Public Bank Task Force
INDEX
September 6, 2017

Becky Cosper

Public Bank Task Force
Tuesday, September 6, 2017
4:30-6:30 p.m.
Santa Fe Community Convention Center
201 W. Marcy St - Ohkay Room

MINUTES

1. Call to Order
   Meeting was called to order at 4:35 pm by the Chair, David Bucholtz. Roll call reflects a quorum.

2. Roll Call

   Present
   David Bucholtz, Chair
   Adam Johnson, Finance Director
   J. Wayne Miller
   Randolph Hibben
   Darla Brewer
   Kelly Huddleston
   Judy Cormier
   Elaine Sullivan
   Robert Mang

   Others Present:
   Katie Updike, Consultant and Report Author
   Michelle Lis, Facilitator
   Fran Lucero, Stenographer

   Audience: No sign in sheet.

3. Approval of Agenda

   The Chair noted that the agenda had not been circulated in advance to the Task Force members.

   Remove #4, Open Meetings Act - Review of Relevant legal issues, City Attorney's Office Staff

   Mr. Wayne Miller moved to approve the agenda as amended, second by Ms. Elaine Sullivan, motion carried by unanimous voice vote.

4. Open Meetings Act – Review of Relevant legal issues, City Attorney's Office Staff

5. Highlights from Public Banking Feasibility Study, Katie Updike, Consultant and Report Author (See attached Feasibility Study Report – Exhibit A)

   Ms. Updike introduced herself and addressed framing comments on the feasibility study. What is a feasibility study as opposed as to what is a consulting role to actually implement some thing? She stated that their role was to determine if a Public Bank was feasible or not. They were explicit in excluding legal considerations, as this was not their area of expertise. As the report indicates they felt largely that it is feasible. That doesn't necessarily answer whether or not what is the best way to do what needs to be done. This committee is deemed to do that. Quite candidly as part of the feasibility study they strayed away from the strict definition of a feasibility study because there was no clear why the public bank needed to be established. There were many hypothesis and they were good ones. One placed a deposit of public funds, a way to provide small business loans, a way to finance public infrastructure. These were primary areas with positive reasons to set it up. In order to determine and do a feasibility study they had to establish a straw dog and tried to establish it in a way that made the most sense in making it feasible. It was a guess and by golly to do this. Without doing that, there wasn't an entity to evaluate feasibility. We focused our attention on establishing on what were articulated on what our city needs. The question arose; can you do some of what is wanted and desired in a simple manner. That put them in closer contact with the Treasury Department and with other groups in the city including the Water Department, places that have money and places that don't have money in the city. One of the questions was, can you do this with an internal bank, can you prepay some of the bonds in order to decrease what was a pretty profound interest rate differential in the amount of cash on the city balance sheet and the amount of debt outstanding. When doing the report there was about \$220 million cash, \$320 million in bonds; cash largely drained, maturities of less than a year earning close to ½%, bonds largely for an average maturity closer to ten years and interest rate in the 3% to 5% range. They began to think of those kinds of issues as related. If you think about it, any bank, and she commented she was going to offend those ex-bankers or current bankers. Banks are really big cash managers, and there isn't much more they do then to deploy cash and take in cash. As they really looked at it deployment of the cash became the biggest issue, not the receipt of cash. If we established a bank we had to figure out where would do we put the money? There are only a certain amount of capital improvement projects you can do each year so unless you prepaid some bonds than the question was where do you put the money. You should put the money right back in to the banking system. Some people talk about putting it back in to the Federal Reserve System and the Federal Reserve System in essence is the bank. Banks have what they call corresponding banks, we call that depository banks, not really that different. We looked at those kinds of issues and began to talk about the number of funds inside the city and the desire to keep it separate was part of the inability to use its cash more effectively internally. We also discovered that the city was requiring 102% collateral rather than 50% collateral. This comment will be addressed further by Mr. Johnson. What this meant was that we wanted as much lending capacity to be in the community as possible. We were putting an onus on our depository banks regardless if it was a bank or an internal cash management operation. We were basically saying that with our cash we have to buy securities that will secure us and can't use it for making loans. Even more importantly, we discovered and this was true nationally but more so in New Mexico. The loan to deposit ratio in our local banks were in the neighborhood of 20%-25% below where you would ideally want a deposit ratio and that was not withstanding the feds desire to see an increase. The local lending loaning institutions have not been in a position of not having enough money to lend, they have been in a position of not being able to lend robustly as they once did because of oversight. Whether it is the Board, FDIC or OCC audit reports and again those here may have a better appreciation for that than Ms. Updike does. Next question; does a Public Bank either compete with a regular bank and everyone said no, it does not. Does it take extra money that banks can't lend out because they are strapped for cash, that didn't seem to be a demand there? The only other alternative was to do the deals that banks turn down. That really became, in Ms. Updike's opinion a risky approach. More importantly it raised questions and one of the questions on LIDA and one of the questions was if the Economic Development Act allows city's to make loans. It already had validity to make loans with economic development impact. Did it need a bank to make those loans? The real question is what is the "why, she hopes that this is the critical question that the board discerns. She feels that there are positive reasons to establish a public bank. One is where you have legal entities that need a third party to act as an intermediary. One of the possibilities is if the city and the county needed a third party entity in order to share funds over and above or the same. The state has also looked at the establishment of a public bank and in its most recent effort, which Ms. Updike felt was fairly under-analyzed. Her comment there was in fact the state has two forms of a bank, it has the local government investment pool and the New Mexico Finance Authority. When you put those two together you have a bank. When you start crossing legal entities, you start getting in to some of the kinds of cash management details that banks normally take care of. When you are inside the same legal entity you don't have quite that much friction. It is also easier to establish independent management. One of the most serious concerns that was raised by every entity she talked to who was concerned about whether a public bank should be done or not expressed concern over a public, elected body making appointments to a decision making board. It isn't meant to be derogatory, it was a doubt raised over and over again.

Judy Cormier: I want to clarify something; you started talking and you said New Mexico has an investment pool and a Finance Authority and that equals a bank.

Ms. Updike clarified, "if it were put together".

The Chair said he would suspend the rules to allow the task force members to have an open dialogue. He continued to clarify that the State Treasurer has an Investment Pool and it is a place where local governments can place their safe funds _____ with equity with returns not being such a factor. They invest that in the pool with the theory being that the pool can generate more. That is the state as a repository. On the Finance Authority side, basically what you have is a place where local governments can go in to borrow for capital purposes. They pull the borrowing together and the Finance Authority goes in to the public market and it is also supported by governmental gross receipts tax. The public market lends in to that pool and then the pool lends out to public entities. It is not a lending institutional process.

Ms. Cormier: The thought process would be that they concur with the city doing it not necessarily the state.

Ms. Updike: No, the state was actually proposing that it might. Three or four years ago, one of our State Representatives actually proposed a state public bank.

The Chair confirmed it was Representative Egolf, who is now the Speaker of the House was looking at this possibility. The state treasurer has an investment pool where local governments can put their funds in a safe place.

Ms. Updike said that during the study she met with several public figures and Representative Egolf was one.

Ms. Huddleston: Has a question on the unmet needs for the city and there were three laid out in the report. How did you get there? What are the actual needs for a public bank? We get to the why, she is curious about the lending restrictions and there has been lending tightening because of the OCC and particularly coming down on LENB. What is it; I really don't know what the needs are.

Ms. Updike: We focused predominantly on the public entity of the city's needs during the study. After she attended an FDIC session, she has been working on what the small business lending has been because by and large the concerns that were articulated during the public bank hearing was that small business lending wasn't being addressed. Indeed if you look at the call reports on the Santa Fe based banks that have New Mexico call reports statewide, over the last 6 years small business lending has dropped in NM. The call reports aren't broken down by city and it also does not include national banks operating with their call centers in their home states. Nor do we get breakdowns, which we use to get in Chicago on CRA reports and how much deposits are taken. So unless a bank is doing that voluntarily we are not receiving them. Nationally small business lending under $1 million dollars has fallen. That is not withstanding that our local banks have seen non-commercial lending go up during that year. Some of that has been picked up by credit unions because the credit unions have been allowed to do commercial loans. The main credit union that was doing that is now over their limit for commercial lending but they have received an exception for that.

Mr. Mang: My question is on the why; you started listing reasons why it would be a good idea to have a Public Bank. I didn't get a second reason, were there additional reasons that weren't listed.

Ms. Updike: Predominantly I think the ability to create a governance structure that was viewed as independent from the political bodies was the general concern that a single public entity controlling it.

Mr. Mang: In a sense, the Finance Department or existing structure is under the influence of the political body and a Public Bank could be set up in structure like any other public bank and would be independent.

Ms. Updike: Yes, and as a single entity creating that real force of interest if amongst or all the assets of those public entities.

Mr. Mang: If I interpreted what you said, you are inferring that there could be more structure.

Ms. Updike: More independence in the structure. I think it begins to solve some of the political issues.

Mr. Mang: One other though occurred to me regarding the small business loans, is that if we look at the Bank of North Dakota has leveraged state money in to encouraging other banks because it can supplement the loans, if they are too large. One of the problems here in Santa Fe, more recently it has been progressive that community banks locally are disappearing.

Ms. Updike said this is happening all over the country.

Mr. Mang said he was wondering if; and clarified this is speculative and not a rhetorical question, can a public bank encourage local lending in a way which brings leverages in to the economic development.

Ms. Updike said that she believe it could if and when those banks get to the point where they are really not comfortable with the low volumes that they have. Right now their deposit ratios are low and this is why in their financial forecast they have a sprinkling of local lending towards the end with the theory that the business cycle would start soaking up a little bit. This also would be to illustrate whether or not it is a real need or not. The banks have a robust ability to share deals. The NM Finance Authority has something called the bilateral short fall so if the banks says I can do 300 on the collateral but I can't do the 400, the NM Finance Authority has a fund, which I'm told could be used.

Mr. Miller stated that they have recalled the fund and it is no longer available.

Ms. Sullivan: It seems to me that the low loan to deposit ratio for New Mexico is a pretty big deal. When the change happened in credit union lending did that have any thing to do with the debt ration?

Ms. Updike said no, she thinks the reason was that the banks anchored down after 2008 and got scared, liquidated portfolios were criticized.

Ms. Sullivan said that her thoughts were that a Public Bank would have had a small impact on that ratio, the tragic ratio described.

Ms. Updike said they are actually working with the banks to come up with collateral to improve that ratio with small business lending; this is a topic for another time.

Mr. Hibben: Your co-author, Christopher Erickson from the Arrowhead Center went to great lengths to distinguish the financial impact and economic impact of such bank. The financial impact of the city is easy; they are paying on ______ a fund, which is real money. The economic impact speaks to what we are all talking about here as well. The marginal difference of investing dollars in a private bank, we are a public bank, will not have much on an impact.

Ms. Updike: If is substituted. If it is creating new economic investment than it has an economic impact. If it is substituting for someone else, i.e., another bank who makes that same loan or a CDFI (Community Development Financial Institute), then it is not creating new value it is substituting value. So you are correct.

Mr. Hibben: Did the study find that it would be advisable that the city reduce its collateral of 102% to 50% and use those dollars to make loans that other banks aren't making? Is it appropriate to use city dollars?

Ms. Updike: You get in to some legal questions there, what the city can in fact invest in. If it has a local economic development pass and Ms. Updike did yield to the Chair to talk about the LEDA Act.

Chair: (Inaudible)
Below is referenced from the NM Economic Development Web Page.
The enactment and utilization of LEDA allows public support of economic development

to foster, promote, and enhance local economic development efforts while continuing to protect against the unauthorized use of public money and other public resources. This empowers communities to embark on economic development projects tailored to their LOCAL needs. In essence, LEDA is used to enter into a "public private partnership" for an economic benefit.

Further, the purpose of the Act is to allow municipalities and counties to enter into Joint Powers Agreements to plan and support regional economic development projects. LEDA can be used to support 3 types of projects: Infrastructure/Improvement, Economic Development (Job Creator) and Retail **

> ** *In the 2013 Regular Legislative Session, amendments to the Local Economic Development Act whereas adopted and took effect July 1, 2013. The amended section relating to "RETAIL" is* ***Section 5-10-3 NMSA 1978*** *(being Laws 1993, Chapter 297, Section 3). The amended section relating to 'Claw back Provision" as it relates to the "Project Participation Agreement – Duties and Requirements" is* ***Section 5-10-10 NMSA 1978*** *(being Laws 1993, Chapter 297, Section 10)*

Chair Bucholtz: They changed the constitution, not directly towards banking but enabling cities (local government) to have transactions with job growth for economic development purposes pursuant to a statute. Separate an apart from this issue, can they loan money beyond economic development, whether the city can loan money on other than market rate instances. LEDA if you will is supposed to be statutory enabling act of the change to the constitution that says we will give more leigh way for government to interact with private business in order to have jobs.

Mr. Johnson: A follow up comment, a nuance that may have gotten lost; when you change the collateral investment policy to 50, it is not that the city makes the loans now that direct deposits are available as the fiscal agent.

To Ms. Updike's point, that is a loan they would not have made otherwise deposit ratio or not.

Ms. Updike: Than it doesn't have economic impact. To refine that statement, not all banks can enjoy the 50% collateral they need to have a certain credit standard.

Mr. Hibben: You are basically trading security for risk.

Ms. Updike, But, again, the Treasury Department is finding it harder to place its deposits because of this requirement, it just made it more and more expensive.

Ms. Cormier: Curious about the potential profits that one envisions. How does an infrastructure fit in to that? Depending on what bank it is, what is the infrastructure that is enduring, the regulatory oversight and assuring that everything is working right,

Ms. Updike: They did not get in to detail on that. There are too many bankers out there that have that expertise. I will say that the cyber security issues have really gained. Part of the reason we are seeing bank consolidations around the country in part is because of the demands. Not just the regulatory demands on reports on these issues, making sure you have a fraud compliance, and tell us what your bad loans are. There is heightened security around cyber security and the reason for that is that any window in the system, the weakest link provides the opening.

Ms. Cormier: The reason I was asking the question is from the feasibility standpoint, that X-factor, would that apply to and is it feasible of what we want to do.

Ms. Updike: She did not really know and is assuming not. She is assuming it is feasible at some cost to create that. There are a lot of entities that are creating new structural platforms for banks. One comment that was made to her, " [an EDP type] said there should be a national platform for these public banks, it should just be platform for all the banks to use." She stated that she disagreed initially, because so much of the chartering is done at the state level and as she gave it thought she said maybe it wasn't such a bad idea.

Mr. Johnson: There is another option and it is reflected in the State Treasurer and New Mexico Finance Authority, they do not have a bank structure that only have a fiscal agent just like the city does.

Ms. Updike: Many people have thought, if we have a bank we don't have to deposit with these big national banks and we can just put it in the public bank but the question is then, where is the public bank. There has to be a use of the funds for a real economic entity.

Chair Bucholtz: I have three questions. You commented about community banks being concerned about rationale for this bank, can you identify that and is this a combination that isn't necessary? Is this question about perception of lack of ability of business and entities not being able to make loans and focus on the dialog rounded to their concerns?

Ms. Updike: Yes, and certainly subsequent to the study we have had the conversations on the subject that perception is in fact reality because of the low loan to deposit ratios, because of the falling of loans under $1 million in high definition are small business loans. We definitely exceed drop off credit available in that segment. We would argue that most of that is in a real estate area and I would say that is probably true, that was an area that was particularly hit hard in 2008; a place where the auditors and the Feds have spent more oversight.

Chair Bucholtz: Second question, in reading what the Council has directed to do in the discussions with the community and what I have heard in my sub-committee, I discern two very different potential purposes for a public bank. The first is, does the city as an entity need its own banking institution to better manage its financial affairs and the Council asked for a report on that and Mr. Johnson will report on that. The other perception I have is that the citizens or the community feel that that banking system as it exists now is not responsive to them, that they need a bank that is owned by the city in order to better take care of their borrowing or lending. If the city were to go forward with a public bank to be responsive to its citizens it would still need to be regulated, chartered and would still have to meet future fiduciary responsibilities in its offering. How do you see the tension of the city establishing its own institutions for those purposes and perhaps realistic or not realistic that a public bank would be responsive to their needs?

Ms. Updike: In all candors, we never analyzed that as an option. Even in the national public bank discussions the idea that a public entity would in fact be a replica of what a community bank would look like has not been on the table. In fact it has clearly been taken off the table in North Dakota and most of the other jurisdictions that might have any discussion. She has not encountered that as the reason to exist. She does think that some people and maybe the majority that hear of this they think about First National Bank of whatever sitting on the corner where I go make my deposit and pay my mortgage. There may be some general but certainly not at the professional level that they talk about.

Chair Bucholtz: My sense is that if there is a community focus effort, it is well focused on that aspect of discussion.

Ms. Updike: Than the question becomes, if that is where the ground set is, what can the city do with the state to empower its local financial institutions to be more responsive. That certainly would be another way to address this question.

Chair Bucholtz: What advice do you have for this task force as the entity that is taking the time to continue the work that you did and moving forward of the work that we should doing following the instructions that we got from the Council in the timeframe that we have been assigned?

Ms. Updike: I would bifurcate it. The question on whether the Treasury Department can set up a little be bank or big be bank is a big one, and whether it needs another entity to do what should be happening in general and make the cash of the city flow more efficiently. Ms. Updike made reference to comments made about the water fund. Even though fund management can still be in fact very carefully held and responded to. The second question is, it is rather intriguing to see if the city, county and school district, would have a real benefit in working together because we are over the same tax base. Working at the state level is a little daunting. So unless the state viewed this as a little lily pad to analyze it, seeing whether or not we could work with the other public entities in town would be attractive.

Ms. Darla Brewer: If the banks are so abundant and we started a public bank and its state chartered and we are making the more risky loans we would still be under regulations for underwriting and so the state charter, my understanding might prohibit us from making those more loans.

Chair Bucholtz: Yes

Ms. Updike: If that would be the purpose of it. I would not recommend the purpose of the bank be to do loans that current banks can't make unless there is a whole lot of equity and much larger interest rates.

Ms. Brewer: So currently we would prefer to work with banks and support them to give infrastructure loans without starting a bank to make those riskier loans by collaborating on loans, or loan sharing. Could that be a possible solution.

Ms. Updike: LEDA allows the city to make economic development loans and if the city is paying for its own infrastructure there is no problem. Public infrastructure is not subject to the anti-donation laws.

Chair Bucholtz: With LEDA there is an opportunity to make those loans, it is there and it has been used more frequently over the 20 years.

Ms. Updike: The only question then becomes whether you need a charter to distribute those funds through a Little B Bank. I use the term Little B Bank because in essence what Adam and his staff run is the city's current bank. Then the only question is, how we can make that more efficient, more economical and more profitable.

Ms. Brewer: Do you see the charter as a help or a hindrance.

Ms. Updike: I am not going to answer that.

Ms. Brewer: Even with the Little B Bank not going in to detail, personal loans are personal loans.

Ms. Updike: Even with the public bank straw dog we did not anticipate that was a deposit taking institution in the same sense as a community bank.

Ms. Brewer: You said in conversations, doing this kind of work before; that was a possibility, why?

Ms. Updike: I think all through the country by and large, bank advocates have not wanted to run head to head against the community banks. The idea in North Dakota was to strengthen not to go head on.

Ms. Huddleston: I do a lot of work with predatory loans and I have seen throughout the city quite a bit, so I think that the grass root support is based on the personal interaction, and even small business loans that were predatory. My question is, is there a way to address people's concerns about that type of lending. New Mexico has some needs, there is payday lending, there is predatory lending with sophisticated borrowers, and it goes on and on. I am just curious, has that come up in other communities that you have talked about? With the financial crisis that is where all of this bloomed.

Ms. Updike: I will say, putting aside the consumer predatory lending is one step short of (inaudible). I get 5-10 requests a week on small business lending, probably because I have been on the internet looking at that topic. In the FDIC listing section 1 year ago one of the people there said such and such bank can't do a deal they send it to California. My thought was why they can't refer it locally amongst banks here, so I believe there are some answers and we are working on it. Whether a public bank can solve that or not, we are putting an onus on their back and it could be a little bit bigger than they can handle.

Ms. Cormier: One a Question and I would like some clarification. With the comment made, perception is reality. I would like to hear more of when you talked to people about different areas there is a perception that if you deposit your money in a public bank, the city is going to make all the money, interest on deposits, lending, etc. I am curious about the people that you spoke with, was that a consistent perception, that's what happens with a public bank?

Ms. Updike: Again, we did not presume the bank was taking deposits from the community.

Ms. Cormier: I did not say community I said deposits from the city. Money earned instead of depositing in a Wells Fargo, they would make the profit so where does a public bank invest.

Ms. Updike: Those are financial numbers to the extent where the city could more fully utilize its cash that is where most of the profit came from.

Mr. Johnson: The spread you speak of is the cash used for the debt to avoid interest expense.

Ms. Updike: Remember that there is a limit to how far you can go with that. The cash that the city has, even though it has a regular source of cash, which is called taxes is by in large short term and capital expenditures are 10-20 year investments. One reason the city and other municipalities issue long-term bonds is so that they match the need of that asset. You don't necessarily go to the extremes.

The Chair expressed his thanks and noted that the information is very valuable to the work that this Task Force will continue.

6. Highlights from June 5th Finance Department Memorandum on Treasury Management and Investment Practices, Adam Johnson, Finance Director (See attached memo – Exhibit B)

The Chair read from the Resolution that relates to the report that Mr. Adam Johnson did for the governing body. Mr. Johnson responded promptly and provided the written report on June 5th and he was asked today to speak to the highlights so they could all get first hand the nature of the report.

Highlights: Background context: Thank you to my staff, Brad Fluetsch and Christina Keyes who came on board exactly one year ago and bring over 20 years of financial management experience. We go in to the Investment Policy and the Debt Management Policy, independent of the Feasibility Report as well as other aspects of the city business. A lot of what we found was a lot of what Ms. Updike found, large amount of cash on hand either inefficiently not paying down debt or non-adequately taking the opportunity towards investment vehicles that were available. Some of what we characterized of the conditions that we found was that no fresh eyes from the outside has taken a look at the city's policies in regards to these things and trued them up to state statute. We are fully updated and we are using all of the tools that are available to manage. By in large that is the theme you see on the report and my team and I are generated.

The very first Act I requested was to update the Investment Policy; not to impact potential solutions to our financial literacy and the way it relates to support local lending on the deposit side. We spoke earlier about the collateral requirement and the way I understand it. Essentially it states that the state statute allowed for 120, 102, 75 or 50 per cent collateral policies begging upon the institutions in which the government deposits their funds. That condition rated by the State Treasury and they put out a quarterly report that says, these are all rated to the collateral policy set level and not how they stress test. I do not know the specifics on how they do that test. Our investment policy actually required one and didn't even lay out the options. The first thing we said is lets look at these options and use one of the others and we implemented that. What we have seen on the other side is that the banking community hasn't really responded with OEA. We don't know exactly whey we just recently discovered that. We have taken the steps to assure that the deposits are at 50% available to the community, it hasn't made a difference on their radar at the moment. Another aspect to the investment policy that we did, we now have a pro-active roll off of our CD's, basically we don't have to request for quotes. What we found and I stated publicly is there hasn't been a big uptake there either. The State Statute requires the institution to give us the same maturity as the treasury. If they are not meeting that they would actually put us out of compliance with State Statute. The point being we are now in a better position to be part of that eco system, financial lending when called upon.

In addition, 2nd page of the report, Inclusion of Statute 6-10-10 (G) – based upon population size which allows local government to invest in corporate bonds, commercial paper and other non-US Treasury or Agency securities. Since that became available to us and scraping all these deposits that were in random savings accounts, we took all of that money that we did not need from our BAR for bi-monthly pay cycles and moved it in to our trust account. By incorporating this statute into the investment policy, staff was able to substantially increase the rate of return on the City's most liquid investments, money market funds. The increase in return can be attributed to increasing credit risk without changing the interest rate risk in the portfolio.

Reference made to the bullets on the 3rd page under the Investment Portfolio Improvements. The Finance Department stands ready to produce updated information that is up to date. We also consulted with Bloomberg terminal for active, real-time monitoring of global economic conditions, fixed income markets and specific trading opportunities. Brad is a CFA and Kristina has significant experience in trade bonding and community portfolios with PERA. With the combination, the other thing that we did, the city had bizarre exposure before where the person who managed this passed away last year had all the fiduciary responsibility but none of the decision making tools and she was being told what to buy and sell and was signing off and was being exposed to the decision making process. We no longer have that relationship it is a continual transition and because we have in-house management we are now looking to find third party benchmarking service through an RFP process to see how we are doing.

That state of managing the city's cash on the investment side is not permanent and can be altered at any time. On the debt management side, one of the first things they did when Mr. Johnson joined the city as budget officer was to create the capital improvement plan which is a very defined close in process for CIP to get them approved and in to the budget. It is a 5-year plan, the 4 odd years are dynamic which means they can change every year but the idea was as it gets better each year is that the city's entire construction plan whether it is funded or unfunded can look at the bigger picture if you need to use internal cash to fund smaller projects, we did do an internal loan this year and more effectively issue debt lag which will show the infrastructure in the community. If you want to know what we are doing you can see in this report, we have all the assets in line. Before I became the Finance Director we paid off the water debt, they needed a tax base that was coming in to promote conservation but the tax and high rates had grown upward of $109 in fund balance and so they used nearly half of that cash to pay off the refunded portion of that debt. This year we took the approach to pay off the 2008 general obligation bonds that were notorious known as the Park Fund and we paid off two loans related to the Railyard and the structure here at Market St. We did refinancing of this building to avoid more taxes so we could get more funded activity in this building. We did a full over haul of the debt policy, that was one of the last things we accomplished in the budget process. After a number of edits and readings of the policy in place, we scrapped the whole thing and we looked for a policy that was more comprehensive, allowed for as many tools as possible to be available to the governing body. Essentially our determination was that there was a ton of debt in the back and we did not want that in the policy. We wanted an objective policy that would state the capabilities in good government. We passed a Resolution that requires on a semi-annual basis the review of the portfolio to Council looking for opportunities for refunding and compliance. One of the things in that process is that we involved different levels of staff, the city council, the municipal advisor, bond and municipal counsel.

Brad Fluetch, Staff: A lot of the discussion earlier was about economic development and by rewriting the debt policy it opened up; we have the industrial bonds here but we have other bonds in finance that the city can engage in with private sector to do economic development. Development district funding, revenue bonds; there are a number of other products we can look at that are authorized in state statute in that we have now incorporated in to our debt policy and to find tools in the private sector to create jobs and bring about economic development and find financial use.

Mr. Johnson: From our perspective, when we get these lists on CIP or facilities that require maintenance or decisions to be made whether or not it is economically feasible to continue. The conclusion was we need everything that is available to us. The community needs everything available too, so from our perspective a lot of outreach and communication has to be done. You used general obligation bonds to fund the things that are most _______; you use GRT bonds for the city needs when you know approval is difficult or impossible. And then when someone says PNM tore up our road and the job they did it not correct and we need a new road and we can say there is a tool available to you because that is a hard argument to make to tap these other funds.

Chair Bucholtz: Historically Santa Fe had a reputation, we didn't even do GO Bonds, no property tax benefits for a variety of reasons, but there are a lot of tools available that other jurisdictions have taken advantage of.

Ms. Sullivan: What is the plan on how to resolve the mystery why local banks weren't more responsive to collateral change and any other changes?

Mr. Johnson: Most likely it is related to what they are use to doing. The collateral on the 102 is less expensive to the bank. There is not incentive to say oh yea, 50%.

Ms. Judy Cormier: You mentioned that your next step is education to the public; here is the toolbox and if you need this, this is where you should look. When do you envision, a roll out or are you still at the ground level and when will the public see something like that.

Mr. Johnson: From internal discussion, my plan would be getting questions on the ballot in November. We would say that this is the capability, get the buy in and sponsorship from the governing body and get it out in to the public on what we have done for voter's response. We have started doing this internally. Last night Finance Committee approved taking a request to the Mortgage Finance Authority. We are looking at doing an $11.5 million transaction; other than the transaction that we did internally and our refunding this is our first new money issued which was small enough. We can show that the policy in place, the accounting practices in place and make the corrections, bring the future value to the present.

Mr. Mang: Are you thinking loan to deposits at this point or are you thinking of paying off debt, those are loans to the city. Were those refinances or were they actually paid off with city funds?

Mr. Johnson: The 2008 general obligation bond and the two loans were fully paid off and not refinanced.

Mr. Mang: How much of the city's fund, $200+ million are needed short term for paying the bills and what proportion of those funds would be capable of either loans or invested. And in terms of where you are, to what extent, investment in to Wells Fargo fund the other night is approved for 4 years but it can be pulled out sooner. In a sense it is a way of thinking about what doesn't have and needs to have in its current cash flow. How would you characterize in a broad sense, what is available if the city could loan out in funds in lieu of bonds for infrastructure and other things.

Mr. Johnson: With confidence I can tell you at any given time, approximately $160-$170 million is actually in investments. The remaining $30 - $40 million is in the operating checking accounts. That is the banking way to look at it. You have to look at the statutory requirements of what all these monies can be used for. The state is the first regulator of what you can use all the various taxes for as well as the fees generated by the utility companies. You then have the next layer of regulation which is the city ordinance, further will define precisely what the tax is. So everybody understands the 8.3125% is to by these increments and they are all statutory requirements of what they can be used for and then the city will impose upon itself things to assure that all these different areas are complete. Once you acknowledge those constraints you have to evaluate what available money is what is in the accounting fund balance to make an internal loan to pay off debt and generally it is not a lot of money. We had some significant loan balances in the utility account. The city has a loan to itself of $4 million to be paid over a very short term, 3 years at a rate of investment that the fund is no longer giving.

Mr. Mang: What would you say is unrestricted, or what could be loaned internally?

Mr. Johnson: I would need to get some up to date information on that, we did put a constraint in the debt policy that doesn't allow the city funds to exceed 10% and a maximum maturity of 5 years. What is left since we did the first one, I would estimate we are below $10 million. The other question was the capacity to issue debt. The numbers moved, we have about $160 million in capacity on the general obligation side. On the GRT side we have two liens, senior lien and subordinate lean and again the numbers change depending upon where we are in the cycle. Given the constraints and the covenant of the existing bond documents we can issue anywhere from $50 to $70 million dollars over the course of 4 years. There would be capacity but currently there isn't a need to finance the improvements of utility, they on occasion they schedule enough fund balance in their water rates and don't have to issue any debt. It is a much more complex question to ask what is the capacity of these special districts.

The Chair stated in relation to the general obligation bonds, one the voters have to approve and they are paid by property taxes and voters would have to determine what they want or if they are willing to tax their property and the Constitution of New Mexico has a constitution limitation on the amount of property on bonds tax that any jurisdiction can have. The contractual arrangements of those financed with particularly gross receipts tax with access through repayment sources other than debt service are what really govern those capacities. Those are more of an operation and contractual in the market place analysis than the GO bond analysis. You could set up an SAD (special assessment district) or a PID which is a current of a district IV or a TID which is a bond that anticipates the growth of the tax base.

New Mexico statutes on investing public funds are very specific. I cannot go out and buy an AAA corporate bond. I can buy tools over $100 billion dollars that put the bonds in them and these municipalities are government and agency debts only. On one hand you are talking loans and on the other hand you are talking investing and we have our investment policy and we limit exposure to any non-governmental entity by 5% of any portfolio. If you could do it as an investment you would be capped by our policy at 5%. As far as short term vs. long term, I am sure the bankers like this, asset liability management. Reference was made to what has happened in Bernalillo County.

7. Updates from Chair and Sub-committees
   Chair-all of the members have been working hard

   Legal – The Chair, Adam Johnson and Kelly Huddleston
   The city attorney office has engaged a very strong local law firm to assist the city attorney's office in regard to the opinion requirements that the resolution proposes. I have had interaction with Kelly Brennan and Marcos Martinez from the City Attorney's office related to the matter that we might interact with special counsel, we are working on the details. Concern, it would be a pity if we worked hard for 6 months and then an opinion from the city attorney would raise barriers. Chair will ask them to work as promptly as possible so if they do see obstacles that we know that sooner than later.

   Governance (Elaine & Darla)
   Written report and eager to get responses. Darla also mentioned if there are other people that should be interviewed to please provide their names. (Exhibit C)

   Regulatory (Judy, Randy, Chair)
   Ms. Updike's study was utilized to review the legal and regulatory aspects. The have met with a director level individual at the Licensing Department and had a phone conference with the co-author of the study; Mr. Christopher Erickson and it was very helpful in that regard. They are meeting on Friday with specific bank regulators who do the validation of charters should we get to that point.

   Capitalization (Wayne and Bob)
   Posted three options for possible sources of capitalizing Santa Fe Public Bank: 1) Long term amortized mortgage of city owned land; payments to be paid from bank profits; underwritten by pledging GRT. 2) Long term bond, payments to be paid from bank profits underwritten by pledging GRT, and 3) City cash reserves underwritten by pledging GRT. A list of questions on (Exhibit D) will need to be addressed.

8. Next Steps
   Meeting Schedule:
   Meet every 3 weeks – September 6th, Oct 2nd and18th, Nov 8th and 29th December 20th

F/U with Councilor Villarreal to discuss the Resolution directions requiring broader public input and asking if they should present to Finance Committee meeting on November 13th they could report back on progress with public input.

Chair Bucholtz: Stated that he appreciates the responses. He and Michelle Lis will discuss with Councilor Villarreal the town hall meeting and report back to the Task Force members before next meeting.

Michelle Lis: Finance Department website has the Public Bank Task Force Agenda and attachments.

Mr. Johnson: FYI: There is only 1 finance committee meeting in November.

Chair: City's policy is that the city record is the stenographer's minutes. Both the public meeting open meetings act, people can make their own recordings, we can continue to have the recording done by the private sector.

9. Public Comment
    - Assure that documents are posted on the website after meeting.
    - Nicole: Great presentation today. Governance – public trust and how important it is for the task force to come up with public trust on things that are getting done with the bank and what are the measures so the public knows it is serving. I think there are metrics so they know that the bank can be trusted. We know we don't want the city to run the bank but we know that the people can't.
    - Purpose of the public bank and suggestions of the relationship with the county, schools system and I would add to that so they are not discounted, community college and at least to keep in mind that the other possibility is a significant economic engine. Thank you for all of your hard work.

10. Adjourn

There being no further business to come before the Public Bank Task Force, Mr. Mang moved to adjourn at 6:30 pm, second by Ms. Cormier, motion carried by unanimous voice vote.

Signature Page:

________________________	Frances A. Lucero
Mr. David Bucholtz, Chair	Fran Lucero, Stenographer