

# Make a Prudent Investment for All New Mexicans: *Create the Public Bank of New Mexico*

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ECONOMIC DEVELOPMENT & POLICY COMMITTEE

AUGUST 8-9, 2022



**Alliance for Local  
Economic Prosperity**

*Keeping Our Public Funds Safe, Local and Working*



## Alliance for Local Economic Prosperity

*Keeping Our Public Funds Safe, Local and Working*

AFLEP's Mission: Committed to creating local economic prosperity by maximizing equitable access to, and opportunities for, financial resources that support thriving economies throughout NM.

AFLEP advocates for a Public Bank of New Mexico as a way to create economic opportunity for local communities.

More than 1,700 supporters from across at least 35 New Mexico communities and towns.

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

Provide capital to support **small business** formation and expansion.

**Fill the unmet need of entrepreneurs, small businesses, co-ops and tribes for development capital.**

Work in concert with and **support lending activities of New Mexico's commercial banks and credit unions.**

Requires only a **single \$50 million State appropriation to initiate.**

**Will be well-managed, well-governed and well-supervised,** by professional bankers and regulators including the State and Federal Deposit Insurance Corporation (FDIC), U.S. Federal Reserve Bank and Office of the Comptroller of the Currency.

# Public Bank Supports NM Economic Development Plan

- Plan's Goal: Anticipate future climate change and create a 20-year plan for NM economic development
  - *"... 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.

# Public Bank Addresses Small Businesses' Unmet Need for Funds

A key Economic Development Department priority is attracting medium-sized and large businesses to New Mexico with an increased budget to market New Mexico.<sup>1</sup>

Seven of New Mexico's Top Ten U.S. Small Business Administration lenders are headquartered out-of-state.<sup>2</sup>

More financing is needed for New Mexico's small businesses, rural and tribal development needs and maximizing potential.

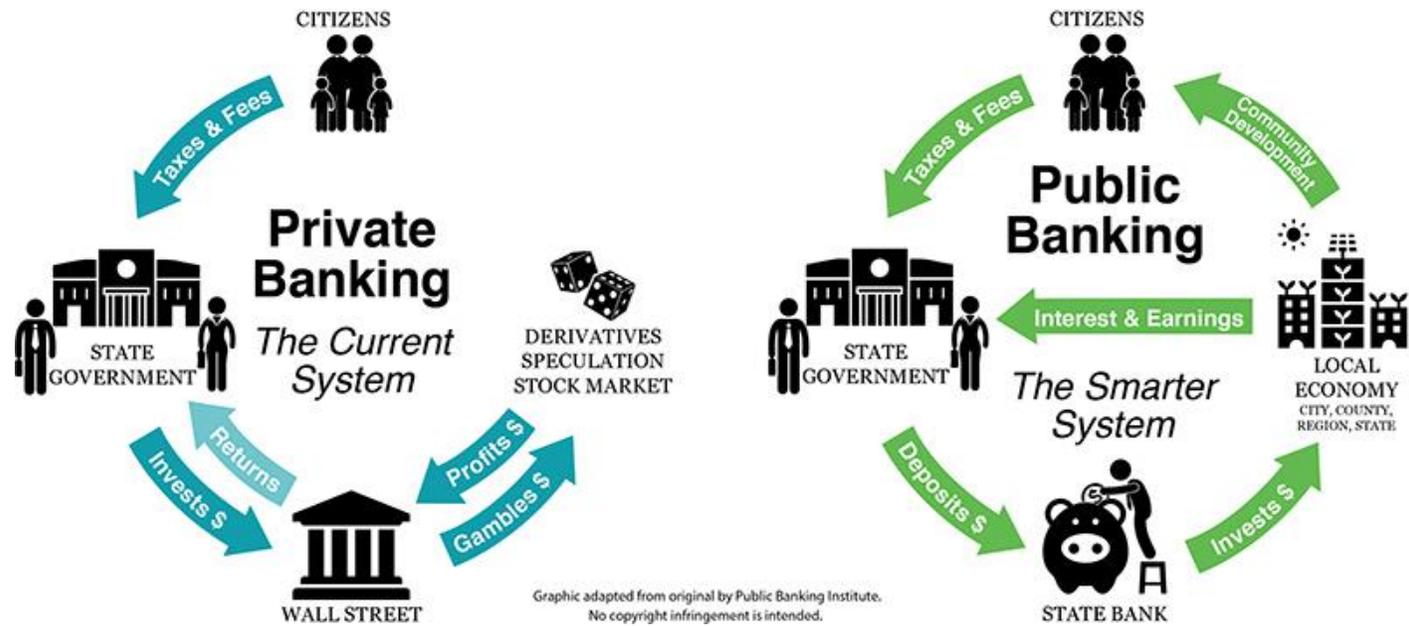
The Public Bank will offer lending programs that support industry diversification and access to financing by entrepreneurs from marginalized populations.

PBNM will also financing to adapt to climate change, including for post-wildfire redevelopment.

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

1. <https://www.nmlegis.gov/handouts/IPOC%20070722%20Item%204%20Economic%20Development%20Funding%20as%20Investments.pdf>

2. <https://www.sbalenders.com/top-sba-lenders-new-mexico/>



## The Public Bank Will Keep NM Revenue Local

# The Public Bank Will Increase New Mexico's Economic Resiliency

- Recovery \$\$\$'s ending
- Fossil fuel \$\$\$'s diminish
- Climate disruption



# Public Bank of New Mexico Act Statement of Purpose

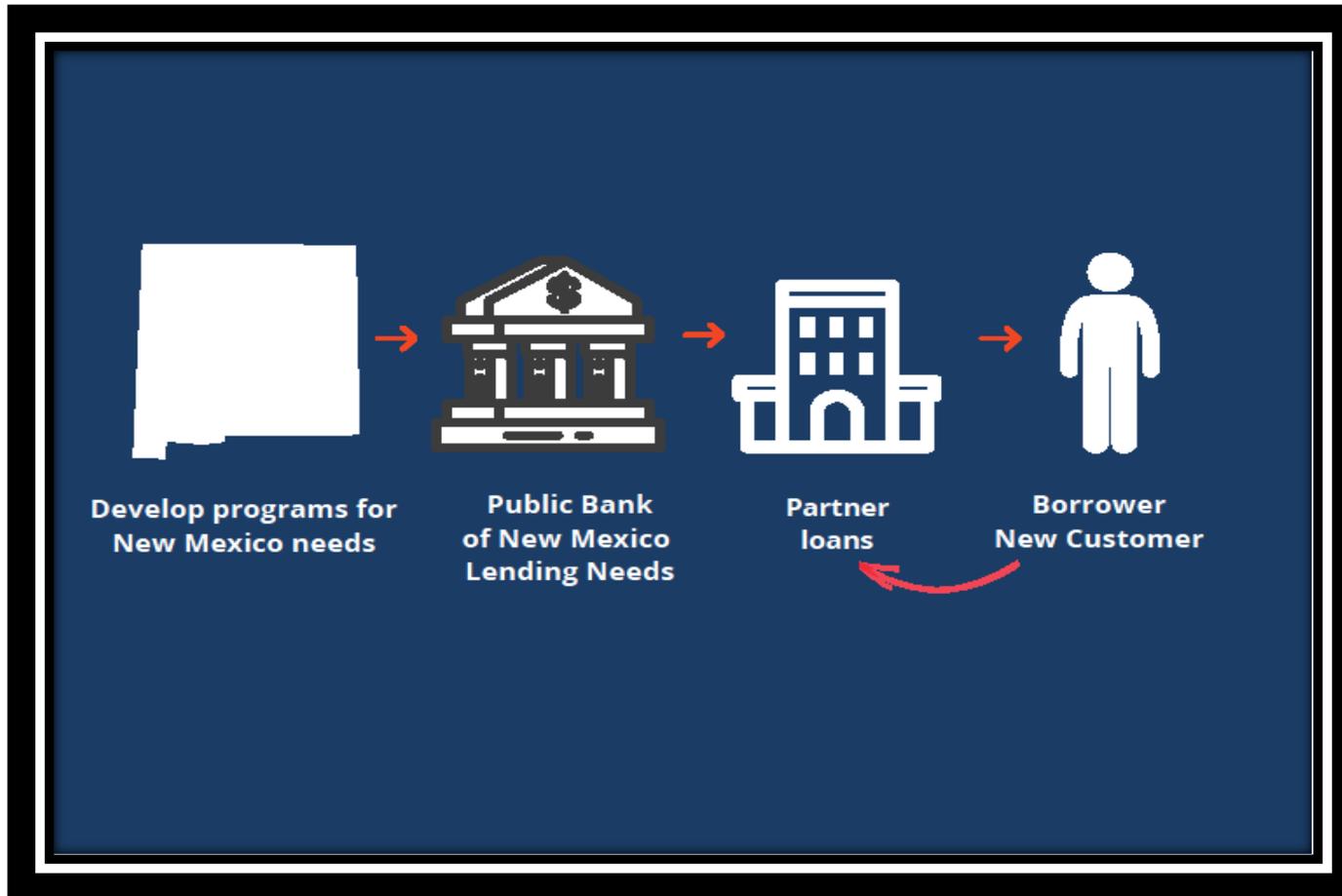
5.C. The bank shall pursue a policy of developing loan programs for public benefit to further agriculture, commerce and industry, including new and growing enterprises in New Mexico, that are approved by the board, that ensure a diversified loan portfolio, that make financing accessible and equitably 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;



# The NM Public Bank Works With the State's Commercial Banks and Credit Unions



# The Public Bank Is the Missing Piece in NM's Finance System

**The investment of a \$50 million appropriation will support over \$400 million in lending, representing a significant investment in New Mexico.**

- As a bank, the Public Bank can leverage its initial deposit 8-10x.

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 such as 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 PBNM could be operational in 2024 when pandemic recovery funds are gone and windfall fossil fuel revenues are projected to begin decrease.**

# The Public Bank Will Be a Key Part of New Mexico's Financial System

- 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 commercial banks.
- 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.

# Business Plan -- Pro Forma Assumptions

Developed business plan and financial analysis with input from former credit union CEO, UNM Finance professor, investors with extensive financial expertise, and a financial analyst

\$35-50 million first year loan demand based on 2019 GDP figures, indicating \$145 million capacity for NM lending demand that is unfunded.

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.

PBNM employs standard banking industry risk mitigation and credit monitoring procedures.

# Financial Plan Shows a Successful Public Bank

	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

Public Bank is Profitable in Year 2

7-year Equity Growth Rate: 9.18%

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

# Financial Plan Highlights

- The Public Bank is profitable in year 2.
- Over the first 7 years, through its successful operation, the Public Bank's equity capital would increase from \$50 million to more than \$92 million.
- This expanded equity base would, in turn, support an expanded lending capacity of more than \$940 million.
- Public Bank of New Mexico would have an average Return on Equity of 9.18% over the first seven years.
- The result: More jobs are created. More GRT is created.

# How Will the 2023 Bill Be Different From Earlier Bills?

Appropriation of one-time \$50 million to capitalize the Public Bank of New Mexico; **no** Severance Tax Permanent Fund monies requested(2021 bill).

Creates bank's liquidity by transferring \$60 million from current deposits in 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%.

# 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, co-ops and tribes for capital.

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

Requires a one-time deposit of \$60 million from State's Treasurer's funds and a \$50 million appropriation from General Fund to capitalize.

Well-managed, well-governed and well-supervised.

# Questions? Contact Us

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# APPENDIX

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# Loan Program Definitions

**Accelerated Growth** -- The Accelerated Growth Loan Program assists New Mexico-based early-stage companies active in one of nine target areas identified by the New Mexico Economic Development Department (NMEDD):

- Aerospace
- Biosciences
- Cybersecurity
- Film & Television
- Outdoor Recreation
- Intelligent Manufacturing
- Global Trade
- Sustainable & Green Energy
- Sustainable and Value-Added Agriculture

**Business Development** -- The Business Development Loan Program assists new and existing businesses based in New Mexico in obtaining loans that have a higher degree of risk than would normally be acceptable to a lending institution. The loans may be used to start a new business or expand or refinance an existing business.

**Value-Added Guarantee** -- The Value-Added Guarantee Loan Program assists New Mexico-based companies that want to invest in activities that add value to New Mexico communities through products and services produced by New Mexico's agriculture, energy, commercial, technology, and manufacturing sectors.

**Bank Participation** -- The Bank Participation Loan Program assists a New Mexico-based financial institution that has a New Mexico-based borrower whose financing needs have outgrown the legal lending or exposure limits of the originating lender. Loans must be beneficial to New Mexico communities and be consistent with the state's public policy and be made on a sound and collectible basis.

# Loan Assumptions Used in Pro Forma Model

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

# Public Bank of New Mexico

7 Year Equity Growth Rate = 9.18%

## Statements

| 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
<b>Net Interest Income</b>	<b>USD</b>	<b>5,575,000</b>	<b>8,568,651</b>	<b>11,338,462</b>	<b>13,709,661</b>	<b>15,596,715</b>	<b>17,227,674</b>
Interest Rate Spread	%	5%	6%	6%	6%	7%	9%
Non Interest Revenues	USD	0	0	0	0	0	0
<b>Total Net Revenue</b>	<b>USD</b>	<b>5,575,000</b>	<b>8,568,651</b>	<b>11,338,462</b>	<b>13,709,661</b>	<b>15,596,715</b>	<b>17,227,674</b>
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
<b>Earnings Before Tax (EBT)</b>	<b>USD</b>	<b>1,632,188</b>	<b>4,292,219</b>	<b>6,666,779</b>	<b>8,612,748</b>	<b>10,060,810</b>	<b>11,204,197</b>
Taxes	USD	-	-	-	-	-	-
<b>Net Income</b>	<b>USD</b>	<b>\$ 1,632,187.50</b>	<b>\$ 4,292,218.87</b>	<b>\$ 6,666,778.99</b>	<b>\$ 8,612,748.25</b>	<b>\$10,060,810.45</b>	<b>\$ 11,204,196.54</b>
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	-	-	-	-	-	-
<b>Retained Earnings</b>	<b>USD</b>	<b>0</b>	<b>1,632,188</b>	<b>5,924,406</b>	<b>12,591,185</b>	<b>21,203,934</b>	<b>31,264,744</b>

### 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
<b>Total Gross Loans</b>	<b>USD</b>	<b>35,000,000</b>	<b>76,827,250</b>	<b>126,992,754</b>	<b>185,637,155</b>	<b>252,291,439</b>	<b>328,157,086</b>	<b>414,615,802</b>
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
<b>Total Net Loans</b>	<b>USD</b>	<b>34,000,000</b>	<b>75,637,500</b>	<b>125,574,050</b>	<b>183,941,907</b>	<b>250,269,991</b>	<b>325,760,509</b>	<b>411,787,827</b>
Goodwill	USD	0	0	0	0	0	0	0
Other Assets	USD	0	0	0	0	0	0	0
<b>Total Assets</b>	<b>USD</b>	<b>100,000,000</b>	<b>146,632,188</b>	<b>226,924,406</b>	<b>336,191,185</b>	<b>454,243,934</b>	<b>540,912,744</b>	<b>598,081,741</b>
<b>Risk Weighted Assets</b>	<b>USD</b>	<b>15,660,000</b>	<b>17,596,491</b>	<b>20,202,994</b>	<b>23,095,632</b>	<b>25,925,870</b>	<b>28,696,102</b>	<b>31,462,480</b>
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
<b>Total Liabilities</b>	<b>USD</b>	<b>51,000,000</b>	<b>96,015,000</b>	<b>172,030,225</b>	<b>274,645,678</b>	<b>384,101,364</b>	<b>460,725,284</b>	<b>506,706,243</b>
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
<b>Total Equity</b>	<b>USD</b>	<b>\$50,000,000.00</b>	<b>\$51,632,187.50</b>	<b>\$55,924,406.37</b>	<b>\$62,591,185.36</b>	<b>\$71,203,933.61</b>	<b>\$81,264,744.06</b>	<b>\$ 92,468,940.60</b>
<b>Total Liabilities and Equity</b>	<b>USD</b>	<b>101,000,000</b>	<b>147,647,188</b>	<b>227,954,631</b>	<b>337,236,864</b>	<b>455,305,297</b>	<b>541,990,028</b>	<b>599,175,184</b>
<b>Balance Sheet Check</b>		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
<b>Gross Operating Cash Flow</b>	<b>USD</b>	<b>2,536,500</b>	<b>5,438,996</b>	<b>8,114,917</b>	<b>10,389,410</b>	<b>12,176,856</b>	<b>13,705,220</b>
(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
<b>Cash Flow from Operations</b>	<b>USD</b>	<b>5,036,500</b>	<b>30,461,746</b>	<b>51,090,038</b>	<b>52,018,602</b>	<b>11,589,206</b>	<b>(28,318,200)</b>
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	-	-	-	-	-	-
<b>Cash Flow from Investment</b>	<b>USD</b>	<b>(836,250)</b>	<b>(1,285,298)</b>	<b>(1,700,769)</b>	<b>(2,056,449)</b>	<b>(2,339,507)</b>	<b>(2,584,151)</b>
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	-	-	-	-	-	-
<b>Cash flow from Financing</b>	<b>USD</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Opening Cash Balance</b>	<b>USD</b>	<b>4,000,000</b>	<b>8,200,250</b>	<b>37,376,699</b>	<b>86,765,968</b>	<b>136,728,121</b>	<b>145,977,819</b>
<b>Cash Inflow / (Outflow)</b>	<b>USD</b>	<b>4,200,250</b>	<b>29,176,449</b>	<b>49,389,269</b>	<b>49,962,153</b>	<b>9,249,698</b>	<b>(30,902,351)</b>
<b>Cash Balance</b>	<b>USD</b>	<b>4,000,000</b>	<b>8,200,250</b>	<b>37,376,699</b>	<b>86,765,968</b>	<b>145,977,819</b>	<b>115,075,468</b>
<b>Cash Flow Check</b>							