

# SMALL AND RURAL BUSINESS INVESTMENT CREATES LOCAL ECONOMIC PROSPERITY

ECONOMIC & RURAL DEVELOPMENT & POLICY COMMITTEE ALLIANCE FOR LOCAL ECONOMIC PROSPERITY AUGUST 29, 2023



Keeping Our Public Funds Safe, Local and Working

**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



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.



Keeping Our Public Funds Safe, Local and Working

# Lack of Equitable Access to Capital

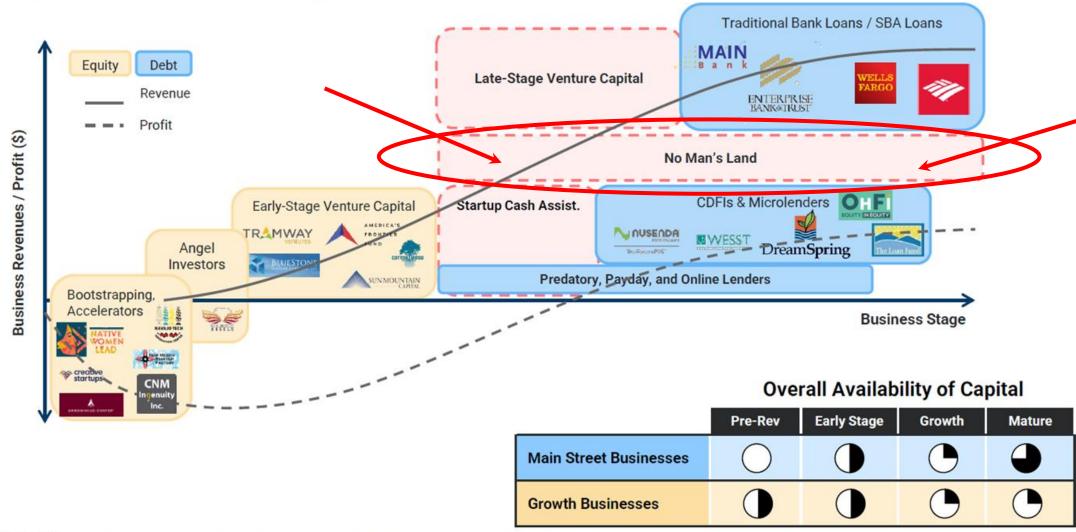
The NMFA/Next Street report to Oversight Committee, July 28, 2023, stated a gap exists between local prosperity and current financing opportunities. Identifying the underserved segment of the market identified as "No Man's Land."

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



### Capital Landscape: Summary

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

#### **Restorative Capital Gap:**

Limited capital products across the spectrum focused on rural and Native communities due to high transaction costs.





# Lending Trends in NM

### 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?

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

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.

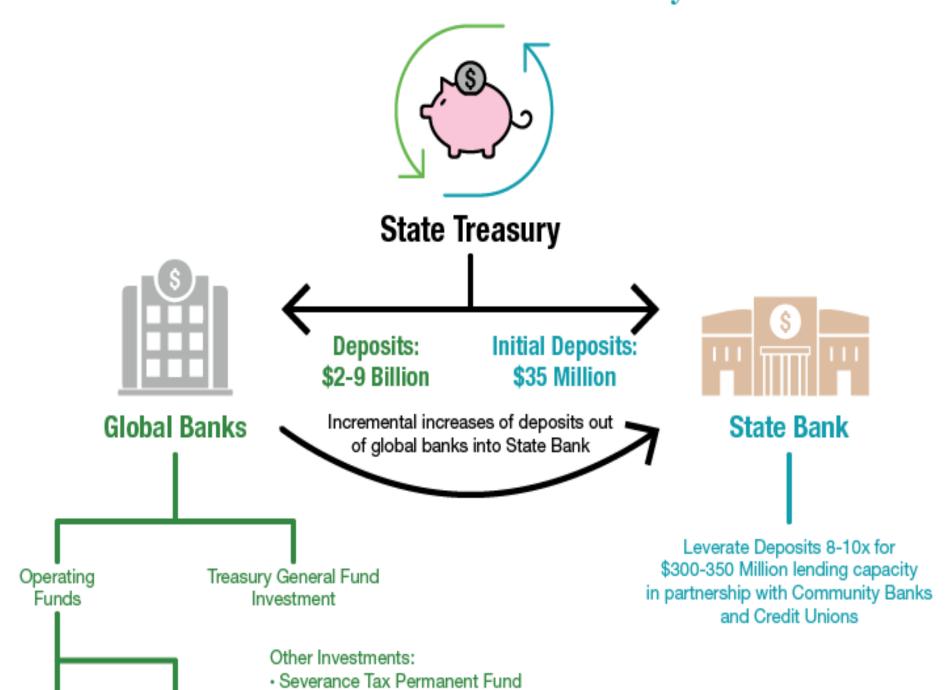
A Solution—Make the Bold Move to Create a State Bank

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



# Proposal to Develop Lending Models for a New Mexico Bank

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





## Pilot Program Proposal

- ➤ 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,

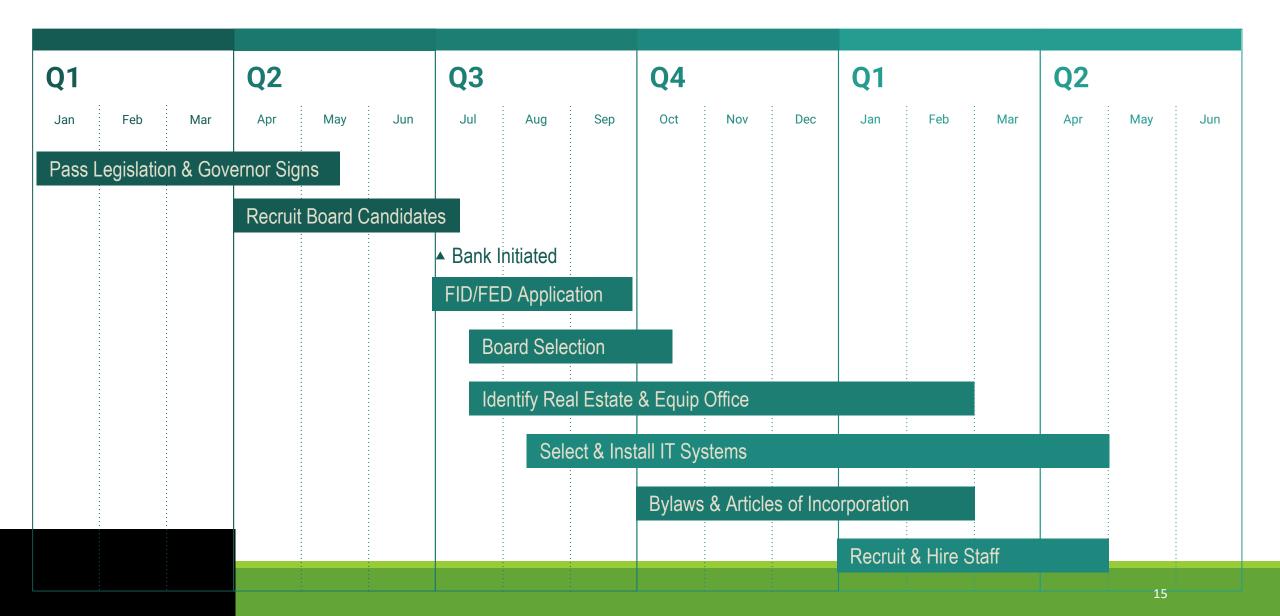
- organize community/regional groups and initiate conversations with stakeholders.
- Identify pilot lending programs for small businesses and agriculture based on local needs and development possibilities as well as identified gaps.
- Formalize collaborative relationships with lending institutions.



### **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



### **Public Bank of New Mexico**

#### Statements

#### 1. Inco

come Statement								
Total Interest Income	USD		4,615,900	10,224,894	15,954,735	20,540,747	25,373,920	29,694,947
Total Interest Expense	USD		2,940,000	5,586,000	7,168,700	8,960,875	10,182,813	12,728,516
Net Interest income	USD		1,675,900	4,638,894	8,786,035	11,579,872	15,191,108	16,966,431
Interest Rate Spread	%		3%	3%	3%	3%	4%	3%
Non Interest Revenues	USD		105,000	126,000	151,200	177,660	204,309	234,955
			-					
Total Net Revenue	USD		1,780,900	4,764,894	8,937,235	11,757,532	15,395,417	17,201,387
						•		
Allowance Provision	USD		635,750	1,907,250	4,386,675	5,702,678	7,413,481	8,896,177
Rec overies	USD		139,865	419,595	965,069	1,254,589	1,630,966	1,957,159
Non Interest Expenses	USD		2,374,500	2,655,235	2,945,580	3,245,970	3,556,876	3,878,799
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Depreciation	USD		153,427	296,374	475,119	592,694	746,648	865,235
Goodwill Impairment	USD		0	0	0	0	0	0
Earnings Before Tax (EBT)	USD		(1,242,912)	325,630	2,094,930	3,470,779	5,309,378	5,518,335
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<i>Ta</i> xes	USD			-	<u> </u>	·	<u> </u>	-
Net Income	USD		\$ (1,242,911.98) \$	325,630.38	\$ 2,094,930.36	\$ 3,470,778.96	\$ 5,309,377.81	\$ 5,518,334.54
Retained Earnings b/f	USD		0	-1,242,912	-917,281	1,177,649	4,648,428	9,957,806
Net Income	USD		-1,242,912	325,630	2,094,930	3,470,779	5,309,378	5,518,335
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		0	0	0	0	0	0
Retained Earnings	USD	0	(1,242,912)	(917 <sub>,</sub> 281)	1,177,649	4,648,428	9,957,806	15,476,140

Profit & Loss Check

#### 2 . Balance Sheet

Property, Plant & Equipment	USD	1,000,000	1,113,708	1,532,068	1,950,673	4.045.050	4 000 070	1,963,813
			4		1,000,010	1,945,856	1,968,979	1,300,013
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Cash	USD	0	9,329,130	16,247,150	37,731,025	38,753,205	68,032,908	126,607,955
Available for Sale Securities	USD	19,500,000	21,450,000	25,096,500	31,370,625	36,076,219	41,487,652	45,636,417
Trading Assets / Other Securities	USD	0	0	0	0	0	0	0
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Agricultural Loans	USD	11,000,000	33,000,000	75,900,000	98,670,000	128,271,000	153,925,200	177,013,980
Commercial Loans	USD	10,500,000	31,500,000	72,450,000	94,185,000	122,440,500	146,928,600	168,967,890
Administered Loans	USD	4,000,000	12,000,000	27,600,000	35,880,000	46,644,000	55,972,800	64,368,720
Other Loans	USD	0	0	0	0	0	0	0
Other	USD							
Total Gross Loans	USD	25,500,000	76,004,115	173,966,460	223,329,854	287,502,265	341,190,850	387,775,822
Loans as % Deposits	%	73%	78%	93%	86%	88%	84%	76%
Loan Losses Allowance	USD	1,000,000	1,139,865	1,559,460	2,524,529	3,779,118	5,410,083	7,367,242
Total Net Loans	USD	24,500,000	74,864,250	172,407,000	220,805,325	283,723,148	335,780,767	380,408,580
			4					
Goodwill	USD	0	0	0	0	0	0	0
Other Assets	USD	0	0	0	0	0	0	0
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Total Assets	USD	45,000,000	106,757,088	215,282,718	291,857,649	360,498,428	447,270,306	554,616,765
Total Assets Risk Weighted Assets	USD USD	45,000,000 11,861,078	106,757,088 31,563,301	215,282,718 69,856,669	291,857,649 90,840,916	360, 498, 428 117, 460, 804	447,270,306 140,962,515	554,616,765 162,356,401
			•					
Risk Weighted Assets	USD	11,861,078	31,563,301	69,856,669	90,840,916	117,460,804	140,962,515	162,356,401
Risk Weighted Assets  Funds from SIC	USD USD	11,861,078	31,563,301 0	69,856,669	90,840,916	117,460,804	140,962,515	162,356,401 0
Risk Weighted Assets  Funds from SIC Total Deposits	USD USD USD	11,861,078 0 35,000,000	31,563,301 0 98,000,000	69,856,669 0 186,200,000	90,840,916	117, 460,804 0 325,850,000	140,962,515 0 407,312,500	162,356,401 0 509,140,625
Funds from SIC Total Deposits Senior Dett	USD USD USD USD	11,861,078 0 35,000,000 0	31,563,301 0 98,000,000	69,856,669 0 186,200,000	90,840,916 0 260,680,000	0 325,850,000	140,962,515 0 407,312,500	162,356,401 0 509,140,625 0
Funds from SIC Total Deposits Senior Dett Subordinated Notes	USD USD USD USD USD	0 35,000,000 0	31,563,301 0 98,000,000 0	69,856,669 0 186,200,000 0	90,840,916 0 260,680,000 0	0 325,850,000 0	140,962,515 0 407,312,500 0	162,356,401 0 509,140,625 0
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds	USD USD USD USD USD USD	11,861,078 0 35,000,000 0 0	31,563,301 0 98,000,000 0 0	69,856,669 0 186,200,000 0 0	90,840,916 0 260,680,000 0 0	0 325,850,000 0	140,962,515 0 407,312,500 0 0	162,356,401 0 509,140,625 0 0
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds Trading Liabilities	USD USD USD USD USD USD	11,861,078 0 35,000,000 0 0	31,563,301 0 98,000,000 0 0	69,856,669 0 186,200,000 0 0	90,840,916 0 260,680,000 0 0	117,460,804 0 325,850,000 0 0	140,962,515 0 407,312,500 0 0	162,356,401  0  509,140,625  0  0  0
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds Trading Liabilities Other	USD USD USD USD USD USD USD	11,861,078 0 35,000,000 0 0 0	31,563,301 0 98,000,000 0 0 0	69,856,669 0 186,200,000 0 0 0	90,840,916 0 260,680,000 0 0 0	0 325,850,000 0 0	140,962,515  0 407,312,500 0 0 0	0 509,140,625 0 0
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds Trading Liabilities	USD USD USD USD USD USD	11,861,078 0 35,000,000 0 0	31,563,301 0 98,000,000 0 0	69,856,669 0 186,200,000 0 0	90,840,916 0 260,680,000 0 0	117,460,804 0 325,850,000 0 0	140,962,515 0 407,312,500 0 0	162,356,401  0  509,140,625  0  0  0
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds Trading Liabilities Other	USD USD USD USD USD USD USD	11,861,078 0 35,000,000 0 0 0	31,563,301 0 98,000,000 0 0 0	69,856,669 0 186,200,000 0 0 0	90,840,916 0 260,680,000 0 0 0	0 325,850,000 0 0	140,962,515  0 407,312,500 0 0 0	0 509,140,625 0 0
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds Trading Liabilities Other Total Liabilities	USD USD USD USD USD USD USD	0 35,000,000 0 0 0 0 0	0 98,000,000 0 0 0 0 0 98,000,000	69,856,669  0 186,200,000 0 0 0 186,200,000	90,840,916  0 260,680,000  0 0 0 0 260,680,000	0 325,850,000 0 0 0 0 325,850,000	0 407,312,500 0 0 0 0 407,312,500	0 509,140,625 0 0 0 0 0 0 509,140,625
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds Trading Liabilities Other Total Liabilities Share Capital	USD USD USD USD USD USD USD USD	0 35,000,000 0 0 0 0 0	0 98,000,000 0 0 0 0 0 98,000,000	0 186,200,000 0 0 0 0 186,200,000	90,840,916  0 260,680,000  0 0 0 260,680,000  30,000,000	0 325,850,000 0 0 0 325,850,000	0 407,312,500 0 0 0 0 407,312,500	0 509,140,625 0 0 0 0 0 509,140,625
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds Trading Liabilities Other Total Liabilities Share Capital Retained Earnings to Common Equity Ratio	USD USD USD USD USD USD USD USD	0 35,000,000 0 0 0 35,000,000 10,000,000 0	31,563,301 0 98,000,000 0 0 0 98,000,000 10,000,000 (1,242,912) 8%	69,856,669  0 186,200,000 0 0 0 186,200,000 30,000,000 (917,282) 14%	90,840,916  0 260,680,000 0 0 0 260,680,000 30,000,000 1,177,649 11%	0 325,850,000 0 0 0 0 325,850,000 325,850,000 30,000,000 4,648,428 10%	140,962,515  0 407,312,500 0 0 0 407,312,500 30,000,000 9,957,806 9%	0 509,140,625 0 0 0 0 509,140,625 30,000,000 15,476,140
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds Trading Liabilities Other Total Liabilities Share Capital Retained Earnings to Common	USD	0 35,000,000 0 0 0 0 35,000,000	31,563,301 0 98,000,000 0 0 0 98,000,000 10,000,000 (1,242,912)	0 186,200,000 0 0 0 186,200,000 186,200,000	90,840,916  0 260,680,000  0 0 0 0 260,680,000  30,000,000 1,177,649	0 325,850,000 0 0 0 325,850,000 0 325,850,000	0 407,312,500 0 0 0 0 407,312,500 30,000,000 9,957,806	0 509,140,625 0 0 0 0 0 509,140,625
Funds from SIC Total Deposits Senior Dett Subordinated Notes Convertible Bonds Trading Liabilities Other Total Liabilities Share Capital Retained Earnings to Common Equity Ratio	USD USD USD USD USD USD USD USD	0 35,000,000 0 0 0 35,000,000 10,000,000 0	31,563,301 0 98,000,000 0 0 0 98,000,000 10,000,000 (1,242,912) 8%	69,856,669  0 186,200,000 0 0 0 186,200,000 30,000,000 (917,282) 14%	90,840,916  0 260,680,000 0 0 0 260,680,000 30,000,000 1,177,649 11%	0 325,850,000 0 0 0 0 325,850,000 325,850,000 30,000,000 4,648,428 10%	140,962,515  0 407,312,500 0 0 0 407,312,500 30,000,000 9,957,806 9%	0 509,140,625 0 0 0 0 509,140,625 30,000,000 15,476,140

Balance Sheet Check

### 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



### **Questions? Contact Us**

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