DRAFT – PUBLIC BANK TASK FORCE REPORT

EXECUTIVE SUMMARY [to be done when report is finished]

INTRODUCTION: How the Task Force Came About

In the aftermath of the worldwide economic downturn and related public discourse about the cause and effect of that financial crisis, interested residents of Santa Fe started an initiative to research establishment of a municipal bank to be owned by the City of Santa Fe. Since the Great Recession, the interest in public banking has increased across the nation, as characterized in a statement from the Public Banking Institute on 2/14/2018:

> "When we began this journey, the benefits of a Public Bank were known only by North Dakotans and a few others scattered around the country. Now, the words 'Public Bank' are being spoken enthusiastically by legislators from coast to coast, in red states and blue, in big cities and small."

In addition to New Mexico, cities and states that are researching public banking and have active feasibility studies and other legislation in motion include: Los Angeles, Santa Cruz, San Francisco, Portland, Seattle, New Jersey and Michigan. For more information about these initiatives, see Appendix .

Over time, this local dialogue included a Public Bank Symposium organized by We are People Here! and the Public Banking institute, held in Santa Fe in September 2014. The following month the Santa Fe City Council authorized a study to explore the feasibility of a public bank. That study by Ms. Katherine L. Updike, managing partner of Building Solutions LLC and Christopher Erickson, Arrowhead Center, New Mexico State University, was completed in January, 2016. Simultaneous with the Public Bank Feasibility Study, the Brass Tacks Team, an ad-hoc citizen group with an interest in financial, legal and regulatory requirements for establishing a small public bank, developed a Five-Year Model to demonstrate a public bank's potential by refinancing existing public debt and funding small infrastructure projects.

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In April 2017, the Santa Fe City Council adopted Resolution 2017-32 which 1) requested the Finance Department staff to provide to the City Council an assessment of the current financial management practices as they pertain to the findings of the feasibility study and 2) created a Public Bank Task Force to provide the council with the information needed to make an informed decision about the pros and cons of submitting an application for a New Mexico bank charter for a public bank of Santa Fe. The Mayor of Santa Fe was charged with appointing the members of the task force, subject to council approval.

In June 2017 the Finance Department submitted its report on the assessment of current management practices.

Also in June, 2017 The Mayor appointed, and the council approved the following members of the Task Force:

David P. Buchholtz, chair, a director of the law firm of Rodey, Dickerson, Sloan, Sloan, Akin & Robb, an attorney with expertise in banking and public finance
J. Wayne Miller, a vice president of commercial real estate with Washington Federal
Randolph Hibben, a community banker and former chairman and CEO of Lake Forrest Bank & Trust Co. in Illinois
Darla Brewer, a financial analyst and senior forensic auditor with the new Mexico State Securities Division
Kelly Huddleston, an attorney and founder of the New Mexico Consumer Protection Law Center and Huddleston Law LLC.
Judy A. Cormier, a retired chief compliance officer/director of TD Bank, NA, and most recently with American Express
Elaine Sullivan, a founding member of We are people here, and the president of Banking on New Mexico
Robert Mang, a real estate development consultant and founder of the Regenesis Group
Adam Johnson, the Finance Director of the City. Mr. Johnson's role was delegated to Bradley Fluetsch, the City's Cash and Investment officer.

PERCEPTIONS OF WHAT IS A "PUBLIC BANK"?

A Public Bank is a financial institution owned by the government that performs financial services.

Wikipedia definition: A **public bank** is a bank, a financial institution, in which a state or public actors are the owners. It is a company under state control.[1]

Public or 'state-owned' banks proliferated globally in the late 19th and early 20th centuries as vital agents of industrialisation in capitalist and socialist countries alike; as late as 2012, state banks still owned and controlled up to 25 per cent of total global banking assets.[2]

There is only one public bank that exists in the U.S. at this time. Input from five years of meetings in Santa Fe and the work of this task force, along with the work of numerous other cities and states in the U.S., suggests the following: the perceived purpose of a Public Bank is to maximize the financial and human potential of the community. Local investing of economic resources can address critical, locally identified priorities in ways current financial entities are not able to accomplish. Instead of public funds leaving the community, the Public Bank would aim to expand economic vibrancy for small businesses and entrepreneurs, with predictable job creation, through collaborative partnering with local private financial institutions. This partnering can enable these institutions to keep more of the community's public dollars local, strengthen their capacity for lending, and help defray the cost of regulatory requirements currently so burdensome to community banks and credit unions. More local investing of public dollars, with accompanying transparency, can decrease vulnerability to fraudulent practices of global banks. This enhanced local economic self-reliance is likely to address income inequities.

Perspective of Government: A public bank would be the depository for public dollars collected by the government. A Public Bank mission statement would explicitly direct the use of these public dollars, toward investment in the well-being of its residents. There would be no intent to compete with local financial institutions, instead it would partner with local community banks and credit unions on loans that would enhance the community's economic vitality. Professional bankers would be in regular contact with state government officials while maintaining independence from political interests in day-to-day banking operations.

Perspective of People: Some members of the public have a perception that they would be able to have access to a variety of banking services. However, that has never been part of the business model most vigorously researched, either in NM or in other communities in the U.S. studying public banking. The Bank of North Dakota has a very small number of individuals' bank accounts, but this is not their primary mission.

It was also perceived that the public bank could eventually serve as the City's fiscal agent, finance its long-term debt to fund its substantial infrastructure needs with its own money and generate a profit to re-invest in the community.

Some members of the public perceive that creation of a public bank would enable this institution to provide cash management and investment services for the government more effectively than city staff.

(Paragraph David is writing about negative perceptions of a public bank, as expressed in public meetings)

Five years of research in Santa Fe and work in other cities and states over a longer period of time suggest that a city-owned, state-chartered bank would have the potential to contribute to a community in the following ways:

A form of **relationship lending** could be revived with more emphasis on real information about borrowing requests than is often available with the impersonal computer profiling.

The public bank would have a **mission statement** explicitly declaring that public dollars would be invested in local priorities.

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The public bank would operate at a profit but would differ from commercial banks in that maximization of profits would not be its primary purpose. **The primary purpose** would be to serve the residents of the community in which the public dollars were generated. Interest earned from the bank's investing would grow the capital of the public bank which would have increasing benefit to local taxpayers.

The public bank would have a degree of **transparency** in operations and reporting, as required by regulatory compliance, and not currently possible in working with multi-state and global banks.

The public bank could **partner with other local financial institutions** to increase the capital available for community projects and support of small businesses. Long-term goals could include following the model of the Bank of North Dakota, which partners so successfully with community banks and credit unions to address the student debt crisis experienced across our nation. In North Dakota, approximately 16 local banks and credit unions exist per 100,000 population, compared to approximately 5 such financial institutions/100,000 population elsewhere in the U.S.

WORK OF THE TASK FORCE

The Task Force began its work in August 2017 and held regular open meetings every three weeks from that time until February, 2018. In order to accomplish its purposes, duties and responsibilities as charged by the City Council the Task Force broke itself into the following four sub-committees:

Legal-Huddleston, Johnson, Buchholtz
Regulatory-Cormier, Hibben, Buchholtz
Governance-Sullivan, Brewer, Buchholtz
Capitalization-Mang, Miller, Buchholtz

The subcommittees met intensively over the period August through November, interviewing interested parties and formulating presentations relating to their respective assignments.

The legal subcommittee, working with the City Attorney's office, received an assessment of the legal issues relating to the formation of a public bank and the pursuit of a New Mexico Charter from the Santa Fe law firm of Virtue and Najaar. Many of the issues raised would need to clarified through state legislation.

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The regulatory subcommittee met with a working group of the Financial Institutions Division of the New Mexico Regulation and licensing department, as well as members of the Santa Fe banking community and other local and national experts, and investigated various regulations and procedures relating to acquiring a charter. As indicated in the (2 reports cited), the current regulations and state municipal statutes to a large degree do not directly address the working of a public bank and would have to be amended specifically in order to accommodate and appropriately regulate a public bank.

The governance subcommittee met with local and regional political and business leaders in order to come up with a proposal on how the management and leadership of a public bank might be structured. It was determined that critically important to effective governance would be the creation of a "firewall" to protect bank management and its board of directors from political influence. Recommended for oversight of bank management are both a bank board of directors and a citizen advisory board.

The capitalization subcommittee met regularly with the staff of the city's finance department, and undertook a careful review of the city's financial information in order to assess the availability of funds legally sufficient to capitalize a local public bank. Without greater details on costs and potential income leading to a credible assessment of viability and return – as a business plan would provide – it was not possible to assess the likelihood of raising capital. See also….

Each subcommittee prepared and delivered reports of their findings, which can be found in the Appendix.

The work of the subcommittees was largely completed in November 2017. At that point the Task Force hosted a public meeting, in accordance with the City Council Resolution, devoted to engaging the community at large and assessing the sense of those participating regarding, among other things, the city's needs from a public bank, the affordability and likelihood of success of a public bank, and the risks involved in establishing a public bank.   (David is writing something about the concerns expressed?)

In January, 2018 the Task force submitted an interim report to the finance committee of the City council, and began its preparations of this final report.

As the work of the Task Force reached its completion, an additional subcommittee of Sullivan, Mang, Fluetsch and Buchholtz was charged with developing the final report of the Task Force, to be approved by the whole task force.

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TASK FORCE EVALUATION

Given the attributes of what a public bank might achieve for Santa Fe versus the daunting legal and regulatory obstacles that arose as a result of the subcommittees work, the Task Force proceeded to evaluate costs and benefits. In attempting to do so, it became clear that the business plan called for was beyond the capacity of the task force in time, skill set and financial resources.

The regulatory sub-committee reviewed the FID application and the De Novo Bank Procedure, which closely follows the requirements in the Application for A Commercial Charter and Federal Deposit Insurance. FDIC insurance is currently required in order to receive a New Mexico Bank Charter. After reviewing both applications, the sub-committee and the Task Force determined that it had neither the resources nor time to complete applications or the comprehensive, five-year business plan required by both agencies. The FDIC application states that a minimum of 250 hours will be required to complete the application.

In the absence of a detailed business plan to inform the question about the bank's potential viability or non-viability – its benefits and risks – members of the task force could only speculate as to how to bring perspective to this core question. For example, what would be a realistic estimate of the bank's overhead?   The answer to this question was critical to determining whether the bank could be viable – a financial benefit or burden to the City.

Some on the task force believe that, because the bank would not have to service multiple customers and incur marketing expenses, it could operate with a very low overhead – especially if, as with the Bank of North Dakota – it could rely on local community banks to provide due diligence on most loans. Others, pointing to extensive regulatory requirements that over-burden small banks nationwide and the City's service requirements that only very large banks have been able to provide, posit that those costs would overwhelm a bank this small. Both views are credible but without working through a business plan, a credible overhead estimate is purely speculative. Based on different business models that carried different assumptions of what would be expected of the bank, annual operations estimates differed widely, ranging from a few hundred-thousand dollars per year to over a million dollars. In addition, estimated start-up expenses for acquiring and adapting sophisticated banking technologies that would offer the possibility of reducing ongoing staff expense, were widely variant.

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Further, in its early years, the bank could not be expected to serve as the City's Fiscal Agent, capable of processing the City's deposits (cash, credit card, debit card, check, Paypal) and payments (checks, wires or ACH). Neither its balance sheet nor infrastructure would be adequate due to the scale of its resources.

Two other questions that cannot be answered without a carefully worked through business plan include:

- What would be the nature and volume of loans the bank would be making that would benefit the City and how would they affect cash flow – short term borrowing vs. long term loans?
- Without a business plan that demonstrates viability and potential returns, what is the likelihood of raising the needed capital through a voter approved revenue bond or investment by City enterprise funds?

In addition to the cost of putting together a credible business plan to inform such operational and performance questions, the Task Force as a whole began to realize other substantial start-up costs: in staff time and engaging outside professionals to clarify and customize legal and regulatory guidelines that would allow a public bank to come into existence in New Mexico. The costs would likely overwhelm the marginal benefit that could optimistically be realized because of the relatively small size of a Santa Fe public bank.

Beyond the need for a business plan to inform the question of potential viability, the Task Force asked the question: What could a public bank provide that the City's Finance Department cannot? The broad answer was that a chartered public bank could provide loans to local businesses in the interests of furthering economic development in Santa Fe, whereas the City's Finance Department is prohibited from doing so. This led to a broader discussion about the Santa Fe community's financial needs, including loans for affordable workforce housing, solar loans for homeowners, loans for business new or existing that would create new local jobs and lower our 48% Countywide trade deficit. [1]

This in turn raised the question: why aren't Santa Fe's banks providing such finance? While a useful answer requires empirical study, anecdotal discussion of the question ranged from observations that most small business loans are too small for private banks to administer – one large loan to a large corporation located anywhere yields a significantly greater return to he bank than doing diligence and administering multiple small loans, even if they aggregate to the

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same amount of money loaned – to another critical observation that long-term loans don't fit the business model of most banks where a secondary market doesn't exist – resulting in large non-local solar installation companies crowding out smaller local installers by offering company sponsored long term financing.

It was further observed that locally owned banks, commonly known as "community banks," are traditionally providers of local loans to small businesses. But, for a variety of reasons, community banks are a diminishing [2]breed – with the exception of North Dakota where the ratio of community banks to state population is more than three times that in other states. This is attributed to the symbiotic working relationship the Public Bank of North Dakota has with community banks in that state.

The preceding discussions opened up more questions that go beyond the scope of the task force's work, but which it believes should be investigated:

- To what extent are Santa Fe residents' deposits in Santa Fe's banks leaving the city to be invested in other communities around the world?
- How do we keep local dollars invested in Santa Fe?
- Would a public bank in New Mexico provide an incentive to the creation of more community banks?

THE BANK OF NORTH DAKOTA (BND)

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[1] *See Pollinating Prosperity in Appendix

The Bank of North Dakota was founded in 1919 and started as a result of an economic breakdown in the farming community. The collapse of the agricultural community was caused in part by the absence of available loans to bridge the farm crisis of that period. As such, the BND's main purpose today is to encourage and promote agriculture, commerce, and industry in the State of North Dakota. The Bank is owned, controlled, and operated by the State. Therefore, the Industrial Commission consisting of the Commissioner of Agriculture, the Governor of North Dakota, and the Attorney General are the top governing body assisted by a seven member advisory board of banking professionals. The Bank is not a State or Federally Chartered bank. It was formed by state law separate from the regular banking regulations. Additionally, the BND is not insured by the FDIC, but instead is backed by the full faith and credit of the State of North Dakota. All State funds, including educational funds, penal funds, county, and municipal funds, are deposited into the BND. Today the Bank of North Dakota funds infrastructure for the state through the General

Fund as well as specializing in student loans, mortgage loans, and economic stimulus loans. Working for the common good, the bank leverages capacity ofcommunity banks by participating in business and farm loans reducing risk while supporting small community banks and credit unions to thrive.

According to the Institute for Local Self Reliance, over the last 21 years the Bank of North Dakota has generated almost $1 billion in profit with approximately

$400 million of that going into the State's General Fund to support education and public services. This has significantly reduced the tax burden on residents and businesses. According to the Wall Street Journal, it is more profitable than Goldman Sachs or JPMorgan Chase. For more information about the Bank of North Dakota, see Appendix.

Santa Fe's Financing Needs and Economic Development Opportunities

During these discussions and questions, the task force became aware of significant public financial needs in the public interest that go beyond the scope of what either the City of Santa Fe or a public bank would have the resources to address by themselves. A short list of needs, including opportunities for economic development, might include:

- Affordable workforce housing for public employees (city, county, state and public schools) who work in Santa Fe, but cannot afford to reside here. In addition to the commute times and expense for the employee to travel to Santa Fe daily from Albuquerque, Rio Rancho or Espanola, Santa Fe businesses do not have the benefit of the income that comes from providing goods and services to local residents, not to mention the loss of GRT revenue to the City.

- Accelerating the discharge of the City's infrastructure backlog. The City reports that there is in excess of $250,000,000 in deferred infrastructure needs. At the rate of current financing – an $11,000,000 bond issue authorized in 2018 to address the back log – it will take over twenty years to catch up with existing need, not to mention the additional infrastructure maintenance that will accrue over the next two decades. Accelerating the effort will require additional financing for local construction and engineering companies to expand their operations, leading to more jobs and revenue for the City.

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- Making Santa Fe carbon neutral by 2040. The City of Santa Fe has officially established this target, that includes considerably more solar electrical generation, retrofitting homes for greater energy efficiency,

- electric vehicles and charging station infrastructure. Finance for City improvements of its buildings, electrical use, vehicles (buses and car fleet) and charging stations, as well as loans to individual home and car owners to do likewise, is necessary to achieve this worthy goal. The additional economic and GRT revenue generation coming from this effort is also significant.

- Growing and making the City's multi-modal transit system more effective in order to support higher density affordable housing along transit corridors and reduce traffic congestion. Again, this will require financing and offers economic development opportunities.

- Small business expansion to reverse Santa Fe's severe imbalance of trade through import replacement strategies. (See Pollinating Prosperity in Appendix.)

The Task Force took the liberty of suggesting an approach to these financing needs and economic development opportunities in Recommendation 3, below.

CONCLUSIONS

Each of these questions and deliberations led the Public Banking Task Force to offer some conclusions and recommendations for the City to consider as a path forward.

1. The City Finance Department has made considerable progress within the department toward completing the recommendations of the Public Bank Feasibility Study. In that light, the Finance Department has advised the Task Force that it has substantially improved the investment performance of its portfolio, refinanced, defeased or paid off high cost debt, substantially improving its debt position to the point where Fitch Ratings upgraded the City's subordinate lien credit rating from AA to AA+ in March 2017 while affirming its AA+ rating on General Obligation and Senior Lien debt.

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2. If limited to the City of Santa Fe's financial assets, the possible benefits that a Public Bank might generate are at best marginal and at worst would carry risk of non-viability because of the relatively small scale of the City's financial means, especially when weighed against the following costs:
    a. Developing a viable business plan,
    b. Allocating professional time toward customizing legal and regulatory restraints through legislation at the State level, and
    c. Providing banking services the City requires.

3. The Task Force briefly looked beyond the scope of its enabling resolution at the potential role a public bank could fill that the City's Finance Department cannot, because the latter is restricted from financing the private sector.
    a. While, by itself, a public bank cannot finance the magnitude of the City's infrastructure investments needed, it could have a valuable role as a financial source to leverage private and philanthropic investment in Santa Fe's economic development needs.
    b. It also could enable the retention and expansion of Santa Fe's community banks, credit unions and CDFI's that loan their depositors' money locally.

RECOMMENDATIONS

THE SANTA FE PUBLIC BANK TASK FORCE RECOMMENDS TO THE MAYOR AND CITY COUNCIL:

1. That the City of Santa Fe Finance Department continue to develop its financial strategic and operating improvements in furtherance of the recommendations in the Feasibility Study [January 2016] and other improvements not identified in the Feasibility Study.

2. Instead of a stand alone Santa Fe Public Bank, the Task Force strongly recommends that the governing body move forward, in participation with appropriate legislative and executive officials at the State level, to develop a statewide public bank in which Santa Fe could participate. We believe this more appropriate statewide scale would justify the legal and

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regulatory customizing work, as well as business planning costs and capitalization requirements, and also provide a financial resource to Santa Fe.

Possible next steps could include: We need to develop these suggested steps. Probably in the next Task Force meeting.

3. The Task Force further recommends that the governing body establish a standing committee, with adequate operational and financial resources, to evaluate, enhance and coordinate a Santa Fe financial ecosystem that leverages more significant public, private and philanthropic (foundation) capital toward effectively addressing our community's critical needs. The Committee would be composed of leaders from the private, philanthropic financial sectors and representatives from the City Council's Finance Committee, with participation from the City's Economic Development and Finance Departments in an ex officio capacity, to allow for full collaboration.

Possible next steps could include: Same here, we need to develop these suggested steps, probably in the next Task Force meeting.

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Each appendix item will be numbered for identification, then the original document will be inserted for reader review.

APPENDICES

- Public Bank Feasibility Study, Final Report – January 2016
- City Resolution No. 2017-32, Creating a Public Bank Task Force, April 26, 2017
- Finance Department Memorandum, June 15, 2017
- Financial Institutions Division Memorandum: Legal Issues & Matters for Further Research and Examination Regarding Proposed Public Bank of Santa Fe, 8/24/17
- Legal Opinion by Virtue and Najjar, PC law firm, "Establishment and Operations of a Chartered Public Bank by the City of Santa Fe (the "City"), October 13, 2017
- De Novo Bank Procedures
- Task Force Sub-Committee Working Groups Summary Reports
    - i. Legal
    - ii. Regulatory
    - iii. Governance
    - iv. Capitalization

- Minutes of Public Meeting, November 20, 2017
- INSF Report, "Pollinating Prosperity"
- Status of Feasibility Study Recommendations for Public Bank 1/17/18
- Information concerning other public banking efforts.
    - Bank of North Dakota
    - Public Bank Movement

Bank of North Dakota

The Bank of North Dakota was founded in 1919 and started as a result of an economic breakdown in the farming community. The collapse of the agricultural community was caused in part by the absence of viable financial institutions for which farmers could borrow money. As such, the Bank of North Dakota's main purpose was to encourage and promote agriculture, commerce, and industry in the State of North Dakota. The Bank was owned, controlled, and operated by the State. Therefore, the Industrial Commission consisting of the Commissioner of Agriculture, the Governor of North Dakota, and the Attorney General were the top governing body of the Bank of North Dakota. The governing body is assisted by a seven member advisory board consisting of people with banking experience. The Bank was not a State or Federally Chartered bank, but was formed separate from the regular banking regulations. Additionally, the Bank of North Dakota was not insured by the FDIC, but instead was backed by the full faith and credit of the State of North Dakota. All State funds, educational funds, and penal funds were deposited into the Bank of North Dakota. It was started with $2 million in State funds. Today the Bank of North Dakota receives State, County, and Municipal fees and taxes in addition to the educational funds and penal funds.

<u>Partnerships with Financial Institutions</u>

North Dakota's Public Bank was successful in expanding the lending capacity of North Dakota's community banks, providing strength in competing against big out-of-state banks. This leveraging of funds by partnering with local banks and credit unions has been crucial to addressing such issues as the student debt crisis, the farm land crisis, the mortgage crisis, and reducing the effects of the 2008 economic downturn for its state. During the 2008 economic downturn, the country lost small banks and credits unions in almost every community. However, in North Dakota, approximately 16 local banks and credit unions exist per 100,000 in population compared to approximately 5 such financial institutions per 100,000 in population elsewhere in the U.S. A very desirable outcome of public banking is strengthening the number of thriving local financial institutions. Right from the beginning their operating policy, which was established in 1919, pledged to "be helpful to and to assist in the development of state and national banks and other financial institutions and public corporations within the state and not in any manner, to destroy or be harmful to existing financial institutions." This extremely important emphasis has served to strengthen all banks and credit unions in the State of North Dakota and not act as a competitive force against financial institutions. Furthermore, the sharing of risk through partnerships enables financial institutions to better handle economic adversity. In 2014, the Bank of North Dakota had approximately $2 billion in participations loans on its portfolio. This partnership helps local banks compete by enabling them to make larger loans than they could on their own. This keeps growing business lenders from obtaining loans at large out-of-state banks.

<u>Housing and Mortgage Loans</u>

Throughout the bank's history it supported small mortgage loans in communities where other banks would not. In the 1940s, the public bank was instrumental in assisting with the selling back of farmland to families which had been foreclosed on in the 1930s. In keeping with its mission to support rather than compete with local banks, the Bank of North Dakota does not make home loans directly. Instead, it provides a secondary market, buying up mortgages originated by the state's local banks and credit unions. Approximately 20 years ago, the Bank of North Dakota began buying home loans made by local banks and credit unions. It serves as a secondary mortgage market to its local banks and credit unions. This serves two purposes: (1) It gives local banks and credit unions a way to move loans off their books and free up their resources to make new loans and (2) It provides an alternative to the big banks acting as the secondary market thus reducing handing off business to their competitors. The whole process of originating a home loan with a local community bank or credit union and then selling the mortgage to the Bank of North Dakota keeps the mortgage interest homeowners pay each month in the State of North Dakota rather than going to Wall Street. Together the Bank of North Dakota's mortgages and those held by local banks and credit unions keep 20-25 percent of the state's mortgage debt within North Dakota.

<u>Business and Farm Loans</u>

The Bank of North Dakota participates in business and farm loans with local community banks and credit unions. This mitigates risk for local financial institutions and expands the lending capacity for these institutions. It also provides a local alternative for borrowers so they don't have to go to the large out-of-state banks. It keeps the money local thus multiplying its contribution to the community.

<u>Natural Disasters and Economic Crisis</u>

They were instrumental in helping serve their communities in times of natural disasters such as the 1997 floods in Grand Forks. The Bank of North Dakota established a $25 million line of credit for the City of Grand Forks, $12 million line of credit for the University of North Dakota in Grand Forks, and $25 million for state emergency management. It also set up a disaster relief loan program for families and businesses to help them rebuild. With this assistance, the Grand Forks economy recovered quicker than neighboring states.

The public bank has also been instrumental in assisting farmers in times of weather related disasters. They have refinanced loans and provided disaster relief loan programs.

After the economic downturn in 2008, many banks saw their loan portfolio fill up with non-performing loans. Due to these non-performing loans, banks had to keep larger amounts of capital on the books. This created a balance sheet crisis that caused small community banks and credit unions around the country to fail. Banks and credit unions in North Dakota turned to the Bank of North Dakota to help them increase their capital ratios by buying loans on their books and infusing them with new equity investment through its bank stock loan program.

Student Loans

The Bank of North Dakota is also instrumental in assisting with student loans. This is the only area of lending in which the bank makes direct loans with borrowers. The bank offers loans to state residents enrolled in schools located both in-state and out-of-state. The public bank has some of the lowest student loan rates in the country. The bank also launched a program that allows students to consolidate their student loan debts. By the end of 2014, the bank had refinanced over $100 million in student loans, saving borrowers significant money by cutting their interest payments and keeping the interest paid within the State. Since student loan debt is a major issue nationwide, this forward thinking sets an example for other institutions and communities.

Collateral Requirements

Banks must meet collateral requirements to accept public deposits. This makes accepting public funds most costly and deters small banks from taking the funds. However, in North Dakota those collateral requirements are waived by a letter of credit from the Bank of North Dakota. This gives small local banks a competitive advantage and keeps deposits local.

General Fund

According to the Institute for Local Self Reliance, over the last 21 years the Bank of North Dakota has generated almost $1 billion in profit with approximately $400 million of that going into the State's General Fund to support education and public services. This has significantly reduced the tax burden on residents and businesses.

Conclusion

In summary, by the end of 2014, the Bank of North Dakota had $652 million in capital and $7.2 billion in assets. Additionally, the bank has grown substantially over the last two decades with profits increasing from $22 million in 1995 to $111 million in 2014.

Santa Fe was hoping to learn from the Bank of North Dakota and address some of its similar issues by implementing a public bank. Like North Dakota, New Mexico is hampered by high student loan debt forcing many low and middle income students to either forgo a higher education or graduate in suffocating debt resulting in an even higher poverty rate for our state citizens. Equally, like North Dakota, local community banks lose out on bigger business loan opportunities to out-of-state banks due to a lack of capital or suitable participations from other financial institutions. This results in a less resilient economy or an economy that has difficulty attracting jobs from bigger companies. Certainly climate change provides concerns about how resilient our state will be to weather the possible economic disruptions without the advantage of a public bank or similar support from public funds. It appears that in many instances, a public bank can provide a state with many competitive advantages and bolster community financial institutions given the right environment.

Sources:

(1) The Institute for Local Self Reliance, “Public Banks: Bank of North Dakota” July 2, 2015

The Bank of North Dakota Website

Public Bank Movement

Cities Charge Ahead With Public Banks (1/8/2018) LOS ANGELES

The movement to create municipal Public Banks continues to surge forward as more and more cities wake up to the powerful benefits it promises. An article out this week in *Fast Company* quotes PBI Chair Ellen Brown and describes the challenges faced by our allies at Public Bank LA when NoDAPL activists successfully pressured Los Angeles to move their money out of Wells Fargo: where to put city funds next?

Where is the banking institution that is large enough to handle the city’s sizable accounts, ethical in their business practices, and accountable to the public? The need became clear for a Public Bank with a mandate to serve the public.

SANTA CRUZ AND CALIFORNIA ARE READY FOR PUBLIC BANKING

An eloquent op-ed penned by Steve Pleich describes why California and Santa Cruz are uniquely suited to stand up to the pressure brought by the crisis-rocked private banking industry and create their own Public Banks. He writes, "[Public Banks] are a way, at long last, to manage money in the public interest.

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1/2/2018: San Francisco Bank is a great idea, city budget analyst concludes

A new article in *48 Hills* shines a light on the positive report issued in late November by the San Francisco Supervisors:

"'A public bank would be better equipped to meet the city’s business needs and public policy goals,' concludes the City's budget and legislative analyst.

San Francisco assembles Task Force to lead city toward Public Bank launch San Francisco has assembled its 16-member **Municipal Bank Feasibility Task Force** that will study launching a Public Bank. SF Treasurer José Cisneros announced last week the task force's purpose is "to identify and pursue opportunities to extend access to credit for small businesses, provide banking services to the cannabis industry, expand capital for affordable housing, and research the viability and advisability of a municipal bank."

Cisneros continued: "San Francisco has always been a leader in socially responsible banking and investment. I am eager to work with the Task Force to identify new approaches to support our City's bold vision for inclusive innovation.

Portland: Public Bank fans want to get City Council on board.

Portland Public Banking Alliance is actively pushing the solution: create a Public Bank of Portland.

"My hope is that a public bank would be a profit-making institution except the profit would be for public purposes," says the Alliance's David E. Delk in a recent article in*Next City*.

Seattle: Diverse Coalition Emerges Around Public Banking
Activists as diverse as Black Lives Matter, local tribal members of the Standing Rock Coalition, 350.org, Democratic Socialists, and MLK County Labor Council, as well as several experienced bankers, retired government officials and law school professors have coalesced along with Public Banking advocates in Seattle to pressure the City Council to move forward quickly on their **newly approved $100,000 feasibility study.**

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- **Codey, Gill Introduce Murphy's State Bank Proposal (1/19/2018)**
- State Sens. Nia Gill and Richard Codey, both Democrats from Essex County, introduced the State Bank of New Jersey Act at the beginning of the legislative session.

  Newly elected Governor Murphy, a former Goldman Sachs executive, first called for a state-run bank in the fall of 2016, noting that the state deposits more than $1 billion in commercial banks — some even overseas.
  "We will invest directly in our state and its people by establishing a public bank and putting New Jersey's resources to work for New Jerseyans," he said in a September 2016 speech about the economy at the New Jersey Institute of Technology.

  Michigan lawmakers file bi-partisan bill to create a State Public Bank

- Michigan leaps forward into the running for the first state in a hundred years to create a Public Bank, thanks to Republicans and Democrats working together in their state's best interests.

- Last Thursday, MI House Bills 5431-5434 were formally introduced — a bipartisan package of bills that would **create and maintain a state bank**. According to a statement by State Rep. Martin Howrylak (R), the Michigan state-run bank would effectively be a **co-operative**, holding state and local government funds. The bank could then use those funds to provide loans to the state and its subdivisions (schools, cities, townships, villages, etc.).

- Howrylak continued: "**This is a fiscally responsible solution for taxpayers.** As states are looking for ways to reduce spending, many are exploring the idea of a state-owned bank, similar to the Bank of North Dakota. In North Dakota, public revenue runs through the state-owned bank (Bank of North Dakota, BND). The BND provides loans significantly below market interest rates to local governments, smaller banks and businesses. Local governments and schools use these savings to pump more money into classrooms, expand access to infrastructure funding and keep tax rates low."

- **PBI Chair Ellen Brown and former Chair Walt McRee present on Public Banks at national conference on sustainable infrastructure**
- Ellen Brown and Walt McRee head to Washington DC this week for the National Council for Science and the Environment (NCSE) conference on Sustainable Infrastructure.
- The conference features experts from around the globe and will host thousands of participants. Ellen and Walt are conducting a workshop **"The Backbone of Sustainable Infrastructure: Cooperative Ownership & Public Banks."** The workshop will explain how co-ops and Public Banks provide the structural mechanics for creation of a "new regenerative economy" (NRE) that goes beyond mere sustainability to embrace a commitment to public service that generates human-focused community outcomes rather than mere paper profits.

- ***It's Our Money*** **podcast: "An Economy Worthy of Our Affection"**
- The latest episode of the podcast series It's Our Money with Ellen Brown examines what amounts to the soul of an economy. While the Declaration of Independence codes into our country's fabric the unalienable right to the "pursuit of happiness," any measure of happiness is far removed from our current measures of capitalism's success.
- The very notion that an economy could deserve an emotional response seems to unreasonably mix metaphors; how could economic activities elicit heart-warming affection? Yet economies can either be devised to deprive or enrich their participants, which suggests that **we can craft**

ones that secure, enable and nurture work and life relationships. Are we living in an age on the verge of creating such new economies?

- Ellen and Walt's guests this week, **Dr. Edward Quevedo** and **economist Mark Anielski** suggest that new economic metrics and values must be employed to keep humanity viable.