intentionally focused on SEDI-owned businesses</p>	<p><b>Late Stage Venture Gap:</b> Limited local options for later rounds of funding for innovation-fueled industries</p>
NM Capital Options for Other Industries	<p><b>Startup Cash:</b> Cash assistance need for early-stage Main Street businesses without friends &amp; family wealth.</p>		<p><b>No Man's Land:</b> Need for alternative growth capital products that bridge between micro and commercial capital options.</p>	

**Restorative Capital Gap:**  
Limited capital products across the spectrum focused on rural and Native communities due to high transaction costs.



# Lending Trends in NM

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## Current small business lending practices:

- Wall Street Banks are primarily funding international and out of state borrowers.
- Community banks are funding commercial real estate and have deposit/lending ratios of 56-57% (FDIC) outside their participation in COVID funding programs.
- No Man's Land business segment is not being served.
- Top 3 small business lenders are located out-of-state.



# What Is At Risk?

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Loss of community wealth and resilience

Increase of food deserts

Without regenerative adaptation to climate change, essential resources will be lost, including safe water, healthy food, clean air, and communities/regions where people want to live and thrive

Cultural heritage and the arts

Innovation and Diversity

Loss of any competitive edge in national and global markets

**We Need Small Businesses!!**



# From No Man's Land to Prosperous Regional Economies

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Economists are rethinking globalization and local and regional development ; less focus on maximizing profits and more focus on Stakeholders, not only Shareholders. (Values-based)

Where small and mid-size community banks are healthy there are more small and mid-size businesses. (TN Report) NM community banks = 32; NM credit unions = 40 with less than 20% of credit unions making commercial loans.

A Solution—Make the Bold Move to Create a State Bank

With a population less than half of NM, North Dakota has 63 community banks due in large part to the partner lending programs and security and risk systems support of the Bank of North Dakota.

# A State Bank: Increasing NM Investment in New Mexicans

- Create more-flexible programs for smaller, longer-term and entrepreneurial loans; these are loan types not typically funded by commercial banks. (“No Man’s Land” in NMFA Landscape Report)
- Public Bank management includes experienced bankers with civic service/ community outlook and openness to alternative models of lending.
- Board members include:
  - Secretary of Econ Dev, State Treasurer and NMFA CEO;
  - 4 individuals with banking, investment backgrounds; and
  - 4 individuals with extensive community development and finance experience and expertise.
- Regulatory oversight by State of NM and regulations that support access to Federal Reserve.

# State of New Mexico Finance System



**State Treasury**



**Global Banks**

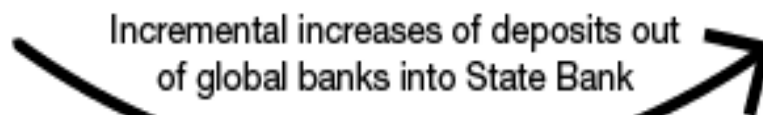


**Deposits:**  
**\$2-9 Billion**

**Initial Deposits:**  
**\$35 Million**



**State Bank**



Incremental increases of deposits out of global banks into State Bank

Operating Funds

Treasury General Fund Investment

Leverate Deposits 8-10x for \$300-350 Million lending capacity in partnership with Community Banks and Credit Unions

Other Investments:  
• Severance Tax Permanent Fund

# Proposal to Develop Lending Models for a New Mexico Bank

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Goal: To organize and develop a state public bank as a public-private initiative with two communities/regions to test lending program options especially focused on development of local prosperity through local business development, affordable housing, and cultural heritage.

Develop two pilots to test and document models for how a public bank could function.

Identify advisory boards from each community/region to include representatives from:

- Local Main Street project
- Local businesses
- Community Bank
- Credit union doing commercial lending
- Local community foundation



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# Pilot Program Proposal

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- Authorize a New Mexico state bank with \$10 Million (appropriation) to capitalize the bank.
  - Funds will earn interest as do other revenues held in Wall Street banks.
  - Establish NMPB as an additional depository bank for state revenue and allocate \$35 million from existing deposits; funds will not be spent, rather will earn interest AND , with additional deposits and income loan payments, **will make possible \$300 to \$350 million in lending.** (See Timeline for Bank Formation.)
- While bank is forming Alliance will take the following steps to prepare communities for a strategic plan of action, implementation and timely access to lending opportunities. (\$100k)

With a strategic plan of action,

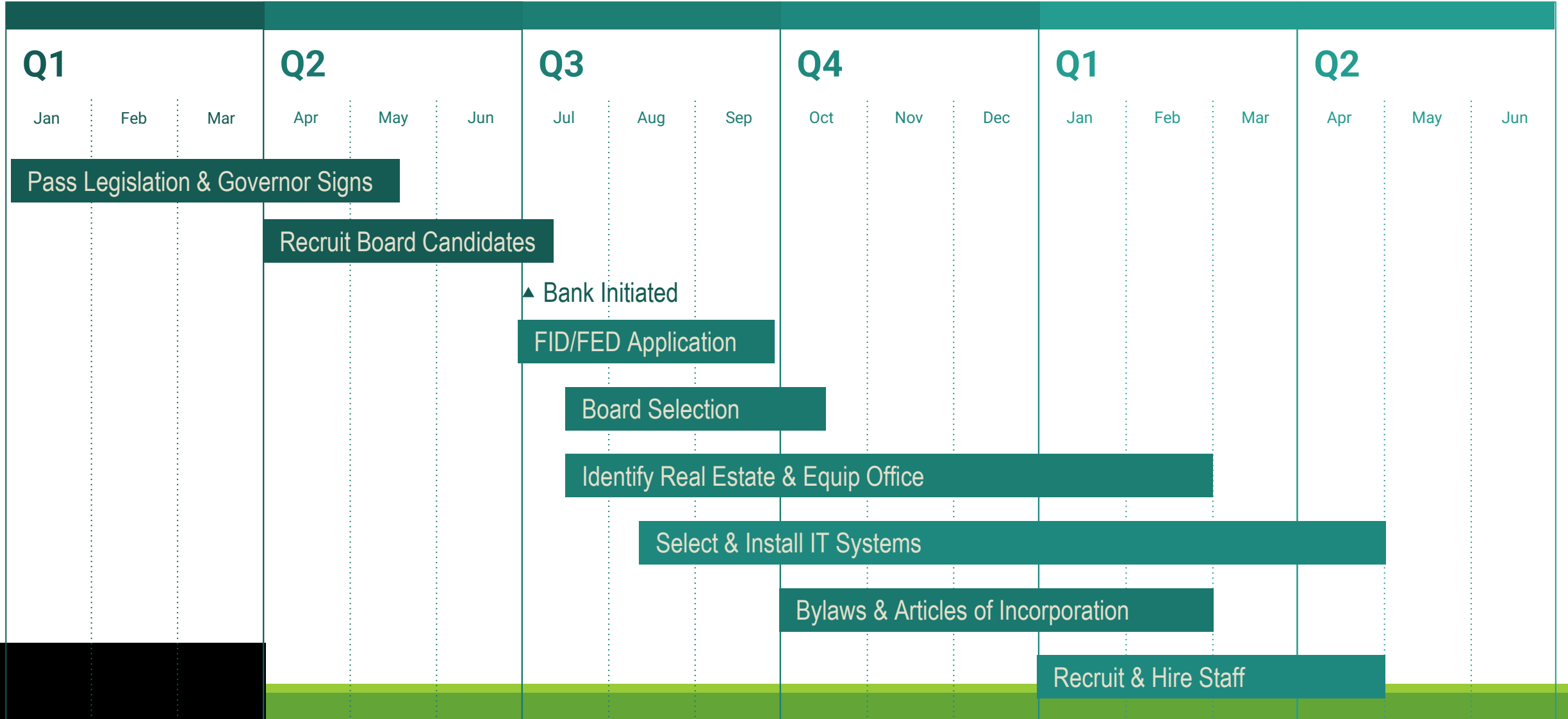
- organize community/regional groups and initiate conversations with stakeholders.
- Identify pilot lending programs for small businesses and agriculture based on local needs and development possibilities as well as identified gaps.
- Formalize collaborative relationships with lending institutions.



# Financial Plan Highlights

- The Public Bank is profitable in year 3.
- Over the first 7 years, through its successful operation, the Public Bank's equity capital would increase from \$10 million to more than \$45 million with a second appropriation request in Year 3 for \$20 million and a Return on Investment of \$15 million.
- This expanded equity base and increased deposits would, in turn, support an expanded lending capacity and gross loan amount over 7 years is projected for almost \$388 million.
- The result: More jobs are created. More GRT is generated. Community wealth and resilience increases.

# Timeline of Implementation









# The Public Bank of New Mexico Will Benefit *All* New Mexicans

A public bank is a **WISE** use of taxpayers' money for New Mexicans.

It's time to be **BOLD** and create the **Public Bank of New Mexico** to support sustainable, equitable economic development.

Provides capital to support small business formation and expansion

Fills the unmet need of entrepreneurs, small businesses, coops and tribes for capital

Supports lending activities of New Mexico's commercial banks and credit unions

Requires an initial deposit of \$35 million from State Treasurer's funds

Well-managed, well-governed and well-supervised



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# Questions? Contact Us

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