

**SUMMARY OF ACTION
PUBLIC BANK TASK FORCE - SPECIAL PUBLIC FORUM
CITY COUNCIL CHAMBERS
MONDAY, NOVEMBER 20, 2017, 5:30 PM**

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**PUBLIC BANK TASK FORCE - SPECIAL PUBLIC FORUM
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1. CALL TO ORDER

The meeting of the Public Bank Task Force was called to order by Chair Buchholtz at 5:30 pm, on Monday, November 20, 2017, in the City Council Chambers, Santa Fe, New Mexico.

2. ROLL CALL

MEMBERS PRESENT

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

MEMBERS ABSENT

J. Wayne Miller

OTHERS PRESENT

Elizabeth Martin for Frances Lucero, Stenographer

3. APPROVAL OF AGENDA

MOTION A motion was made by Ms. Sullivan, seconded by Ms. Brewer, to approve the agenda as presented.

VOTE The motion passed unanimously by voice vote.

4. PUBLIC BANK TASK FORCE CHAIR AND SUBCOMMITTEE UPDATES TO PUBLIC

A. AGENDA OVERVIEW AND GROUND RULES

Chair Buchholtz said thank you all for coming. Our facilitator is ill and not here tonight so please bear with us. He introduced himself and said he is an attorney with the Rodey Law Firm.

Chair Buchholtz continued by saying this is a public forum meeting of the Public Bank Task Force. This Task Force was established by the City Council in coordination with the Mayor in order to study the question of having the City of Santa Fe move forward on a Chartered Public Bank. We were given 6 months to complete this task. We have been meeting for 3 months now. All of our meetings have been open sessions. He encouraged everyone to look for meeting notices and attend. It is required by Resolution and we thought it would be useful to have this public session dedicated specifically to letting the community know of our work to date and to take comments and questions.

The Task Force members introduced themselves.

Chair Buchholtz said he would like to let everyone know what we have done to date and what the ground rules are for tonight.

B. OVERVIEW

Chair Buchholtz said this Task Force was formed by a Resolution of the Council with appointments made by the Mayor to study the issue of a public bank for the City of Santa Fe. The City Attorney's Office determined that we are a public body under the Open Meetings Act. In order to accomplish our work we broke ourselves down into subcommittees. The subcommittees are legal matters, regulatory matters, capitalization and governance. Each of them will present a report of their work to date tonight followed by brief 2 minute questions to the subcommittee on their topics. After that each member of the audience can take several minutes to give us your thoughts on public banks. On the agenda you will find some questions developed by members to give you things to think about.

C. LEGAL SUBCOMMITTEE UPDATE

Chair Buchholtz said most of the work accomplished has been through the City Attorney's office and outside council. He thanked the City Attorney for offering her budget and for having the outside council study the issue for us. The outside council is Najjar and Brown. They prepared a lengthy document that is part of the record and is posted on web pages and available. The legal subcommittee concluded that there are a number of challenges related to legal questions regarding the operation of a public bank,

but no specific challenge to cause it not to be done. Not to minimize the seriousness of the challenges or the work that would have to be done. One of the questions the study yielded was around home rule authority. There is not a State statute that says cities can form a public bank. There are statues around home rule powers. Santa Fe is a home rule entity. The questions here are, is there anything under State law that says the City cannot do this, is this is a public purpose of a government and should a government be in the business of operating a public bank. The government can do many things, with some limitations, that its Governing Body allows them to do. There are issues related to the Anti Donation Clause and similar constitutional provisions regarding investment of funds. Those are outlined in the study report. His view is the Anti Donation Clause restricts a government from being a guarantor and donating its money or paying someone debt. It does not restrict government from entering into contracts. Also there are statutory restrictions about how government can invest their funds. That has to be studied. There is the possibility of looking at legislation. That is also in the report. In order to be a chartered bank we have to be so under State or Federal law. There are a series of regulations under both that would need to be taken into consideration. The report covers those matters.

D. CITIZEN QUESTIONS ON LEGAL ISSUES

Berl Brechner asked regarding the terminology in the report, is it an opinion or a memorandum.

Chair Buchholtz said it is a detailed memorandum. When a lawyer gives a technical legal opinion they are saying they believe this is what the law is. A memo is a more studied writing on what are the issues and how could they likely be decided. There is nothing in the memorandum that gave an opinion that anything in there was prohibitive.

Nichole Lichen said she would like an update on the idea that the Attorney General might be asked to give an opinion on the public bank and the Anti Donation Clause. Is that necessary.

Chair Buchholtz said the public or members of task force do not have the authority to go to the Attorney General and ask for a formal opinion. Only members of the Legislator or State elected officials can do that. Can City Council. He is not sure. It would be easy enough for them to ask to pursue that. If that is the case then the Attorney General would be charged with answering questions based on certain facts. Advisory opinions and some more formal published opinions. The weight of an Attorney General's opinion is not as strong as a decision by a court, but is impressive evidence to a court. Lawyers often rely on Attorney General's opinions short of going to court. Courts can say in making their determination that they have reviewed Attorney General opinions. Some courts have said they do not agree with an Attorney General opinion.

The Governing Body may seek an Attorney General's opinion by asking members of the local legislation delegation.

James Trujillo said he is a realtor from Colorado who recently moved here. When he hears of a city owned bank the first thing he thinks is will this bank accept legal marijuana deposits. There is a huge banking crisis in Colorado where businesses do not have a place to deposit their money.

Chair Buchholtz said we did not address that in any detail. There is a lot of tension between State law and Federal law. We don't have general use of marijuana here in New Mexico. Federal law still treats it as a controlled substance. That is a tangled question. There are some considerations in other jurisdiction about that.

Mr. Trujillo asked are you considering accepting that money.

Craig O'Hare said he will refer the issue to his other members as we go forward. To date that has not been addressed.

Mr. O'Hare said it seems we leaped into the weeds without the big picture.

Chair Buchholtz said we wanted to inform the public about what we are doing first. We are going to follow up with that. Please stay.

Mr. O'Hare said it seems it would have been helpful to know your charge as a Task Force and what the Resolution charges you to do.

Chair Buchholtz said fair enough.

Chair Buchholtz said we are charged with limited work to study particular areas that will allow us to make a report to the Governing Body on the question of if the Governing Body should proceed to work on a public bank. We have been given 6 months to do it. We are to report to the Finance Committee at the half way mark and will do that the first week of December. Some issues have come up regarding what the Council is specifically looking for. A question we have is, are we to give them a recommendation or a report of pros and cons. We are hoping to raise that at the Finance Committee in December. The Resolution calls for 3 things. It calls for an opinion of the City Attorney, a report from the Finance Department, which was delivered in June of this year and is part of the public record and for the Task Force to meet and to address questions that we broke down into 4 subcommittees.

Charles Koenig asked would a public bank have to secure public deposits with collateral.

Mr. Hibben said at present deposits have to be collateralized at 102% of face value. Statue allows collateral to go to 50% with named institutions. At present we

would have to seek a variance on that.

Chair Buchholtz said he and Kelly Brennan, City Attorney, are the members of the legal matters subcommittee.

E. REGULATORY SUBCOMMITTEE UPDATE

Chair Buchholtz said Mr. Hibben and Ms. Cormier are the members of the regulatory subcommittee. They are both retired bankers and have worked very hard on this for us.

Mr. Hibben presented his report on slides and it is incorporated herewith to these minutes as Exhibit "1".

Ms. Cormier said once one has a bank then the operations of the bank are looked at depending on what the functions of the bank will be including staffing the bank. Operating costs are the people who run the bank and the systems of the bank. We don't have a definitive number. We did a quick look at smaller banks and overhead costs. The majority of the percentages were from 2 % to 2 3/4 % of assets that went towards non income expense. This is not an absolute number. That is one of the hurdles we have to look at.

Mr. Hibben said it is also a regulatory concern. There is a 5 year study that says we would need 4 ½ full time positions. There is some concern about that. Regulators expressed concern.

Ms. Cormier said their expectations of any bank are oversight function and operations as they should be. Until we have a more full expectation of the functions of the bank we can't answer that question about what staffing is needed to be in compliance and effective.

Mr. Hibben said there have been some concerns that Santa Fe is well banked at this point.

F. CITIZEN QUESTIONS ON REGULATORY ISSUES

Angela Merkert asked is it clear that FDIC regulations are required since the bank will be doing work with organizations, not individuals.

Mr. Hibben said the State requires some form of that. Typically FDIC. It could be the full backing of the State.

G. CAPITALIZATION SUBCOMMITTEE UPDATE

Chair Buchholtz said Mr. Mang is a venture capitalist and experienced in raising dollars.

Mr. Mang said we don't have a presentation on slides but he and Wayne Miller serve on this subcommittee. Wayne was not able to be with us due to back pain. There are copies being handed out if you wish to look at our report. That is the basis for his remarks. That report is incorporated herewith into these minutes as Exhibit "2".

Mr. Mang said we assume funds would have to come from the City of Santa Fe. There are 3 ways to collateralize using City resources. There are caveats and restraints to all. General obligation bonds of City liquid assets would jeopardize the City bond rating. Revenue bonds are a possibility based on the banks viability. The other way is to go to a City vote and have the citizens of Santa Fe stand behind it by a possible increase of property taxes if the bank is not able to perform on the bond. A third way is investment funds. That could be made available from the \$160 million the City has invested. Much of it is restricted and could not be used to capitalize the public bank. There is about \$50 million that could conceivably be invested in a public bank. If the trustees who oversee those funds were agreeable that the bank is worth investing in. Without a business plan to present we cannot determine at this point if it would be viable at this time. It would be an individual decision by the Board of each fund. Our conclusion is if the public bank had a business plan or an offering or prospectus that demonstrate a compelling value to Santa Fe then it may be worthwhile to pursue this. We can't make any further determinations until we have that.

H. CITIZEN QUESTIONS ON CAPITALIZATION ISSUES

Paul Goblet said thank you for going through this exercise. This challenges you to think about all the issues, impediments, risks and rewards. At this point you have to focus on the City as provider of capital and if the FDIC would accept that as permanent capital. He has known the Chair for a very long time. If anyone can figure out a way to legally structure this David Buchholtz can. This is fools gold. He knows there are a lot of well intentioned people here. Still this is the stupidest idea he has ever heard. He thinks there are enough road blocks and impediments to this that it cannot happen. He is an investment banker. He applauds the well intentioned people, but without a business plan and a P and L it is a moot point.

Chair Buchholtz said Paul is an old friend. He can come back at the end of the session and speak again if he wants to.

Jim Lodes said regarding capitalization. The unrestricted funds you are speaking about investing in the public bank, are you talking about a grant of money. This is not really an investment. It is giving money to the bank.

Mr. Mang said that is not the way we looked at it. It would be an investment with return.

Mr. Lodes asked would they be able to choose to liquidate that investment or withdraw funds from the bank if they wish.

Mr. Mang said it will be highly liquid until the money is paid back. One way to structure this is if the bank was profitable year after year you would use some of that to return the capital to the investor. Another way it would be liquid going forward, but there would be a return from profits each year. Or it could be a grant, but that is not very attractive to raise the capital.

I. GOVERNANCE SUBCOMMITTEE UPDATE

Chair Buchholtz said Ms. Sullivan and Ms. Brewer serve on this subcommittee. They worked very hard on this important part. They are working on protecting the money if it is public money.

Ms. Sullivan said we talked to a good number of experts in our community.

Ms. Sullivan said she has been involved in this for several years. One of the things clear from the beginning is the importance of a governance model that would assure the public that the City would not be asked to run a public bank, but rather a governance model created that would put in the right relationship with the various entities required. We are still interviewing people and trying to establish the right relationship between a Bank Board, a Citizens Advisory Board, the bank management itself, the City Council and City staff. There is no model out there that gathers those 4 entities. We had to begin creating a draft model from people's experience about how this could happen.

Ms. Sullivan gave her presentation with a slide presentation. The presentation is herewith attached to these minutes as Exhibit "3".

J. CITIZEN QUESTIONS ON GOVERNANCE ISSUES

Mr. Brechner asked do you envision that members of the Advisory Board and Bank Board would be covered by Directors Liability.

Mr. Sullivan said we have not addressed that yet.

Mr. Brechner said this City government and its agencies have at least 60 Task Forces, Boards and Commissions that include members of the public. A lot of people who volunteer for this sort of thing are tapped out. Keep that in mind. Finding talent to

serve on these Boards will not be easy.

Chair Buchholtz said his sense is he does not envision paying or insuring those persons who are experts who will vet people for Board members. Under our constitution the way we pick judges is that a volunteer committee is appointed by the Governor, the majority and minority members and other specified groups. They serve without pay and vet applications for people who want to be judges. The people charged with being directors of the bank and who would have pay and insurance would have to be studied and protected.

Ms. Brewer said in the regulations the Board does have to have D and O insurance.

Jim Lodes said this is not under any of the 4 committees. In the original feasibility study they were using figures like \$220 million invested by the City and they would borrow \$50 million with a rate of interest of 3% and get 2% on their \$220 million and the other interest would cover the administration of the bank. Are you studying if the City is going to deposit \$220 million. Are you studying if the City is going to borrow \$50 million. A figure mentioned was that it may cost 2 3/4 % of assets to operate the bank. That is almost 3 times the estimated operating costs in the feasibility study. Is anyone looking at if the numbers even remotely work out before you go to a lot of hoop jumping.

Mr. Hibben said yes, he has been looking at that. The broad brush approach used by 5 year model in his opinion is not accurate. When you say the City was going to borrow \$50 million the idea was for the City to deposit their money which is not available and they would borrow the money to pay off their existing bonds. There are questions about the models accuracy.

Mr. Lodes said the City has prepaid certain loans and bonds. He doesn't know how much that is. One of the mysteries in the original study is what the City would use the \$50 million for and that they would borrow back from the public bank. It was never really clear where that \$50 million was going to go or even if the City would do that.

Mr. Hibben said fundamentally are those funds available that are unrestrained. That is where the \$50 million would go. In terms of operating expenses, staffing levels for a bank dedicated to the City would not be the same as small banks.

Mr. Lodes said the question is are you looking at the financial feasibility of the whole thing. You are doing a lot of good work, but if you get to the end of the road and the dog don't hunt then you have wasted a lot of time.

Mr. Hibben said the City has to have the unrestrained liquidity to make this work and he does not believe it does.

Chair Buchholtz said we come from different backgrounds and expertise. We are

teaching each other. We are working on a basic building block level. What money does the City have. How has the City dealt with its financing over the years. When we say the City has repaid some of its debt we are saying the City has borrowed at lower rates in order to repay a higher rate debt.

Mr. Lodes said the \$17 million from the water fund was hard cash.

Chair Buchholtz said part of that repayment also adjusted the collateral that would be in place to make repayment of the debt. It was also to free up GRT for other purposes. We studied all that. If we find the money and the legal ability to capitalize the bank it will not be a gift or donation but return on capital. We are deep into that. Part of this forum is to test us and make sure we are moving in the right direction and see what the public has to say. We still have time to address questions in detail.

Mr. Fluetsch said he read the June 5th letter from Adam to the Council which details what the City staff has done in addressing the feasibility study. When that was written the outstanding debt of the City was over \$300 million. Since then we have refinanced and paid off a large chunk of the water department and defeased the GO Bond. Now the city has \$248 million of outstanding debt and is now earning in excess of 1 1/4 %. The City has done a lot in the last 3 years.

Mr. Lodes said he has read it and that is part of his reason for the question. The landscape has changed dramatically from the original feasibility study. He encouraged the Task Force to do a new performa on the whole proposition. Can the public bank generate efficient revenues to run itself and pay interest and meet other obligations. It would behoove you to do that before spending more money.

Mr. Mang said he wanted to point out that the Resolution for this has one other aspect which was after looking at the information we gather to put together a performa/business plan. The questions you are asking are in terms of moving to the next step.

Michael Collins said he is a proponent and is concerned about liability. Who are the eligible borrowers. Are they strictly within the City limits only.

Chair Buchholtz said we have been exploring the question of what people think this bank is supposed to do. There are 2 functions. One is if the borrower is limited to the City of Santa Fe or perhaps other public institutions. Do those institutions need a chartered bank. The other kind of bank is an altruistic bank. There is a sense in some sectors of our community that the community is not served by the national banking system and that the existence of a bank owned by the government for a more broad community will bring us back to a day where the banking system is not so challenging to the general public. We have not made any decisions about that or who is limited to using the services. We do understand there is a variety of ideas about who a bank like this would serve. The Jimmy Stewart bank where you walk in and everyone knows your

name is something people would like. We are thinking about those things, but have no consensus.

Mr. Collins said competition. Banks that are more well heeled and compete with us with lower interest rate will be rough competition. This is like a distant cousin of the public bank system in North Dakota.

5. ADDITIONAL CITIZEN COMMUNICATION FROM THE FLOOR

Chair Buchholtz said now we will have general comments from the audience. While we take a break for a few minutes please come up and sign in with Ms. Martin and she will call the names in order. We may have to cut off some discussion, but we don't want to do 2 minutes and a bell. Everyone interested in engaging the Task Force in listening to your thoughts please sign in.

James Trujillo. Mr. Trujillo said thanks for all your hard work. He was wondering why there is no mention of the marijuana industry and if people here are for or against. There is a huge amount of money in that industry, but that money is stashed under mattresses in Colorado and not being used. In Oakland and LA they are doing the same thing we are doing here. In Oakland they want to funnel money to low income housing. He was wondering if the community bank will serve low income people to find housing. There is a severe problem in this town with that issue. He would like to see that.

Alston Lundgren. Mr. Lundgren said he is has been a full time resident of Santa Fe for 20 years. Thank you for your good work in investigating a non conventional idea. One of his degrees is a Masters of Business in Finance. The Fractional Reserved Bank is a mechanism to allow chartered banks to make loans larger. A chartered public bank does seem a way that the City can leverage their funds to make an improvement in their financial picture. Pay close attention to cash flow. That is critical; however, the cost of funds to loan would be low. Retained earnings could go up so more substantial loans could be made in the future. He is puzzled why fractional reserved banking is not considered.

Chair Buchholtz said he heard you say a chartered bank would have the ability to lend well beyond their capitalization. Where would they get the money to lend and repay the funds.

Mr. Lundgren said the funds they can lend include the deposits not just the capital. In this case if Santa Fe puts a number into the bank and the bank could lend that money back to the City.

Chair Buchholtz said those deposits would have to be capitalized then the

protection of the deposited funds would come into play.

Mr. Hibben said to have funds available to lend, the funds have to be available from the City. We are still not sure that is the case that funds are available.

Mr. Lundgren asked is that under investigation right now.

Chair Buchholtz said yes.

Nichoe Lichen. Ms. Lichen handed out an updated draft model for public banking. This draft is herewith incorporated into these minutes as Exhibit "4".

Ms. Lichen said while you can use your deposits to cover your loans you can also borrow on the overnight market and that is where liquidity comes from with a charter bank. We used to have that \$220 million and the City made good use of it to get rid of our debt, but now we don't have that money anymore. If we had a bank we might have been able to leverage the money. She understands from the last meeting that there was a conversation about financial literacy and banking and education on the benefits of banking. She wants to remind the Task Force that many people in our community have been shamed away from using banks. It is generational. We need to find a way to make banks more friendly and approachable for people in our community.

Ms. Lichen said we are the Brass Tacks Team. We are trying to understand what advantage that would be. We looked at refinancing City debt. A bank refinancing the City's existing debt is a good way to get a bank up and running. Also we could use the bank for shovel ready simpler projects and a portion could be recommended to use for partnership lending through CDFIs that want to lend for affordable housing. It would be good to look at the debt the City has. Most banks have to look at running in the red for the first 2 or 3 years. We are fortunate to have debt that we can refinance and be profitable in the first year. The numbers are before you. A public bank can help reduce the City's existing debt. The money stays in the community to be reinvested. It can increase access to affordable credit through the leveraging of capital. A public bank has access to overnight borrowing that the City does not have access to. They can make a profit by lending. It saves the City money as well. The thing is infrastructure may sound boring but it creates jobs, boosts the economy and puts money in pockets. It is relatively easy to establish. More complex measurements are needed to show the benefits of affordable housing and economic development. The impact of the lending and how does it create potential in the community. A public bank can request the City to do its due diligence when it comes to borrowing. A public bank might help local financial institutions to manager some of the regulatory burdens. It could be a think tank. The altruistic public bank model could be used. There is a model from Germany. It was set up because people did not have access to banks. The municipalities and individuals put their money into those public banks. Profits go to benefit the community as a whole. It is a great idea to consider partnering with local governmental entities and is something we could look at to make more liquidity for our bank. There is less cash on hand than

when the last study was done, but where there is a will there is a way.

Mr. Fluetsch said you mentioned that the public bank would lend money for infrastructure. Those projects typically are paid back over a longer time. We have all seen the investment market where the Federal Reserve said they are going to raise interest rates. They will probably raise them again soon. We know interest rates are at a historic all time low. His concern is you suggest we borrow short term and lend at a long term. How do you address the risk knowing that those short term rates will be raising.

Ms. Lichen said the bonds have terms from 5 to 15 years remaining on them. That is not particularly long term. In terms of refinancing debt those are relatively short term. We are talking about shovel ready projects and having more capacity to do more shorter term lending. Definitely it should be short term or not really long term.

Ms. Cormier said in this document, on the upper management salaries she does not know if the anticipation is partnering with another institution to do the more hourly level work or if the public bank will do it. If the public bank does it there are a significant number of salaries not accounted for. The hourly work force includes data processors, reconcilers, the compliance team, auditors and others. Those are not accounted for in this model that you gave us.

Ms. Lichen said that is one of the things we looked at. Subcontracting. Like for credit card service. When you look at it you see the year end balance. We don't know what the hidden costs are so we don't have a profit number. We also don't have any kind of handle on regulatory requirements for a simply structured bank.

Ms. Cormier said at the end of the day whether it is a limited bank or consumer bank there will be regulatory requirements. Even for the subcontracting the regulatory view is if you pay someone else to do it you still own the problems. She just wanted to sound that out with you.

Ms. Cormier said she knew those were questions, but did not know the answers. This is just a possible model and way forward.

Ms. Lichen said as we further define what the bank will and won't do then we can extrapolate what the costs will be.

Ms. Lichen said thank you for the work you are doing. We appreciate it.

Chair Buchholtz said thank you and for the work the Brass Tacks does.

Ms. Cormier said she would like to meet with him.

Mr. Hibben said on the balance sheet you show \$44 million in Federal funds. The

amount of borrowing one can do in the overnight market is limited to capital and surplus. You couldn't get that much in what we are discussing here.

Ms. Lichen said she will take that question back to her organization for an answer.

Berl Brechner. Mr. Brechner said thank you. He has 4 points to make. He appreciated the Task Force work. First he is in favor of this project and has been from the start. He was in support back to 2014 when the Mayor and Councilor Maestas were participants in a symposium supporting this. That organizations President is now a member of the Task Force appointed by the Mayor. Before the Task Force was created \$50,000 was spent to have a feasibility study done by the organization and the Mayor was involved. The Mayor had to recuse himself from the vote on that. It was a surprise that it supported the major concept. There are people saying it is wrong and impractical for the City of Santa Fe. Reports from State agencies make clear that it could not be done. In an August memo from State Regulation and Licensing it finds it impractical. Dan Najjar issued a 201 page report suggesting that it would be difficult to impossible to potentially illegal. A public bank created in 1919 in North Dakota. Public bank supporters will tell you that the idea is catching on. Perhaps 5 to 10 years from now when one is created in Santa Fe we can look at that. Santa Fe taxpayers should not be a Guenie pig. He has no interest in investing in a City Bank or the City using taxpayer money in an experiment. He fails to see that the City has explored the issues around this issue. Have they explored if there are better options are out there. Has the City taken into account what the harm might be if it closed or fails. What is the impact on City Reserves or the impact on it's bond rating. The city did not even have a clue of what it would take to run a bank. They were naive. Santa Fe has not proven it can or should take on the fiduciary duty to run a bank. There are issues already with the bank. A recent independent accounting study showed issues not resolved. Too frequently plans are off target. Citizens have lost confidence in the City to properly take care of our money. The City should not be in charge of a bank. This issue has gone far further than it ever should have. It is time that the City resources be recognized and that the Task Force and the Governing Body end this process.

Charles Koenig. Mr. Koenig said the Bank of North Dakota has returned a profit every year. It is using money that went out of the state of North Dakota. If we can establish a public bank in Santa Fe we can generate profits for the City. Capitalization. Would there be an opportunity for citizens to invest in their public bank.

Mr. Hibben said no. That was not part of the plan initially.

Mr. Koenig said there might be citizens who might want to do that.

Mr. Hibben said he thinks what he is hearing is a cry for a real community bank. That is unrelated to the City.

Mr. Koenig asked this bank would have an opportunity to participate with a community bank correct. We need a public bank that private citizens can invest in. Why does it have to be black or white. Why not a combination from other sources.

Chair Buchholtz said the charter we were given asked us to investigate a bank owned by the City of Santa Fe, not the City of Santa Fe and others. That raises a number of other questions that we have not explored. He takes what you are saying seriously. The sense of what the Council was asking for was a bank owned by the City of Santa Fe.

Mr. Mang said we are assuming that the public bank would be similar to the way the North Dakota bank is structured. We only have one community bank left in Santa Fe. We would like to see how to get more back. The relationship of community banks to the population in North Dakota is 4 times what it is in other parts of the United States. The North Dakota bank had been a source to help defray some of the regulatory costs. The bank of North Dakota has helped pull them into a kind of cooperative to share the costs. It behooves us to look at what kind of community banks do we want to have that would be from local stockholders.

Mr. Koenig said when he moved to Santa Fe in 2002, 65,000 people lived in the City and 65,000 in the County. Not a lot of people. Have you looked at collaborating with the County for economy of scale. Now there are 75,000 people in the City.

Chair Buchholtz said that is beyond the charter given to us.

Mr. Koenig said there is non interest income and expense to consider. It seems we would want to look at the City's RFPs to global banks. If it is public information we could see what services are provided by them to the City. That might be an opportunity for income for a public bank to step in and provide those services.

Mr. Fluetsch said the city just went through an RFP process and it is on line and on the website. We did pose that question to the attorneys regarding what would be the issue if the County, City, School District and Community College came together. The attorneys said the City of Santa Fe is home ruled. They would not have the same regulatory questions on what they can do as the City as the other partners would have. That question was evaluated.

Dee Gamble. Ms. Gamble said thank you so much for the work you are doing on this idea. Thank you to the Brass Tacks Team and anyone who is looking into these ideas. No idea is stupid.

Jim Lodes. Mr. Lodes said we need a cost benefit analysis. He does not think you have taken into consideration the uniqueness of this. If you are talking about getting into lending you will need loan loss reserve. That creates more costs. To start this up you talked about \$1.5 million, but that will be a significant cost to the City. There

is the issue of operating every year. A figure thrown around is \$1 million. It is going to be significant expense in order for the City to use a public bank. One of the benefits is to improve the City cash management and better utilize and invest it's own money. That need has been met without the need of a public bank. Other benefits are savings from prepaying loans and undertaking capital improvements using bank money. The City is already doing that internally. The question is the need and the interest paid. He is not sure the bank can afford to pay the City 1% and there are other investment opportunities the City has other than the public bank. It has been said the funds would stay local. In order to collateralize funds the public bank is going to have to invest in government instruments and those are not local. Local community banks will lend \$60.00 to \$70.00 out of \$100.00 out to the community. Not a public bank. Transparency is an issue. We would be changing from open meeting requirements to a private Bank Board appointed by the City. They would not necessarily be open meetings so the Transparency is considerably poorer. For small business loans, it has been said the public bank can do small business loans. It can, but the feasibility study says there is no unmet need for that and strongly recommended that the public bank not do that. Lastly he has a wish that we get out of Wells Fargo. We might do that unless you out source services back to Wells Fargo again. Borrowing from the Federal Reserve, they lend against your mortgage portfolio and the public bank would have none of that. You need to check and see about that.

Ms. Sullivan said you talked about costs and that the benefits proposed would not work. She is curious if you have considered any benefit analysis that is harder to quantify.

Mr. Lodes said he does not understand the question.

Ms. Sullivan asked did you consider any benefits that were not quantifiable.

Mr. Lodes said that was not the direction of his presentation. He does not see any other intangible benefits that justify the expenditures the City is considering taking here.

Neva Van Peski. Ms. Van Peski said she was an economist at the Federal Reserve Board. The Task Force needs reliable information. There was a claim that the public bank can expand the capital invested in it. The Brass Tacks Team put out a flyer to that effect. It says that can be done up to 10 times. This is just flat out wrong. If the public bank wants to make loans they have to make them out of funds deposited in the bank by the City. She thinks this statement is based on confusion rather than a deliberate attempt to mislead. When a bank makes a loan it makes a deposit for the borrower and the borrower will write checks on it and the public bank has to cover those while drawing down its other assets. Once you understand that credit can be extended by the public bank only out of City deposits there is a real question if a public bank can add anything useful in the banking of the City.

Chair Buchholtz said thank you for coming to all our meetings Ms. Van Peski and we really do appreciate your presentation.

Ken Mayers. Mr. Mayers said thank you for all your hard work and the Brass Tacks group for their work. His interest is in the challenge it is for the minority business community to obtain funding. It is interesting that the public bank falls into the area of if this is to be a limited bank or an altruistic bank or a beneficial bank. It should be a socially responsible bank in contrast to the global banks of the world. Most hopeful is the opportunity to cooperate with community banks and others to ensure projects for the benefit of the community or minority or small business enterprises. To deny our funds to Wells Fargo is a benefit as well.

Karen Helmeyer. Ms. Helmeyer said thank you all and the many members of the public who have contributed their expertise to this. She is sure the Council appreciates it as well. She has 2 issues. One is there are limitations on City funds. The reality is statutorily they are put into silos and there are certain things you can and cannot use the money for. It is not all just a big pile of money. It is a bunch of little piles of money. We have to be careful of what goes where. There is still confusion in the public about what it is that a public bank would do. Is it intended to partner with local community banks or with NGOs. Or to provide something to individuals in the community. You run into higher risk and less security. Given the lack of trust of City government handling money you want to have the highest level of confidence in the public if you are going to have a public bank. If you are getting into things that are more risky or less safe that will increase the lower confidence in the community. We have seen enough homes foreclosed on and cars repossessed with pay day loans. The City has to think about the risk as a government. In economic development they have to think about potential risk. You can have the best Board in the world, but mistakes can be made and the economy could change and where does that leave the City. We need to think about the potential positives and negatives.

Chair Buchholtz thanked Ms. Helmeyer for her service.

Angela Merket. Ms. Merket said thanks for the intense and comprehensive work you are doing on this project. She was on the first group that worked on this and is still interested in the progress. In the financial discussions she is not hearing a lot of attention being paid to the cost of obtaining bonds. Those fees are major. She thinks Brass Tacks has considered that, but it is a part of the cost of doing business. Also for her, one of the primary interests all along was how do we obtain more control over our revenues locally and not support the funding of major projects that may not align with our values or don't support the local communities. The local control through a public bank is attractive. The North Dakota bank does that. There is an opportunity for local control and local enhancement.

Chair Buchholtz said we appreciate you coming up from Albuquerque.

Mr. Fluetsch said the City, when it invests its funds, invests in US Treasury government agency debt. That is all the statutes allow us to invest in. We do not invest in Wells Fargo. We are precluded in investing in corporate paper. We can invest in prime money market funds. We use money market funds that include paper from banks around the world.

Ms. Merket said thank you for clarifying that.

Mr. Mayers said we do pay fees and interest to Wells Fargo.

Mr. Fluetsch said fees to Wells Fargo, yes. Very little. We pay our bond holders.

Mr. Mayers said the money we deposit in Wells Fargo enables them to make their loans to all kinds of business that we have no control of. They may not be businesses we want to help.

Mr. Koenig asked what is the average ledger balance of Wells Fargo today.

Mr. Fluetsch said roughly \$35 million. We are earning a compensating balance on that. Accounts are collateralized at 102%.

Mr. Koenig said so those more than cover the fees we pay Wells Fargo. Wells Fargo gets the difference. What would that be.

Mr. Fluetsch said he doesn't know. Probably 1 1/4%.


Chair Buchholtz said these questions are going beyond what the Task Force is here for. The records you are asking about are now available on this desk.

Chair Buchholtz thanked the audience for staying with us tonight. There was a diversity of views. He learned a lot this evening. We will continue our work. We are meeting on the 29th and meeting with Finance on December 4th. They are all public meetings and you are all welcome to attend.

6. ADJOURNMENT

There being no further business before the Task Force, the meeting adjourned at 8:15 pm.

David Buchholtz, Chair



Elizabeth Martin, Stenographer