

Investing in New Mexicans: Create the Public Bank of New Mexico

INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

JULY 7, 2022



**Alliance for Local
Economic Prosperity**

Keeping Our Public Funds Safe, Local and Working

Alliance for Local Economic Prosperity (AFLEP)

Our Mission: To create local economic prosperity by maximizing equitable access to, and opportunities for, financial resources which support thriving economies throughout NM.

New Mexico State revenue must be kept Safe, Local and Working for ALL New Mexicans. A State Public Bank is a means to accomplish local economic prosperity.

That means sustainable communities, businesses, families; meeting today's needs and in balance with the future with consideration of environmental, socio-cultural AND economic factors.



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The State's Plan: Anticipate Future Climate Change and Create a 20-Year Plan for NM Economic Development

Empower & Collaborate: New Mexico's Economic Path Forward

Goal: ***"To build a diverse and robust economy that engages local talent, cultivates innovation, and delivers prosperity for all New Mexicans."***

Challenges noted in the Plan include:

A lack of collaboration between Econ Dev stakeholders

- The lack of representation of "socioeconomically disadvantaged communities" in planning activities related to their communities.

And:

- Federal Reserve increasing interest rates during 2022; very low interest rates are ending.
- Stagflation—higher interest rates and slowing growth.

New Mexico Needs More Financial Resources

- More financing for small businesses, rural and tribal development needs and potential.
- Lending programs that support industry diversification and access to financing by entrepreneurs from marginalized backgrounds.
- Capital to adapt to climate change, financing for post-wildfire redevelopment.

The State's need for development capital, especially for its socioeconomically disadvantaged communities, is addressed by a Public Bank of New Mexico.

FINANCIAL FORCES

Recovery \$\$ End

Fossil fuel \$\$ diminish

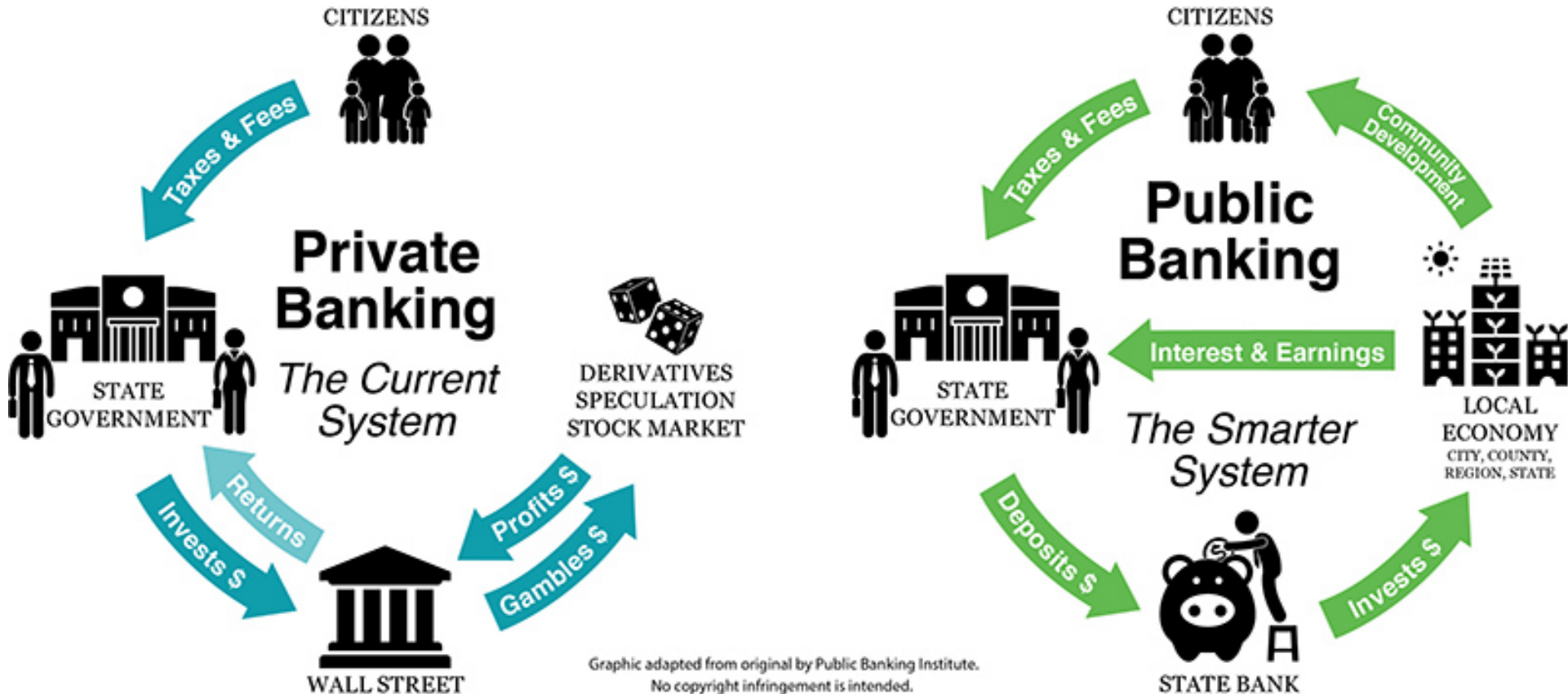
2023

CLIMATE DISRUPTION

Entrepreneurs:
Sustainable
Adaptive
Business
development

Public bank in
operation

Keep NM Revenue Local



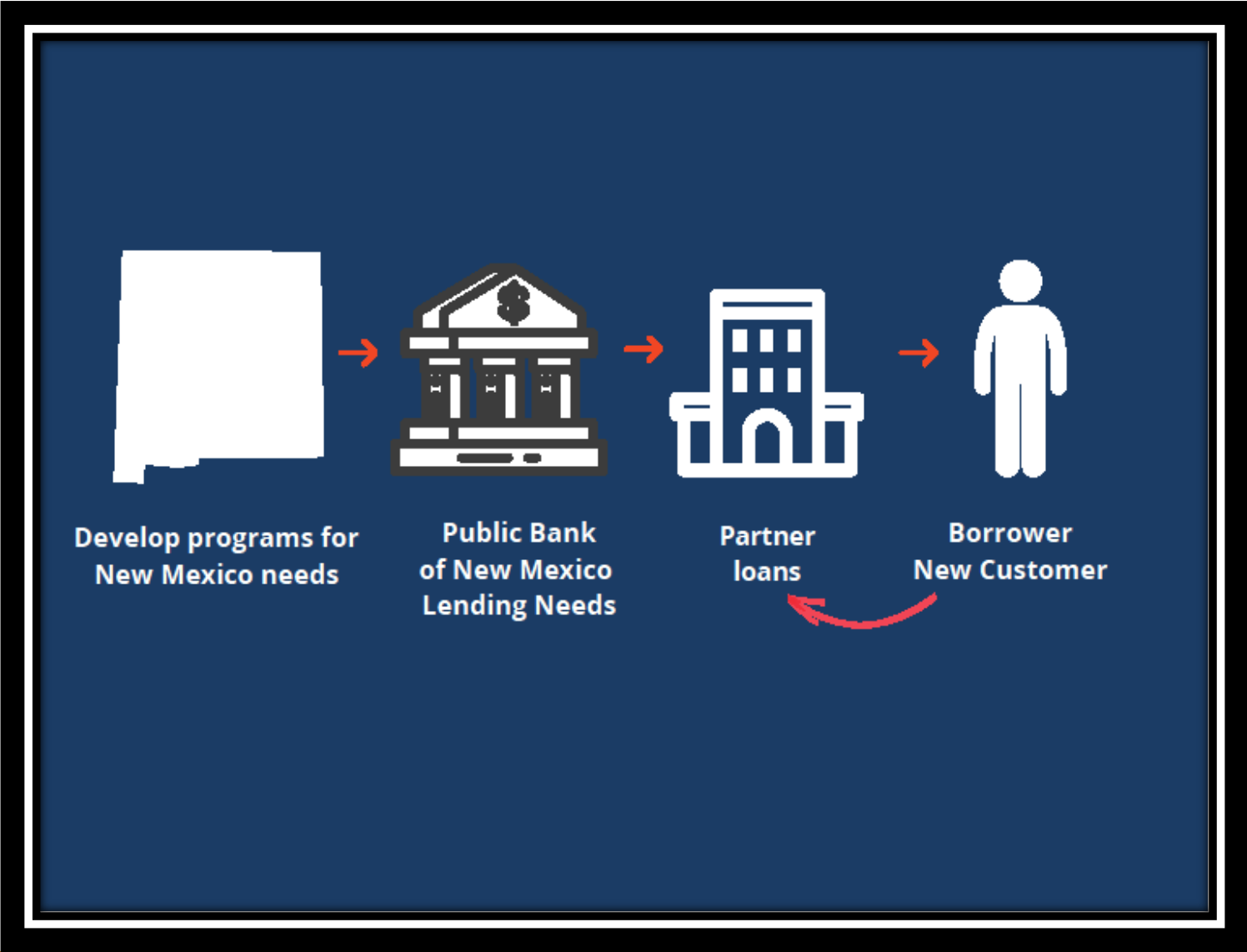
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Public Bank of New Mexico

Statement of Purpose

5.C. The bank shall pursue a policy of developing loan programs for public benefit to further agriculture, commerce and industry, including new and growing enterprises in New Mexico, that are approved by the board, that ensure a diversified loan portfolio, that make financing accessible and equitably available to communities throughout the state as evidenced by outcomes including more jobs with sustainable wages. In pursuit of these policies the bank shall:

Cooperate with small business development centers, regional economic development districts and parties that have demonstrated abilities and relationships in providing financial services to new and emerging businesses;



Enhance the NM Finance System

The PBNM could be operational in 2024 when pandemic recovery funds are gone and windfall fossil fuel revenue begins to decrease.

NMFA and EDD have similar and overlapping missions; are not able to fully fund the community development needs of NM.

Lending demands include responses to climate disruption, including wildfires, and sustainable business practices; NMFA, EDD and DOA programs will not fully support those needs and will depend, their leaders note, upon “significant annual appropriations.”

The equity investment of a \$50 million appropriation can turn into over \$400 million in lending, a significant investment in New Mexico The bank can leverage 8-10x its deposits as a Bank.

Significant Benefits of a New Mexico Public Bank: Access to and Equity in Lending

- Complement and work with, not compete with, the state's commercial banks and credit unions.
- Create more-flexible programs for smaller, longer-term and entrepreneurial loans; these are loan types not typically funded by CBs.
- 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 FDIC, State of NM and other Federal requirements that support access to Federal lending.

Financial Plan Assumptions

- The PB of NM will receive NM revenue deposits to Keep NM Revenue Safe, Local and Working for New Mexicans.
- The PB is an additional finance tool in the state's finance system and will not require ongoing appropriations as do other agencies.
- The PB will NOT compete with community banks, credit unions or CDFIs. The PB will create partner lending programs with these institutions.
- Bank programs and lending will be based on principles of equity and democratic board governance.
- First Year Loan Demand based on 2019 GDP figures indicate \$145 million Capacity for NM lending demand that is unfunded.

Business Plan Pro Forma Assumptions

PBNM becomes operational 9-12 months following July 1, 2023 effective date

Potential initial lending programs: Accelerated Growth, Business Development, Value-Added Guarantee, Bank Participation

Percentages of lending program allocation: Agriculture, Commercial, Amortized agricultural

Risk mitigation

Return on Equity = 7-year equity growth rate of 9.18% over the first seven years

Financial Plan Highlights

- Key findings of the 2022 Financial Plan (moderately conservative with input from former CU CEO, UNM Finance professor, investors with extensive financial expertise and financial analyst):
 - Bank is profitable in year 2.
 - Bank can assume more risk and be profitable.
 - In the Public Bank's first 7 years, at no cost to the state, the PB's equity/capital would increase from \$50 million to more than \$92 million and its lending capacity to more than \$940 million.

In addition:

More jobs are created.

More GRT is created.

Sustainable equitable economic democracy is practiced.

Typical Loans Used in Financial Modeling

Small business startups & expansions, Entrepreneurial Loans, Cooperatives @ \$1.5-2 Million/each

Smaller loans @\$100-250K

Long-term loans @\$10-40K, including home solar installations

Medical students, new clinic loans, low default rates

7-Year Net Income, Total Equity

	Net Income	Total Equity
Year 1		50,000,000
Year 2	1,632,188	51,632,188
Year 3	4,292,219	55,924,406
Year 4	6,666,779	62,591,185
Year 5	8,612,748	71,203,934
Year 6	10,060,810	81,264,744
Year 7	11,204,197	92,468,941

7-year Equity Growth Rate: 9.18%

Total Gross Loans: \$416 million, at average of 73% of deposits.

Statements

Year	Year	Year	Year	Year	Year	Year
1.00	2.00	3.00	4.00	5.00	6.00	7.00

1 . Income Statement

Total Interest Income	USD	6,135,000	10,173,651	14,824,462	20,205,261	26,305,755	32,992,842
Total Interest Expense	USD	560,000	1,605,000	3,486,000	6,495,600	10,709,040	15,765,168
Net Interest Income	USD	5,575,000	8,568,651	11,338,462	13,709,661	15,596,715	17,227,674
Interest Rate Spread	%	5%	6%	6%	6%	7%	9%
Non Interest Revenues	USD	0	0	0	0	0	0
Total Net Revenue	USD	5,575,000	8,568,651	11,338,462	13,709,661	15,596,715	17,227,674
Allowance Provision	USD	862,500	1,040,700	1,257,023	1,482,724	1,705,132	1,960,902
Non Interest Expenses	USD	3,038,500	3,129,655	3,223,545	3,320,251	3,419,859	3,522,454
Depreciation	USD	41,813	106,077	191,116	293,938	410,914	540,121
Goodwill Impairment	USD	0	0	0	0	0	0
Earnings Before Tax (EBT)	USD	1,632,188	4,292,219	6,666,779	8,612,748	10,060,810	11,204,197
Taxes	USD	-	-	-	-	-	-
Net Income	USD	\$ 1,632,187.50	\$ 4,292,218.87	\$ 6,666,778.99	\$ 8,612,748.25	\$10,060,810.45	\$ 11,204,196.54
Retained Earnings b/f	USD	0	1,632,188	5,924,406	12,591,185	21,203,934	31,264,744
Net Income	USD	1,632,188	4,292,219	6,666,779	8,612,748	10,060,810	11,204,197
Common Dividends	USD	0	0	0	0	0	0
Stock Issuances	USD	0	0	0	0	0	0
Stock Repurchases	USD	0	0	0	0	0	0
Preferred Stock Issuance	USD	0	0	0	0	0	0
Preferred Dividends	USD	-	-	-	-	-	-
Retained Earnings	USD	0	1,632,188	5,924,406	12,591,185	31,264,744	42,468,941

Profit & Loss Check

2 . Balance Sheet

Property, Plant & Equipment	USD	1,000,000	1,794,438	2,973,658	4,483,311	6,245,822	8,174,416	10,218,446
Cash	USD	4,000,000	8,185,250	37,346,474	86,720,289	136,666,757	145,900,535	114,982,025
Available for Sale Securities	USD	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Trading Assets / Other Securities	USD	1,000,000	1,015,000	1,030,225	1,045,678	1,061,364	1,077,284	1,093,443
New Agricultural Loans	USD	8,000,000	10,000,000	12,500,000	15,000,000	17,250,000	19,837,500	22,813,125
New Commercial Loans	USD	15,000,000	18,000,000	21,600,000	25,380,000	29,187,000	33,565,050	38,599,808
New Administered Loans	USD	5,000,000	5,750,000	6,612,500	7,604,375	8,745,031	10,056,786	11,565,304
New Amortized Ag. Loans	USD	7,000,000	8,750,000	10,937,500	13,125,000	15,093,750	17,357,813	19,961,484
Total Gross Loans	USD	35,000,000	76,827,250	126,992,754	185,637,155	252,291,439	328,157,086	414,615,802
Loans as % Deposits	%	70%	81%	74%	68%	66%	71%	82%
Loan Losses Allowance	USD	1,000,000	1,189,750	1,418,704	1,695,249	2,021,448	2,396,577	2,827,976
Total Net Loans	USD	34,000,000	75,637,500	125,574,050	183,941,907	250,269,991	325,760,509	411,787,827
Goodwill	USD	0	0	0	0	0	0	0
Other Assets	USD	0	0	0	0	0	0	0
Total Assets	USD	100,000,000	146,632,188	226,924,406	336,191,185	454,243,934	540,912,744	598,081,741
Risk Weighted Assets	USD	15,660,000	17,596,491	20,202,994	23,095,632	25,925,870	28,696,102	31,462,480
Funds from SIC	USD	0	0	0	0	0	0	0
Total Deposits	USD	50,000,000	95,000,000	171,000,000	273,600,000	383,040,000	459,648,000	505,612,800
Senior Debt	USD	0	0	0	0	0	0	0
Subordinated Notes	USD	0	0	0	0	0	0	0
Convertible Bonds	USD	0	0	0	0	0	0	0
Trading Liabilities	USD	1,000,000	1,015,000	1,030,225	1,045,678	1,061,364	1,077,284	1,093,443
Other Borrowings	USD	0	0	0	0	0	0	0
Total Liabilities	USD	51,000,000	96,015,000	172,030,225	274,645,678	384,101,364	460,725,284	506,706,243
Share Capital	USD	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Retained Earnings to Common	USD	0	1,632,188	5,924,406	12,591,185	21,203,934	31,264,744	42,468,941
Preferred Stock	USD	0	0	0	0	0	0	0
Total Equity	USD	\$50,000,000.00	\$51,632,187.50	\$55,924,406.37	\$62,591,185.36	\$71,203,933.61	\$81,264,744.06	\$ 92,468,940.60
Total Liabilities and Equity	USD	101,000,000	147,647,188	227,954,631	337,236,864	455,305,297	541,990,028	599,175,184
Balance Sheet Check		1,000,000	1,015,000	1,030,225	1,045,678	1,061,364	1,077,284	1,093,443

3 . Cash Flow Statement

Earnings Before Tax (EBT)	USD	1,632,188	4,292,219	6,666,779	8,612,748	10,060,810	11,204,197
Taxes	USD	0	0	0	0	0	0
Add back: Allowance Provision	USD	862,500	1,040,700	1,257,023	1,482,724	1,705,132	1,960,902
Add back: Depreciation	USD	41,813	106,077	191,116	293,938	410,914	540,121
Add back: Goodwill Impairment	USD	0	0	0	0	0	0
Gross Operating Cash Flow	USD	2,536,500	5,438,996	8,114,917	10,389,410	12,176,856	13,705,220
(Increase) / Decrease in Gross Loans	USD	(41,827,250)	(50,165,504)	(58,644,401)	(66,654,283)	(75,865,647)	(86,458,716)
ChargeOffs	USD	-862,500	-1,040,700	-1,257,023	-1,482,724	-1,705,132	-1,960,902
Recoveries	USD	189,750	228,954	276,545	326,199	375,129	431,398
(Increase) / Decrease in Funds to Central Bank	USD	-	-	-	-	-	-
(Increase) / Decrease in Trading Assets / Other Securities	USD	(15,000)	(15,225)	(15,453)	(15,685)	(15,920)	(16,159)
(Increase) / Decrease in Other Assets	USD	-	-	-	-	-	-
Increase / (Decrease) in Funds from SIC	USD	-	-	-	-	-	-
Increase / (Decrease) in Total Deposits	USD	45,000,000	76,000,000	102,600,000	109,440,000	76,608,000	45,964,800
Increase / (Decrease) in Trading Liabilities	USD	15,000	15,225	15,453	15,685	15,920	16,159
Cash Flow from Operations	USD	5,036,500	30,461,746	51,090,038	52,018,602	11,589,206	(28,318,200)
Capital Expenditures	USD	(836,250)	(1,285,298)	(1,700,769)	(2,056,449)	(2,339,507)	(2,584,151)
Available for Sale Securities	USD	-	-	-	-	-	-
Cash Flow from Investment	USD	(836,250)	(1,285,298)	(1,700,769)	(2,056,449)	(2,339,507)	(2,584,151)
Senior Debt Increase / (Decrease)	USD	-	-	-	-	-	-
Subordinated Notes Increase / (Decrease)	USD	-	-	-	-	-	-
Convertible Bonds Increase / (Decrease)	USD	-	-	-	-	-	-
Other Borrowings Increase / (Decrease)	USD	-	-	-	-	-	-
Share Capital Increase / (Decrease)	USD	-	-	-	-	-	-
Common Dividends	USD	-	-	-	-	-	-
Stock Issuances	USD	-	-	-	-	-	-
Stock Repurchases	USD	-	-	-	-	-	-
Preferred Stock Issuance	USD	-	-	-	-	-	-
Preferred Dividends	USD	-	-	-	-	-	-
Cash flow from Financing	USD	-	-	-	-	-	-
Opening Cash Balance	USD	4,000,000	8,200,250	37,376,699	86,765,968	136,728,121	145,977,819
Cash Inflow / (Outflow)	USD	4,200,250	29,176,449	49,389,269	49,962,153	9,249,698	(30,902,351)
Cash Balance	USD	4,000,000	8,200,250	37,376,699	86,765,968	145,977,819	115,075,468
Cash Flow Check							

How Will the 2023 Bill Be Different?

Appropriation of one-time \$50 million to capitalize PBNM; no Severance Tax Permanent Fund monies (2021 bill)

Creates liquidity to fund the bank with a \$60 million deposit from current holdings from national banks managed by State Treasurer.

Focus remains on community economic development with equitable access to lending, especially for local, tribal, rural and small business needs.

Treasurer encouraged to increase deposits in PBNM as it matures and demonstrates integrity to its mission, thus increasing lending capacity. Goal to support a lending to deposit ratio of 70-80%.

Alliance for Local Economic Prosperity (AFLEP)

A public bank is smart 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.**

Questions? Contact Us

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