

Public Bank Task Force  
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November 8, 2017

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City of Santa Fe

# **Public Bank Task Force**

Minutes, November 8, 2017 – DRAFT UNTIL APPROVED

Frances Lucero  
11/8/2017

**Public Bank Task Force**  
Tuesday, November 8, 2017  
4:30 pm - 7:00 pm  
RAILYARD MARKET CITY OFFICES

MINUTES

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

2. Roll Call

Present

David Buchholtz, Chair  
Brad Fluetsch for Adam Johnson, Finance Director  
Randolph Hibben  
Darla Brewer  
Judy Cormier  
Elaine Sullivan  
Robert Mang

Not Present:

Kelly Huddleston  
J Wayne Miller

Others Present:

Michelle Lis, Facilitator  
Fran Lucero, Stenographer  
Audience Participants

3. APPROVAL OF AGENDA  
*Mr. Brad Fluetsch moved to approve the agenda as presented, second by Mr. Mang, motion carried by unanimous voice vote.*

4. APPROVAL OF MINUTES

- a. August 15, 2017

Corrections:

Page 1: Mr. Bob Mang retired from ReGenesis not ~~The Genesis~~  
Page 3: She is the Board Chair of the organization, ~~Grass Roots Not For Profit~~ We are People Here which is a grassroot not for profit organization  
Name spelling throughout the minutes: Mr. ~~Bucholtz~~ Buchholtz

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b. October 18, 2017

Correction: Name spelling throughout the minutes: Mr. ~~Buehholtz~~  
Buchholtz

*Ms. Brewer moved to approve the minutes of October 18, 2017 as amended, second by Mr. Fluetsch, motion carried by unanimous voice vote.*

## 5. NEW BUSINESS

- a. Task Force Facilitated Discussion - What are the potential benefits or value of a Public Bank in Santa Fe (e.g., what is the potential impact, what is the value of a Public Bank that cannot be accomplished by existing entities)?

Opening remarks by Chair Buchholtz. Ms. Lis asked each task force member to comment on status of where we are at this time.

Elaine Sullivan: This is a big day for Public Banking, New Jersey just elected Phil Murphy as their new Governor, and a major piece of his platform was Public Banking. A state bank for New Jersey might become the next Public Bank. Our local long working advocate, Nicole Lichen who is also on the Public Banking Institute Board is in Tacoma, Washington right now speaking to the Governor's Task Force that is charged with looking at public banking as a way to fund infrastructure. Nicole's e-mail today said; "Public Banking is Busting Out All Over". It lead me to thinking about why I wanted to be part of this work and that caused me to think of Charles Eisenstein. He writes and lectures on sacred economics. One of the things that I heard him say was, "when we are focused on metrics it is natural to devalue those things that are hard or impossible to measure". I began to think of ways that I think that plays out and this group certainly has had to pay a lot of attention to metrics. What I bring to this conversation today is something that I feel is value added that is hard to impossible to measure and it does match with why I chose to be a part of this in the first place. I want Santa Fe to be soon less dependent and ultimately independent of the global banking system. I believe that is a way to protect our dollars and it is a way to keep more dollars in our community for our purposes. I also do not believe that the City Council a few months ago had any choice when they decided to continue with Wells Fargo as our fiscal agent. I don't think they had an option at that time and I want them to have another option. That night in the reporting to the city council it was said that Wells Fargo made some mistakes in the past. No, Wells Fargo did not make mistakes, Wells Fargo committed egregiously fraudulent act and they robbed individuals, therefor those individual's communities of dollars that they

needed to thrive. I want the City Council to have choices. I don't know if we can make a match for Santa Fe and a Public Bank. We certainly have encountered many restraints. Some of them I think are very real and some of them are probably exaggerated. But it has been heavy lifting for this group. If we are not able to make a match my hope is that we, because of all this hard work can come up with a viable alternative. A new door that can be opened with the same goal in mind that we get ourselves freed from the global banking system. My biggest disappointment will be if we decide that it is just too hard, so we will have to settle for a status quo. I want our City Council to have other alternatives, local, exciting, viable alternatives and I want it partly because this is a community that is full of social justice and economic justice values. We are rich with those and we don't have the money to fund them and that takes away the spirit of community. I also want us to have this because I agree that public banking is busting out all over and I want to be part of that and reap benefits from it.

Darla Brewer: I work for the State of New Mexico as a Forensic Auditor for the Securities Division, and I spent my day moving offices and it was the second time I moved offices in less than a year. When I talk to my fellow co-workers they said they have moved 6 times in 8 years, etc., a lot of people have spent hours moving offices because there is a fight for the corner office with the view. That seems so dysfunctional to me so I am angry because that is how my tax dollars are spent. What does that have to do with a Public Bank? I just see that our systems, our governments, our city, our county, our state, our Federal government are breaking down and they aren't working anymore and they are not working for the people. We no longer have a government for the people and by the people, we have dysfunction. I think it is time to see what we can do that is new and extremely challenging. We may not know what it looks like but I think a Public Bank will bring in more of the community to have a say. I think the Public Bank would be more open to having different view points. And we have to know also that New Mexico, and this has been my issue since the beginning and this is why I chose to sit on this committee, is that New Mexico is last in everything; in poverty, in education, in everything. Except for Mississippi a friend of mine said we should make a bumper sticker that says, Thank God for Mississippi, because we are last. That cycle of poverty, -I want to see it end in my lifetime or improve. I want to leave my state where I was born and raised, there are 5 generations of my family that live here, I want to leave it in a better condition than it has ever been. In order to do that I think many of us have to step forward in a new direction. For me, that is what a Public Bank is a step forward in some other type of direction. I want to follow up on what Ms. Sullivan said about our big bank institutions. The trust is just gone. They have raised fees too many times, they have opened accounts without consent and they have shown time and time again that they are for profit for the executive and the shareholders. I foresee a Public Bank or some like-minded institution that cares for the clients, customers and the people and our citizens. One other

point that I might want to make is that our systems now are creating poverty and not prosperity and I think if we can move in a way to expand that view point, I am asking us to think big, it might not be just Santa Fe it might need to be a statewide initiative like this gentleman in New Jersey. We need to start thinking bigger and that's what my hopes are for this movement.

Randy Hibben: I think philosophically the idea of a Public Bank has a great deal of appeal and charm. I think practically for the city of Santa Fe it is not going to be able to come to fruition and I am just laying it on the table. The regulatory hurdles to get a bank charter approved are tremendous, there would be a great deal of legal work required, a change in law and interpretation of the statute to even have the regulatory authority's consider an application for a banking charter. A bank would need to have FDIC insurance in order to gain that charter and that is looking iffy from new information that I have discovered from the FDIC. I was intrigued to see what New Jersey is doing on the state level because they really would have the where with all as does North Dakota to have the scale and the economy scale to pull this off. I think the liquidity that we think is in place and available to both capitalize a bank and fund a bank in Santa Fe doesn't exist. I think the city of Santa Fe has made great strides to economically diffuse some of their debt and do many of the things that a Public Bank has been considered for here. Some of the fundamental economics of banking need to be considered here as well. The 5-year plan for instance made a very brief statement that all collateral or requirements for deposits would be waived from the 102% they are currently to nothing. That is not going to happen. The regulators would never approve something like that nor is it probably appropriate to give up a safe and sound deposit collateralized by government securities with a purchase of government securities to lend directly in to projects. It reduces the cities liquidity and expands leverage. I am hoping that the Resolution can be expanded to provide the alternatives that you are suggesting. I don't know that we have been charged with this and maybe that is something we can discuss, those are my feelings.

Judy Cormier: I want to add that Mr. Hibben and I are on the same sub-committee with the Chair. From the Finance standpoint that Mr. Hibben just talked about, the realities, I think some of the other challenge is getting a clear definition of what the bank is envisioned to be. Is it a full service bank to customers, is it just for the city. From my perspective, a lot of the if this than that decisions that we would make on how a bank would work and what hurdles you have, I think we are still struggling to get there. To Mr. Hibben's point, the FDIC is what it is, that isn't going to change no matter what bank we are talking about but from the perspective of what will it then take to run a bank, it depends on what the bank is doing and therefore what the regulations are that come in to play. From my standpoint I agree with Mr. Hibben and his comment and I think perhaps the state bank may be more, may be easier to move forward on rather than just a city ad where do all these resources come

from one city. I think that is one part of what we have been struggling with in looking at if you do this, what does it mean? Once it is an operating bank what does that infrastructure look like? I think there is more to understand and figure out that definition of exactly what it is we are hoping is going to happen is still something that challenges us to move towards the pros and cons I know the proposal was hoping we could get to.

Brad Fluetsch: When you look at Century Bank a local bank; it is a \$800 million dollar bank equity and they don't have the resources to be the city's fiscal agent. The city doesn't have \$800 million dollars. If you look at LANB it is a substantial bank and it is publicly traded, I encourage you to go look at their financial statements, you can get them online and read them and see how they spend their money and invest their capital to operate a bank. And they don't have the systems in place to service the city's credit cards, checks, payroll, deposits from water, waste water, garbage, parking, courts, convention center; these are substantial local banks and they simply don't have the capital to invest in systems and people to run a full service bank big enough to service the city. I think that is a critical point right there. When the attorney's were here last week and we brought up the idea of using the county, the city, the community college and the school district; because the school district and the community college are not home rule it would cause a problem, so we would lost those potential sources of capital. When you look at the notion of Federal Reserve and this bank being able to capitalize for \$10 million dollars. \$10 million of liquidity that the city legally cannot use; does not have to put into the bank, no other entity, the Federal Reserve is not going to let us leverage that \$10 million and let us borrow \$90 million dollars. It is not going to happen. The correspondent banks, members of the Federal Reserve probably aren't going to look at the bank as the ultimate credit. They are going to look right through that bank to the city, and that brings up all of the legal questions on the city's ability to borrow money or issue credit, and this would be unregulated credit. The idea of this public bank going out and servicing public members and getting local deposits and giving businesses small business loans, we can't do that legally. There are substantial legal hurdles that you need statutory changes to which all leads to what Mr. Hibben and Ms. Cormier have said. Probably at a state level, the state legislature can change those laws and regulations. Just looking at the city and I have been there for a year, the Brass Tacks put forth a 5-year plan, it doesn't even add up. When you go in there and start to add up their balance sheets there are mathematical errors. In some of the assumptions that you would hire a part time for \$30,000 a year, IT person, one IT person. Go to a local bank and look at their IT departments, even the small ones, go to the credit unions, they have multiple IT people running computer systems 24-7-365. The business plan put forth by the Brass Tack Team is completely impossible to run a bank on that budget. The other thing is the city, great reference to the feasibility study, took very seriously the management of the city's finances and we have made substantial changes in the way we manage the city's cash flow and its

investments and its debt. I don't see anyway forward without substantial support from the NM Legislature to make this legislation. Even if it did, write all the laws that allowed us to do it, the city does not have the capital or resources to run a bank. Just take a look at any local bank and imagine them all being city employees, it isn't a 1-2 person show, 1-5 person shop, it takes substantial. Even if we didn't have the broad base of customers such as Century Bank has or LANB has, and did our own stuff, than there just isn't enough business for the bank to do. We don't have the systems and we don't have the capital to buy the systems to clear all the checks, credit cards, and do the payroll, all the simple banking things. We don't have enough loan activity to be just a bank where we borrow from ourselves and to ourselves. There is really no reason to duplicate that infrastructure that is already in place in the Finance Department.

Mr. Bob Mang: I first got interested in the Public Bank because I was involved in trying to find out how we could to develop a better economic base in Santa Fe. Economic Development is the perspective that I have come to this task force from. It appeared to me that the city itself; its economy is fragile and dependent on government and tourism and art, all of which are in competition, the government isn't but tourism and art with a whole host of other cities that are Santa Fe's size or larger. We need a stronger base so I got involved in putting together an Economist report looking at what Santa Fe's economic status is. In fact we have 48% of our gross product that is being exported, not the product but the money. We import 48% of what our total gross product is and that is not a sustainable economic picture. Santa Fe suffers even more in recessions and we have as pointed out disparity between a lot of wealthy people who come here who have their money in private banks that go to Wall Street or they have their investments in Wall Street and we have the city investing through private banks who are enabling loans to other places for economic development. What we need and this is what my interest in public banking, we need a way in which our resources here in Santa Fe, the people who are investors, people who deposit in banks and the city itself are creating a mechanism to stimulate productive new and expanded existing businesses to reduce the number of imports that we are reliant upon. We import about 95%, I think it is even larger than 95% of our food. We need a concerted effort which I think the City of Santa Fe is looking at very carefully with its new Economic Development Director. We need a new way of stimulating a broader and more diverse economy and that requires finance. So the public bank to me was one way to look at this and as I got further in to it in this task force I have learned other things that we are also critical. Traditionally banks are the ones that make the small loans for businesses and community banks are the ones that are mostly in relationships with small businesses and entrepreneurs. What I found out recently, as you probably know we have had a couple of community banks that went out of business either by merger or just leaving. We have one community bank left which Mr. Fluetsch indicated is an \$800 million dollar bank, yet it is also threatened.



One of the reasons is for community banks, not only true in Santa Fe but also nationwide. One of the reasons is regulatory, and when 911 occurred the Homeland Security Act which was passed very quickly required some new regulations and accommodation from banks. At that time it was especially around the laundering of funds, being very careful on who was depositing, what was the source of it and where it was going and so forth which increased the overhead for all banks. Then when Doug Frank came about because of the great financial crisis there were additional requirements around Cyber security for banks looking at what kind of internet malfunctions were going on and tracing that for all the deposits as I understand it. These two requirements have overwhelmed the ability for banks to manage that and the fines for those kind of infractions for not being compliant with those two requirements are huge. It has put several community banks out of business because they didn't comply completely and the fines were of sight. Community banks, and this is the view of bankers that I talked to, are a thing of the past unless there is a way to consolidate the cost of these kinds of regulations and the regulations have merit but community banks just can't manage it as a single bank. In North Dakota the public bank, this was true many years ago when it came into existence, has been the source of keeping community banks alive and they work together. Community banks do the due diligence on the loans and the public bank then supplements the money in to the loan so the community bank can actually expand their loaning ability. In recent years the Homeland Security Act and the Bank of North Dakota has, with the community banks, pulled their resources to be able to monitor and fulfill their obligations under these regulations. This is something that I just discovered in addition to being a source in economic development for small loans to businesses. I saw that as another reason, and community banks are really critical to keeping small businesses going. Small loans are too expensive to monitor and they tend to go towards long financing. One other aspect and one could say that Credit Unions are a source of small loans for small businesses and that is somewhat true. Credit Unions do not have the ability of charter banks, ...loans and capital, one other thing that a chartered bank would have of being able to loan in multiples of its own capital. One of the aspects and other advantages that attracted me to want to be on this task force and look at a public bank was that it would be able to leverage its capital conservatively 5x's than larger banks that go to 10 x's or even 20 x's their capital in terms of being able to expand the amount of money available for loans. These are reasons that I see worth looking at a public bank. I am very much aware of all of the restraints legally of trying to raise the capital and I believe there are ways to do that. It requires us to look at why we are doing this. I don't think it is worth trying to change the law or trying to raise the capital, if anything, unless we think this has a real advantage to Santa Fe. In my view it does have the advantages of helping to preserve community banks which then leverages more money for small businesses to replace these imports we are so reliable on wouldn't need to be if we had the financing.

David Buchholtz: I have been a lawyer for 42 years and the reason I became a lawyer, I was a student of American History and a student of American Politics. I went to Law School in Washington, DC, which was a good choice for me because it was a place where I was able to learn both because of the times, Watergate times, and also the nature of the fact that my in my school were business trained, security trained lawyers about the intersection between political power and economic power and also they wanted to learn what it meant to be a lawyer, to do your job professionally. What I became in effect, although I never practiced in New York, I became a Wall Street Lawyer. What a Wall Street Lawyer really is not someone who goes and sits in Manhattan, but a lawyer who is not a trial lawyer, not necessarily an advocate for one side against another, not a win-lose lawyer, but what we call a transactional lawyer, a win-win lawyer, a lawyer who tries to guide people who want to accomplish certain things within the rules that society establishes to have those things done. I spent the first 25 years of my practice, some in Philadelphia and mostly in Albuquerque learning what it meant to be a transactional finance lawyer and it was very hard to learn, because instinctually your clients and sometimes your Seniors either aren't good teachers or aren't inclined to teach you and the subject matter is very technical and not always intuitive. After about 25 years, particularly with the work that I did with the city of Albuquerque, I felt that I got to a place where I actually learned what it was I was doing and why I was supposed to be doing it. I have spent the last 15 years or so trying in my own way to explain to people what it is I do and have the un-expertized public have a better sense of how does the law work, why is the law what it is, and how can we accomplish what we want to accomplish? I see myself as a can do problem solver rather than a nay person. How do I bring that expertise to this particular assignment? I very much understand the frustration of the public in regards to the nature of their power and trying to find solutions to that. It is the over-riding social and political issue in the United States today. It goes far beyond the public bank. It goes to all of the lack of consensus, the frustration and the anger about the system one way or the other. You know, taking control of things in your own hands is not terribly different than draining this world although people express those views often feel that they are very politically diverse. In our circumstances here, I well understand the public that says we have lost trust of our capitalist finance system and of course Wells Fargo for better or for worse is the poster child for that, but there are others. There has to be a way for us to do this better by ourselves and if we could only do this better by ourselves everything would be better. I very much sympathize with those thoughts, but those thoughts are often addressed in generalities, a lack of expertise in regard to the inter-workings of the capital market and the regulations and rules of government and a great frustration for why we can't do this for ourselves. On the other hand, I listen to government officials and regulators, who also sit with us on this task force, who are frustrated by the fact that they have to sort of drive the train everyday, work the computer every day, know how that works and make sure that it doesn't go wrong and understand how technically

difficult and challenging that is to in effect keep the trains on the tracks. There is frustration in those groups with sort of the lack of understanding or the ability to be able to explain why it is things are as challenging regulated, as difficult as they are in a way that it would appear to say to the frustrated community, look it doesn't work that way. So what is my job here in regards to my career and my approach to things and why I am here? What I want to try to accomplish is to help the public who is frustrated try to understand that people understand and want to react to that frustration and at the same time I want those people to understand that the capital system, the banking system, the financial system is very complex, not easily doable in a small community without access to a significant capital and not just immediately replaceable because we have important powerful good ideas. At the same time what I would like the regulatory government people to understand is that we have a public that has lost confidence in our regulatory system and in our governmental system and how do we react to what their frustration is by making our system work in a way that takes the frustration and makes it go away. That is the challenge that we face with this and we need to try to bring together all of the people who are saying that the system doesn't work, I can't get a loan. Wells Fargo steals from me. People far away are getting rich and we can't find jobs. It is very complicated but these are the different pieces of a bank, this is how much it costs, this is how it is regulated, the laws say only do this, that or the other and we can't do that and I don't have the answer yet, but I think I have identified some of the questions. If we can continue to tackle those questions in a way that teaches if you will, the general public, more about how mechanically does our capital system work and why and teaches the regulators and the government people the frustrations of our people, how do we make the system work better for them, we will have accomplished some things. I believe that is what we are trying to do.

Michelle Lis: What are the comments and questions that we have to address off of each other's presentation? Where are we going with this takes on more of an urgent pace as we are about 50% there.

Mr. Hibben: Minor technical point, there seems to be a misnomer and it was in the 5-year plan too, that we can leverage our capital 10 to 1 and that is well and good and you have to maintain a capital ratio but you need deposits to do that. What you are implying here is attracting deposits from mom and pop and the families in the community to provide that leverage and that is no small task. It is not as though the city has the money to immediately lend as we have established. I think further the relatively low loan to deposit ratios of banks around the country within the city of Santa Fe additionally, the loan demand that we are talking about doesn't seem to exist to the degree we are talking here, that there are borrowers out there just waiting for a community bank to be able to make smaller loans to them. The Community Reinvestment Act requires all banks to lend in the communities in which they attract their

deposits and so larger banks are motivated to make smaller loans. I am just wondering if the demand is really there based on economic conditions or just the lack of businesses in the city of Santa Fe.

Ms. Lis asked a clarification question; you are saying is there a demand is you talking about small business lending itself specifically.

Mr. Hibben: Yes.

Mr. Fluetsch: Along the Chair's comments, I think the feasibility study really laid out two, and you called it the public bank and the Altruistic bank. In my mind we should focus on the Altruistic bank because that is going to address the concerns that a number of the task members made. Financial literacy in New Mexico is not very good. When you look at the payday loans, just the fact that people are getting payday loans means that they are not really financially savvy. When I sit there and listen to the Harley Davidson commercials talking about they can finance anyone, no money down, bad credit no credit we can get you approved, that is predatory lending. It is happening everywhere in our state. How many times has the legislature brought up eliminating the payday loans? I think when you talk about how you address the energy to really solve the more social issues that we have, and from the lack of financial literacy, the awareness of good financial management by the public, that is where I think the public and the people who have addressed the Brass Tacks Group and the We Are People Here, that is really an opportunity. Not to fix the bank side of it but to fix the customer side of the bank and if you make smarter customers who are better consumers those banks are going to be able to do what they have been doing. If I was able to direct the energy of the people that is where I would direct it and I think the feasibility study really laid it out well with what the problems are. People got over leveraged, they bought too much house, the economy collapsed, right now they are buying too many cars and that is a really big issue right now, especially the sub-prime car loans. From my perspective that is where I think the win-win comes from this task force. On a note on the Bank of North Dakota dictates, if you are a municipality in North Dakota you don't have a choice on who you want to bank with because you are going to bank with the Bank of North Dakota. It is statutory, every government has to put their deposits in that bank. That is why I think when you start looking at state model of a public bank it makes a lot more sense. When there is a lot more capital they can pass certain laws and really sort of drive through legislation and legal system how the public funds in the state are utilized.

Chair David Buchholtz: I have the other piece and feel like I have the counterpart, I agree with all that was said here in regard to the Altruistic bank. I want to speak on some of my thinking of a bank for the City of Santa Fe and why I am not yet convinced that we don't have almost all of those pieces in place and that also I am not convinced that there is that kind of need in this

community. We talked about the idea of the city as customer and when the city is customer to a bank what does it need. It needs a place to borrow money from, they need a place to deposit and it needs someone to be its fiscal agent to deal with internal operations, three things that are necessary. Lets talk about what the city has right now. In terms of a place to borrow money from, we actually have in the state of New Mexico what we call a \_\_\_\_ bank. It is publically owned, it is called the New Mexico Finance Authority and it is available to local governments to borrow money from particularly related to smaller communities. Its original intent was to allow those communities to make simple direct borrowings and loans from a more sophisticated government entity at a price that would be more effective for those smaller entities, and protect the smaller entities from investment bankers or others who might take advantage of smaller governments. The Finance Authority has been in place for about 25 years, serves everything from the City of Albuquerque and the City of Santa Fe down to the Village of Jal and a bunch of other school districts in between. It has been very successful. How it works sort of simply, it is the lender to local governments and then it pulls those loans and it deals with Wall Street. But there is really no other place for it to turn other than to deal with Wall Street to get that system to continue to work. The City also has choices to go to Wall Street directly, either through what are called negotiated borrowings which it often does with investment bankers for things like its Water System Bonds, Gross Receipts Tax Bonds or to cause there to be a public bid among lenders to see who would offer the best rate and that is the core practice that is normally used in General Obligation Bonds. In a lot of larger jurisdictions, Philadelphia the Oakland's, etc. as I understand it, there is a disconnect in how that system works in terms of the corruptibility of throw that system works and in terms of the complications of that system. Some of the responses in some of these other jurisdictions has been, lets try to get away from that system. But I am not sure that those corrupted situations are necessarily impactful in Santa Fe or other governments. It seems to me and I use to do work with the City of Santa Fe years ago, that it operates as one would expect it to work. They can do public bids. The other aspect is, where do I deposit my money. Treasury people can describe a lot more detail than I can on what they have done to try to become a more effective depositor. I can also say that there is a government program where you can deposit your money with the government, at least your short-term money that you need to be liquid and that is the State Treasurer's short term investment pool. That was a system that was primarily designed for smaller governments so they did not have to deposit in banks or deposit in terms of funds that they may not be able to understand because of the sophistication level or the smallness of communities and those monies are held by the State Treasurer who has the sophistication to reinvest those monies. So we do have a couple of mechanisms, for city as customer in regards to where we put our deposits. Finally and the point was made very well in terms of the fiscal agent relationship it is in the modern 21<sup>st</sup> century a very difficult, complex and costly undertaking to be and have all of the

services necessary to administrate the finances of something like a city government. It is a very complicated task and, I will be frank and somewhat naive to think that task can be undertaken by a government the size of this city by itself. I understand, and the treasury would know better than I, that in the bid process they found that some of the local banks were not capable themselves of being able to entertain all the functions that were necessary. If Wells Fargo was not named Wells Fargo and they didn't have all the troubles that they have had and minimize those troubles how they managed their banks nationwide, and if they hadn't been the fiscal agent I don't think there would have been any question for debate. Because it was Wells Fargo in 2017 it becomes an issue because of the toxicity of that name. I don't believe that the city, or any city can, given the size of who it is, given the nature of the expertise you need to have and the complexity of operations to be a fiscal agency, stand in the place of having a fiscal agent do things. Those are my complimentary comments on the question of do we need a public bank for the city as customer. My mind is not entirely closed but I haven't heard yet arguments to say; you missed the point, that's not right, or you don't understand this particular part of the financial system where we are not being served. Those are compliments I want to make complimenting the comments that we heard here about so called Altruistic bank which has its own issues but also in some sense needs to be viewed in a way to make our citizens feel like the banking system has served them better.

Ms. Sawyer: Did you just define what we say is an Altruistic bank?

Chair Buchholtz: What I mean is a bank that would serve the public as customers in some way. Not just be a bank where the city is the customer but that the public is somehow served as customers and that somehow in theory, because that bank doesn't have shareholders for whom it needs to make a profit or has a mission that is somewhat more social than entirely capitalistic, that it can serve the public in a way that is more open minded, more perceived by the public to be fairer, something that they would rather do business with where they get a better result, they would know why they are being charged fees, where fees weren't understandable and appeared to be over charged or outrageously expensive which creates the frustration. All the frustrations that people have in going in to a bank, being asked to expose their entire universe to get a mortgage and being unable to get a loan, to have to pay fees and have to get .00001 of their investments in a savings account where they didn't have to do before, where the Altruistic bank would fix all of those things. I think that those are all legitimate concerns and problems about the frustration of the system, the profitability of banks. Whether it is feasible to establish a Public Bank to do all those things and fix all of those things is one of the things that we have been exploring.

Mr. Hibben: That is a good Segway. Mr. Mang was talking about community banks are disappearing and there is only one left in Santa Fe, \$800 million is a

large community bank. That is cyclical, and then what happens is community banks come in to existence, they mature, they are for profit, and they are for the shareholders interest. Than what happens, and this happened when I was opening banks in the early 90's, you begin to hear a human cry just like we are hearing here. You need a better bank, you need a community banking alternative. I am of the opinion that Santa Fe could use a non-public community bank. I am hearing a real demand for a community bank to be started up in Santa Fe. I think much well-minded people should get together and it could be run without a profit motive to the shareholders because it would be privately owned but the profit hurdles wouldn't have to be such that you are paying dividends to your shareholders it could be invested in the Altruistic bank.

Mr. Buchholtz: In response to Ms. Sullivan's question, a lot of what we hear, a legitimate concern is we don't keep our money in Santa Fe. Sometimes that is translated statistically and in our statistic it is called loan to deposit ratio and loan to deposit ratio is what we find is that in New Mexico tend to be more deposits in banks than the amount of loans that come to the citizenry. That is why it is such an important factor of the so called Altruistic Bank. Can we get something that works in a way that makes people feel safe; it is not as easy to say keep the money here, but works in a way that has more balanced loan to deposit ratio so that more money is in fact working to keep our capital system more fluid. I think it is a more complicated issue than keeping our money here but it is part of Altruistic Bank.

Mr. Mang: I would like to clarify a couple of things, if we look at other local communities and the \_\_\_\_\_ bank in Western Massachusetts doesn't have a Public Bank but they have done some similar things to help the local economy. There are other examples in other communities that are small but have been very effective. There is a distinction that the people in the \_\_\_\_\_ bank between loaning for consumer purposes and loaning for production purposes and that is what I was trying to address is that we need to have financing for those entrepreneurs who are ready, willing and able to become local producers. In the farming areas I indicated 95 % of our food is imported. There are small funds, the Farmers Market Institute has small funds to help farmers acquire land, helping them diversity their crops, purchase of equipment and there are other efforts going on around import replacement in other arenas that would stimulate the economy of Santa Fe from a production standpoint. We have ready markets here that are buying products from someplace else so there is a market for those products to the extent that we could help put people in to business. The financing is not readily available to them. One of the arguments is that often times it is more risky to go with a new entrepreneur or small business because they don't have the capital reserves to weather the storms coming on. The statistics indicate from banks, and there is a fund in San Francisco that is doing a similar thing called the Rudolph Steiner Foundation that have anywhere from 97-100% compliance

with being able to pay back a loan, either a 0 or 3-4%, and it is hard to get actual default rates from private banks according to some studies that I have seen. Those default rates are in the 8% to 10% level and in harder times it goes up. It is a difference between an impersonal kind of loan that is done by the statistics and computer analysis and so forth, which is the Wells Fargo approach and a relational approach for the party who is borrowing the money has a relationship in the community and there is support and there is an Altruistic aspect to it. There the default rate goes way down because of the relationships and that is what community banks have traditionally fulfilled as a role in the community. Rather than to looking at why it would be onerous to try to do a public bank or something of that sort, is to look at what do we need to bring back money in to Santa Fe and to produce more locally than we are now importing and how do we do that. The City Finance Department can't make loans, it doesn't have the ability, and in fact it is constrained from expanding its capital. We need a mechanism, we need an institution that will begin to bring money back in to localities that then are invested in local businesses. How do we create this and is a Public Bank appropriate to that, and if it is how do we then deal with the legal and regulatory issues, I think those can be dealt with if there is will to the value of what the bank will bring. If it is not the public bank than what is it, but we need it. I think we need to start from what is it?

Ms. Cormier Your last rhetorical question is what I said at the beginning. Part of what we have been struggling is that is it we want the bank to do the pros and cons? To the Chair's point of further education, if there is a bank doing that kind of relationship lending then you do have all of those consumer protection laws which now worries about who did you make it for, who did you not make it for, monitor it and report it, and it becomes that infrastructure operations, for lack of a better term. I have done regulatory compliance for over 30 years so it is that hidden operational net that no one even understands is what makes a bank run and keeps it out of trouble. To your question, I think once we can define it I think at least we could do, if it was a bank for just municipality purposes to lend then here are all the requirements that you are going to face. If it is consumer based the list just got three times longer. That is part of the challenge I can't speak for the Chair and Mr. Hibben, which has been my challenge. I want a guide, but until I know which way we're falling, it could be this big or this big. What does that look like? I agree with you on your point that we need to decide the challenges back to what Mr. Hibben stated; once you define it you have just begun to identify what your challenges could be. We have identified the mountain top of challenges, the financing, the capitalization but that is the beginning of an iceberg, and the rest of it is all of the details that you saw that capitalization and you now have how do I maintain an active operational bank that is doing everything it needs to do and doing what the public wants. I wanted to finish what I started, it made full circle, and what is this that we are trying to build. We are working backwards, and that is ok, we have to start somewhere. I think that is the biggest



challenge now is can we define this because once we have defined it at least we have some concrete tangibles to say this is what it means as opposed to a little more high level.

Ms. Brewer: I wanted to add, some phrasing was thrown out that needs more exploration and that is, I know Mr. Hibben and Ms. Cormier and I believe Mr. Fluetsch talked about economies of scale and Mr. Fluetsch made a very good point that we can't be naive about how many people it is going to take to run a bank. It is going to take more than we think and we have to have the economies of scale do it because even if we get cheaper money by using our resources here in New Mexico, whether that be the New Mexico Finance Authority or the Fed borrowing window, that economy of scale has to be big enough to support a staff. The only way I can see that happening is if it is on a broader scale, not a Santa Fe Public Bank, it is a state public Bank. I want to make a comment on what Mr. Mang said about Rudolph Steiner. I am a member of Rudolph Steiner and have been involved with them for years. There is such a satisfying relationship because what they do is they bring you to the table and they say, what kind of interest rate do you want? You hash it out with other people and investors and the reason you do that is because you are willing to take less than an interest rate, because you're investing in things that have deep value and that is so important of a concept. I would like to see Santa Fe, I know they have a hunger for that, they have a hunger for investing in things that have deep value and they have a hunger for wanting to be a part of that process and say, yes maybe I will take less interest. When I envision a Public Bank or an Altruistic bank I envision something like that because that is such a satisfying process for everybody involved.

Mr. Hibben: A bank is probably one of the most onerous ways to provide credit to anything. The idea is to try to find a way to extend credit to the means of production. Is a bank the right vehicle to do that?

Michelle Lis: Are you talking about the impact investing.

Mr. Fluetsch: I wanted to point that out to Mr. Hibben's point, we have the NM Community Foundation, we have the Santa Fe Community Foundation; I don't know how many (Community Development Financial Institution's) CDFI's are located in town. We know there are a number of numerous investment advisors and investment houses and I'm not talking Morgan Stanley, Merrill Lynch, I'm talking private investment management companies that manage resident's money. The CDFI's are funded through a number of Federal and well-intentioned investors. I don't know how much money is in the community foundation but I do know that when we were at the Beth Shalom temple for the Public Bank meeting one of the speakers stated that they actually invested in Wells Fargo, tobacco, big oil, because they run a globally diversified investment portfolio. One of the things that would be beneficial, not only to Santa Fe would be to lay out who are all those

financial institutions in town, what do they do and what is their purpose and who do they serve. If we had a comprehensive and the public really knew where the money in town was and who is lending it for what purpose and at what rates, it would be a great help to the small businesses. That was one of the things in the feasibility study, how do we leverage the CDFI here in town and get them to invest more of their money here in town.

Chair Buchholtz: The point is very well taken on the financial literacy question, it is not only the basic financial institution because it is not only the basic financial literacy question like what is the interest rate. But also at a more sophisticated level, what are my resources for borrowing in the city of Santa Fe. Who are these institutions, what judgements do they make about how do they loan, how do you get to them, how do you talk to them. I think financial literacy at all levels is very important maybe to help deal with this frustration question. We should continue this conversation amongst ourselves and in public. This was a valuable exercise. I would encourage everyone when we have our public forum on the 20<sup>th</sup> of November, that people come and that the public also participate in these types of discussions, challenge the members of the task force to some of the conclusions that we are getting to or thinking about so this dialog can continue not only amongst us but with the public at large.

b. Proposed Amendments to Resolution 2017-32 and budget considerations (David Buchholtz)

We do have a report due to the City Council and Finance Committee the 1<sup>st</sup> week of December and there has been some interest in the part of the board members to consider discussing with the Finance Committee if there should be changes to the Resolution.

A little more certainty in regards to our budget and the constraints of our budget. I think we have operated very well on a constraint budget. We don't have a handle on what those constraints are or if we would need budget for other purposes. Our facilitator has done a fantastic job and she is getting to the end of her budget. I will discuss in detail if she can continue. We have had some issues with other kinds of expenditures besides the facilitator and the stenographer. I also want to thank the City Attorney who made the decision to expend her own budget for the legal work. I thought that the legal work was very valuable to us.

The Resolution calls for the preparation of a 5-year business plan before our work is done. First of all given the discussions we have had to date, the preparation of a 5-year business plan is an incredibly challenging exercise given all the issues that have arisen and all of the questions that have been raised. Second, Mr. Hibben pointed out to me and to others, that in order to do a real business plan that would have value you would need expertise that goes beyond the volunteer expertise of this task force. I am so impressed with this task force and its willingness to work

and the experience that each of us brings to the table in regards to these discussions. But that does not make us professionals who can create a 5-year business plan for a public bank. Mr. Hibben also says that buying such a business plan would be a very expensive proposition. We should go to the Finance Committee to tell them what the cost and scope of work is to do a business plan.

Ms. Sawyer: One portion of the beginning of the Resolution refers to this task force making a recommendation and later in the Resolution it talks about purpose but it does not say, it talks about presenting pros and cons but it does not say anything about recommendations. The Chair said that we should get from the Finance Committee some clarification about that inconsistency and get some direction from them about what their expectations are. The Chair said he went through that text with Ms. Sullivan and it certainly did occur to me that in the title of the resolution they use the word recommendation. When you read the text of the resolution in regard to our purpose they are very specifically directing us to present the pros and cons and to do nothing else but to do that. I think we need some guidance from the City Council as to what they thought they were writing and what they would like from us. At one time we also discussed if we had appropriate time or did we think we needed a longer time to complete our task as directed.

Mr. Fluetsch said that the actual wording in the Resolution is that this Task Force will provide literally all the information needed to the City Council to make a decision. When I read that I say there is no way any task force can provide all the information. I objected to it when it first came out, it needs to be addressed; we can't provide all of the information.

Chair Buchholtz: It may be a point of clarification and explaining to them what their words say.

Mr. Mang said that some of the questions need something preceding it and that is from this discussion tonight, the take away I have is we need to be clear on what the purpose of a Public Bank would be, what does it serve? It is impossible to think of a business plan unless you know the purpose of the business is. There is some work that we need to do there and it would be helpful and perhaps this is a question for the Finance Committee, to have some input from people who have worked in this arena as professional and I don't know what that means exactly. My feeling is that we have been looking at all of the restraints to something of an amorphous Public Bank that we don't know exactly what it would be. We need to have some more clarity amongst ourselves and that I think would be helpful to have professional input from people who are working on economic development as to what kind of financing is possible. Is that what we want and how would that work? We need a purpose, we need to know what we are after for the so-called Public Bank.

Ms. Sullivan: Do you have a notion about who the professionals would be?

Mr. Mang said he recalled it was going to be someone from the Public Bank Institute in Philadelphia. Possibly other jurisdictions that are looking at public banking, it could be New Jersey or Oakland.

Mr. Buchholtz: Let me speak to my recollection of those points. If I'm not mistaken there is a Public Bank proponent from Philadelphia who was willing to come visit us if certain costs were reimbursed to him. I think there was some discussion as to whether we would have that person come and have him be reimbursed by supporters of the public bank. There was concern about having the task force who is supposed to be independent be reliant on expenditures that were going to be made. On behalf of the task force by advocacy of a certain position and I think the discussion ended at that. It would be useful if we could identify those professionals and more so any that were local or in the state that could speak and would the Finance Committee allow us to spend money to bring in that kind of expertise.

Ms. Sullivan: I believe it is Michael Klause and he has been involved in the entire PA but in particular Philadelphia in their efforts to do a public bank. Another person it might be is Kurt Johnson; he has family here and was on the South Dakota Investment Council for many years. He has been in contact with the North Dakota public bank to a greater degree and has offered to come on his own dime.

Mr. Buchholz: That would be a great resource if there was no cost to us.

Ms. Cormier: Could we do a conference call so there wouldn't be a cost for those who are at a distance.

Mr. Mang: I wasn't thinking of someone who would just advocate for a Public Bank but I think what we need with whoever we invite, what would be the purpose that a public bank would survive.

Mr. Hibben: Don't we need to know what the local demand is?

Mr. Mang: That is what we need to bring up before the council and perhaps involve the Economic Development Department in this.

Mr. Fluetsch: If they aren't going to the banks, what are the restraints.

Mr. Mang: One of the criticisms of the current bank system is that they are weary of taking a chance. It would be helpful to hear from those that are working where they have had tremendous success in lending to people who have a ready source of repayment.

Michelle Lis: What are we talking about, what is the purpose, I feel like we are missing a shared frame of reference to understand what the options are I am

wondering if you bring another outsider if you will get more complexity in to that. If you have an outsider come in you have to be very specific about the questions that we want them to answer and it could muddy the waters even more. If the whole question is to have clarity then what Mr. Mang has said, what are the scenarios of a Public Bank could address and and who does it serve, what is the demand than we could have the buckets like Katie presented for the city as a municipality to be its own fiscal agent to borrow and deposit. The second one is as the Chair calls the Altruistic Bank as a full service for customers and the customers are either citizens or businesses. Maybe if we could map that out with some detail than you can talk about legal, regulatory compliance and all the other issues in relationship to what we are talking about. That is what I am looking for, the frame of reference to talk about this and to help the group figure out what it is and what the purposes could be.

Ms. Cormier: That is one of the challenges that we have talked about several times. We were put together to respond to a public perception of what was needed but we are yet to see a defined perception of what is needed. We could come up with what we think it would serve but when do we validate it with a grassroots movement.

The Chair reiterated the importance of the public forum and whatever we can do to encourage as many people as possible to come and make that case will be helpful.

c. Timeline and public input session plan update (Michele Lis)

Ms. Lis asked the task force members to look at the timeline included in their packets:

November 20, 2017 – Public Forum

November 29, 2017 – Public Bank Task Force Meeting – this meeting will be to process what has been heard and to prepare for the Finance Committee meeting on December 4<sup>th</sup>.

December 20, 2017 is the last meeting.

Request from last meeting: Slides, big opportunities and challenges. We are hoping that the sub-committees, report from the Chair, Resolution, what we have done so far, high level overview, each sub-committee would take about 7 minutes, public input within 45 minutes to ask questions on those 4 sub-committees with questions and discussion. There would be 1 hour at the end to ask that question what is the value of a Public Bank. What specifically can a Public Bank do for you or your community? We are hoping to get out those concrete ideas. That information would be compiled so when you meet with the Finance Committee on December 4<sup>th</sup> that would be the report out.

The Chair asked for feedback and suggested the meeting of December 20<sup>th</sup> be a planned conference call with people who would volunteer their own time among a couple of these experts, possibly Mr. Krause or the other gentleman mentioned above. The Chair would like to have the task force engage those experts in a discussion of questions that we would pose to them in advance. Maybe as one of the agenda items on the 29<sup>th</sup> we could have a report that identifies the specific questions and lets see what we have done in identifying the candidates and maybe Mr. Mang and another member could create a subcommittee to identify those individuals and see how we can get them here. The Chair, Mr. Mang and Ms. Lis will work on the sub-committee.

## 6. PUBLIC DISCUSSION

Elizabeth Dwyer: Listening to this conversation tonight, I am a professional counselor for 10 years and for the next 30 years worked in local government – affordable housing. I sat here tonight listening to people talk about financial literacy to get a better customer. It made me think of all the clients I work with that work 3 jobs to make ends meet. Sometimes they have problems juggling it because their job at McDonald's has them booked at the same time that their Wal-Mart job has them scheduled so they lose one of those jobs. They don't have enough money to pay their bills so they use payday lenders. They don't need financial literacy they need money. During the housing crisis and I was working with the City of Albuquerque, it was the homebuyers fault. I just had to share that with you, I get so appalled when I hear that kind of insensitivity. I am with the Brass Tacks Team, we have done a new and improved model, the one that was in the model, the reason we do this is to have something concrete with numbers in it to say, look this is what we see. We are not bankers, we are not economists but we have created a portfolio that Mr. Fluetsch sent to us on bonds that can be refinanced between 2018-2023 and from that we have created 6 years of balance sheets and statements and we are going to present that on the 20<sup>th</sup> to be put in to the record. Than we would love to have a conversation with especially those compliance people and the bankers who can look at it and tell us what is right with it, what is wrong with it and what can we do about it. For me the goal of a public bank is very clear. If you want to serve all those customers out there than start a commercial bank. The people that Nicole and Allen are going to talk to are government's, this is the Governor's task force in Washington State, the infrastructure and depository task force. What they are looking for is a way to fund projects. Local and state governments are going to go broke if they don't stop doing funding.

Chair: Can you explain to me why you think the NMFA does not meet that need, can you also explain to me specifically how you would construct this kind of financing outside of the sourcing and the manner that we do that now.

Ms. Dwyer: The thing that is happening now is that there is a hole in the \_\_\_\_\_, when you fund public projects only with bonds, the business of government is so

expensive you are always going to have some bonds. But when you do a bank you recycle the interest. The transaction goes, the street department in the city you have a CIP plan and you decide which projects you want to do, you apply to the bank for the loan, the bank does their due diligence and funds the loan.

Chair Buchholtz: The New Mexico Finance Authority performs that function, why does it not work?

Ms. Dwyer: Because again, they are using bonds. The bank as we said will make the loans, they will collect the interest, and the money will be recycled.

Chair Buchholtz: Where do they get the money to make the loans? Where does the capital come from? The NMFA has all those things. They have a public project revolving fund.

Ms. Dwyer: I know they do. The state pays \$26 million dollars in municipal funds to support that.

Chair Buchholtz: That is part of it. That is part of the capitalization that state creates for the public project revolving fund. I don't understand, frankly, how your public bank performs a different function than that and finds money in a more efficient way to fund those loans.

Ms. Dwyer: That is what we will find out when we talk to people. I don't have answers to that specific question.

Merry Schruben: Also with the Brass Tacks team. I wanted to respond to the question on the table tonight about the values of having a Public Bank. Our current process and the process we have been involved in for the last 30 years or so, purchasing bonds in a private market and paying the interest and fees to fund public infrastructure projects for the city is not fiscally responsible. We pay too much in interest and fees, and that money could be used better if it were not spent on interest and fees as part of the process of the bank.

The value that we have as a city is that we must reduce the cost of financing our public works, and stay within our city budget. These are two things that go together. What we have been doing since I moved here in 1981 is that we have been living beyond our needs because we can always buy bonds and have another generation pay for them later and we need to stop that. We need to be fiscally conservative and responsible and my personal feeling is that is the main reason we want to do our public financing for ourselves. If we create a bank legally, viably I believe we can build the kind of capital over time that can increase the kind of leverage that we can give ourselves as community to continue to fund our needs. Secondly, we have known for a long time that we needed to improve our financial system; Adam, Brad and Cristina have done an incredible job so far. We also need and have started to improve project management for our capital

infrastructure and facility needs. We are in our 3<sup>rd</sup> year of an actual realistic capital improvement plan, we have never had that before in the city. The city has made efforts and I hope they can continue to make efforts, we are hoping that the new Mayor, City Management and all of the department heads will continue their coordination between departments so they don't waste money as we do a lot of that here. We need to have our city management provide more timely use of our tax money, it is our tax money that is being used for this, not counting the bond money. We need closer consideration between the revenue and expense cycles for the state. This is something that only became aware through the treasurer of the city just a few years ago. There are many things we can do in project and fiscal management to improve our financial information to look for new financial instruments. Another very large issue that I have with public bank is the issue of transparency and trust, and many of you have brought it up before. This addresses somewhat what Adam and Brad have discussed on issues of financial literacy. Most people in the city have no clue how our tax revenues are collected and how they are spent. They don't know how to look in a reports for their neighborhoods. With a Public Bank would come regular banking controls which are reports, due diligence that a loan officer exerts on a loan, a borrower that would provide the city with a lot more information in a much more public way about how the city actually runs financially. That kind of financial literacy is also necessary. Private consumer literacy fine, if you can find someone to do that, great, but the job of the city is to have financial literacy. What is our tax money collected for, how it is spent and are they responsible. I want to reinforce the models that we have been working on; 2015 model and now that 2018 model. They are models not plans; there is a big difference between the two. The models are for the purpose of discussion, how do we finance, how do we put this together; it is not a business plan. Please do not make the mistake of making an equivalency. Another issues off of the value issues and I want to ask specifically are for the construction of the structure and the format of the forum on November 20<sup>th</sup> and that we not have 2 minute limits, and that it really be a discussion and that you invite people to speak only. If we are having a forum for a Public Bank we should have it for a public bank not against one. You, as task force members should have the opportunity to ask the questions from the public and ask them why they feel the way that they do. Without the public input we are not going to get anywhere with this public bank and this whole thing will just be an exercise.

Chair Buchholtz: My anticipation is that there won't be any time limits at the forum and I anticipate being able to have these types of discussions with advocates in regards to what their thinking is and how we can learn as much from their thinking. I will draw the line and say I do not expect it to be a public forum for a Public Bank. It is a public forum opened to the public and they can discuss their issues as they like. To come and say if you are only coming to explain why you want a public bank and other people are not allowed to speak to that, is not the intent when I have a public forum. Let me ask the question as before; when the city needs money now to buy something or sell, but it can't afford to buy, pay as you go, it generally will issue sell a bond and then it pays back the bond back



with an interest rate. Interest rates in the last 7-10 years have been at historic lows, 2%-3%. Can you explain to me how the transaction that you perceive with a public bank is different from that? How that the city will save money and where the money from that lender comes from to make that transaction work?

Ms. Schruben: I am not a banker, one of our member has more information but he was unable to be here tonight. The difference between borrowing from bonds and borrowing from the bank is the difference between the interest that the city would pay on its loan for Siringo Road re-paving (example) and the interest on what they would borrow from a bond on Wall Street (example) for the interest and fees that would be on that bond. There is a differential in the rate of interest paid and rate of interest received. That is where the city can determine how much they have to charge above 0 vs. how much they are going to receive – how they are going to pay for the money that they are going to use to pay that. In the situation of a revolving loan fund, you have a fixed rate. Mortgage Finance Authority tells you exactly how much this is going to cost you because if they are going to sell bonds they need to know how much they will get back on those funds. If the city is doing this work themselves we don't need to go to Wall Street to sell bonds we only need to go to the Federal government to borrow money. The difference between the Fed rate and what we decide what we need to charge is that differential and that can be set ourselves. We are in charge of setting that rate.

Chair Buchholtz: That actually moves the ball a little forward and I am sure there would be commentary. Let me set it out as to what I heard, really what you are saying is if the city sells the bond it has to pay an interest rate to its lender so that the lender in effect makes money in the transaction. I assume what you are saying is that if the city enters into a loan agreement with the NMFA, the nature of that transaction kicks back up, because the NMFA has to go to Wall Street in part to fund. But you are also saying that if the city had a bank who could borrow from the Fed window, the Fed would act as the lender in that place, that somehow that loan amount is lower, the interest rate is lower, and since there is no pass through of an interest private component, the cost of borrowing to the city would be less. I think that is what you are saying.

Ms. Schruben: That is part of our model.

Chair Buchholtz: I am not sure that I agree, but I do say that you answered the question that I asked. Mortgage Finance Authority only does housing; NMFA does these kinds of transactions.

Ms. Schruben: Is there a revolving loan fund with limited funds and every city must compete for those funds, not the kind of scenario that we feel gives the city financial security that we want.

Chair Buchholtz: Of course if the city had its own bank would have funds that were limited by the rules of the Fed in regards to how the Fed would lend to that bank.

Ms. Schruben: That is right and that is why we need to answer this regulatory question.

Mr. Hibben: The one fallacy in your argument is that the Fed would lend you the money that you needed based on a \$10 million dollar capitalization, (*inaudible due to multiple conversations*) .... So you can't get an unlimited amount of money to get your capital from the Fed or outside sources. It is a liquidity issue.

Jim Lotus: On your point, the Federal Reserve determines how much they are willing to lend based on collateral they are willing to give. They don't look at commercial loans, they lend against mortgage loans that you have in portfolio. In this particular case the lending will be made to the city, you will have one borrower and you will have one depositor. That is a nightmare for both the Federal Reserve and the FDIC, which you should know. I worked for a community bank for 30+ years; the kind of community bank wish existed here, although it is not quite the same anymore. We had \$40 million in capital and our lending limit was \$4 million, so if you had a \$10 million capitalization you might be able to \$1 million dollars back to the city. My point all along since I attended the first introductory seminar at the civic center was that the concept of a Public Bank was offered as a solution without knowing what the problem was. It was offered as a solution and then the Mayor agreed to do it. A feasibility study was written to justify a Public Bank. It took benefits that were solely attributed to a cash management improvement, an investment improvement to the city and attributed it to the Public Bank, when in actuality it has nothing to do with a Public Bank. To set up a Public Bank is going to be a very expensive operation, not only initially but ongoing. The bank I worked for which half a billion in size, was \$500 million in size spent well over \$1.5 million dollars just for the most recent software update that they implemented before I retired. That is just for the software, not hardware, nothing else. It will cost you a lot to provide the services that the city needs, which is something that we said earlier in respect to Wells Fargo. In your discussion tonight, you all concluded that it was infeasible to start a Public Bank, basically. Too many hurdles, no money to capitalize it, now you are talking about having a seminar on why you should do this. Why not just tell the city council that it can't be done, you can't afford it, and it is impractical for the scale of the city of Santa Fe. This lady had that idea, it needs to be, if it is done at all, at the statewide level. The city is too small and they can't do it.

Chair Buchholtz: I heard 7 different people say seven different things and that was the purpose of our dialog today. One of the things that we are specifically tasked with and we haven't done yet is hear from the public and let them have a chance to give the input that you just gave. We welcome the public input, we are tasked with coming up with a report to the City Council can decide. A number of

the items that you have brought up are true. The Task Force is not ready to come up with any conclusions and not to continue to collect information so that it can finish its job.

Mr. Lotus: That is a good observation.

Ms. Brewer: They city would not have implemented all of that if they hadn't been for the force of looking in to a public bank. They would have just gone on operating however they were going to operate. So the discussion of a Public Bank is moving our city in to a better place than it was and I think that is valuable.

Mr. Lotus: When the mayor had his meetings with citizens, they were having budget problems and they invited citizens to make suggestions on how to raise money and so on. One of the suggestions that I made was that the city upgrade their cash management program and invest their monies in things like paying down their debt and a lot of things they haven't implement yet like take early discounts on payables and so on. My counterpoint is that I am not sure that the Public Bank has stimulated the city to do what it needs to do. Perhaps the feasibility study did.

Ms. Brewer: What the feasibility study wouldn't have started without the Public Bank discussion.

Mr. Lotus: The question goes back, do you start a public bank? Do you spend \$2 million dollars to start it, do you spend one-half a million dollars to run it, is that you really want to do and what do you get back? The city is borrowing its own money back. The city has to borrow \$50 million dollars a year at a net interest margin of 2% to pay for the \$1 million dollars it is going to cost to run this thing. What if the city doesn't need to borrow \$50 million dollars, how is the bank going to survive. The city will need to write a check for the difference to keep it in existence.

Ms. Brewer: Starting a public bank and discussion a public bank are two different things and we are just discussing it and good have come from that discussion already.

Audience #1 – One, you asked where the money comes from, I ran a spreadsheet on the Bank of North Dakota, you were talking about the loan to deposit ratios, it was pretty conservative like most banks, about 70% plus or minus on its load to deposit ratio, then the flood hit and in a couple of years when they worked out the programs for loans to homeowners, not through the bank but through the banks cooperative center and institutions, their loan to deposit ratio went up to over 130%. Over the next few years it worked its way back down to 70%. What you have with a bank, which you don't have with any other kind of banking institution is the ability to create money in case of emergencies.

Audience: Banks want to have a low loan to deposit ratio is totally incorrect. Banks would love to have a loan to deposit ratio in the 85% that is where they make all their money. If it is 60% or 50% they aren't making very much money and the pressure on them is to make loans. If the banks in this area have comparatively low loan to deposit ratio then that is something that needs to be investigated. Is there no demand, what is the story?

Chair Buchholtz: Two comments, I think we haven't factored in the regulatory environment that restricts the ability of banks to make loans in some other previous time when it might not have been so difficult. I think the concern is that when you have a national banking system the deposits are taken here, loans are made in other places and that the local deposit ratio is very bad but in a broader national sense our money is being exported to other places. Is that true or not, I don't know. But I do have a sense that is what the concern is.

Audience #1: I worked for 3 years for a bank, Bank One which has now been folded up in to JP Morgan CHASE. I worked in an area of Appalachia where they really did not want to make loans and it was a deposit generator and the funds were sent to Columbus OH which was growing rapidly and they needed funds to loan. In the area I was working in, they really did not want to make loans there. If a good loan came through could we do it, yes, there was no problem doing that. Of course the other side of the coin is that because it was a rust belt area the opportunities to make loans were not very great. There were not many viable loan applications coming through. The area wasn't growing, businesses weren't expanding, so it all goes together.

Audience #2 – I wanted to bring up things that I have been reading in the bigger picture of things, in the mid 90's the bankruptcy legislation was modified by the Federal Government and it gave derivative holders the first shot at bank assets. There is an article from a Harvard Lawyer published in the Stanford Law Review that goes in to this and raises questions about what good is this collateralization in public deposits if derivative holders have first whack at things.

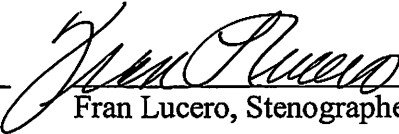
*(Last two audience presentations were inaudible).*

7. NEXT STEPS
8. CITIZEN COMMUNICATION FROM THE FLOOR
9. ADJOURNMENT

There being no further business to come before the Public Bank Task Force, the Chair called for adjournment at 7:00 pm.

Signature Page:

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Mr. David Buchholtz, Chair

  
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Fran Lucero, Stenographer