Public Bank Task Force
INDEX
December 20, 2017

City of Santa Fe

Public Bank Task Force

Minutes, December 20, 2017 – DRAFT UNTIL APPROVED

Frances Lucero
12/20/2017

Public Bank Task Force
Tuesday, December 20, 2017
4:30 pm – 6:35 pm
RAILYARD MARKET CITY OFFICES

MINUTES

1. **Call to Order**

   Chair David Buchholtz called the Public Bank Task Force to order at 4:35 pm. 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
   Kelly Huddleston

   Not Present:
   J Wayne Miller

   Others Present:
   Fran Lucero, Stenographer
   Audience Participants

3. **APPROVAL OF AGENDA**

   Ms. Sullivan requested that the Task Force members be as succinct as possible when discussion Item 1 & 2 as we all committed to read the Feasibility Study and the Finance report and spend more time on Item 3 where new information will show up.

   Mr. Fluetsch moved to approve the agenda as amended, second by Mr. Mang, motion carried by unanimous voice vote.

4. **APPROVAL OF MINUTES**

   A. Special Public Forum, November 20, 2017
   B. Regular Meeting, November 29, 2017

The Chair moved to defer action on minutes. The Chair has received comments from the Public stating that the comments from the public were not transcribed accurately as presented. The Chair recommended that between today and the next meeting that the Stenographer go back and review what was presented to the Public Bank Task Force and make the corrections or additions to the minutes, second by Mr. Fluetsch, motion carried by unanimous voice vote.

Brad Fluetsch: The meeting was videotaped and the meeting was also on YouTube or search City of Santa Fe.

The Chair noted that if possible they could add the information in the minutes that the meeting was videotaped and the meeting was also on YouTube.

5. NEW BUSINESS

a. Review of:

i. 2015 Public Bank Feasibility Study, June 5, 2017

Brad Fluetsch: In reviewing the Feasibility Study Mr. Fluetsch concluded that there are 4 primary bullets that brought to light about the city's finances.

1) City of Santa Fe Collateral Policy
2) Liquidity position of the city
3) Budgeting
4) External bond funding

These are the four primary areas where the Feasibility Study focused on the City Finance Department. All of the other issues that were brought up were not really that city; that is where I drew the line for the two. In reviewing the feasibility Study in conjunction with Finance Director Johnson's memo, I can address these items.

In December 2016 the City amended its Collateral Policy to be in compliance and in line with New Mexico Statutes. Our investment policy gives the maximum amount of flexibility to the city in determining how much collateral a bank must put up to hold public funds. If they are rated by the State, Rated A is 50%, Rated B is 75%, Rated C is 102% and if Rated D by the State it is 120%.

Chair: Those ratings are ratings of the Banks where the deposits are? And how are those ratings determined?

Mr. Fluetsch: That is correct. The NM State Treasurer's Office has rather extensive criteria on rating the banks; it has to do with capitalization, the more capital the higher the rating. There is a whole list in statute that the State Treasurer's office evaluates quarterly on the banks, and there are 57 banks.

Chair: In terms of where you place your deposits what is the range of the rating?

Mr. Fluetsch: Most of them are rated A except with the exception of 3 or 4 that have less than A rating. There are a couple A ratings and a couple B ratings.

Chair: If I understand correctly there may have been some discussion with the A rated banks as to lowering the collateral amount from 102% to 50%?

Mr. Fluetsch: I have not heard of anything lowering it.

Chair stated that it may have just been rumor that some of the banks were asked if they would be interested in lowering the collateral position from 100% to 50%.

Mr. Hibben: Are the banks receptive to taking deposits at all?

Mr. Fluetsch: We have solicited CD deposits for the last two quarters at the city. Each quarter we have $4 million dollars and no one has renewed their CD or wanted a CD. We are also saying that any CD that the city purchases in the future will be in compliance with New Mexico Statute 6-10-36 which requires that whatever rate that CD is, it is commensurate with the US Treasury similar maturity. If the 1 year Treasury is at 1.2%, the CD's minimum return has to be 1.2% and none of the banks, in fact to the T have said they can find cheaper capital when we don't have that much demand for deposits.

Ms. Sullivan: I can't remember where I saw this it must have been in the Feasibility Study, a recommendation from Katie Updike that there be re-examination of collateral and then that there be follow up with banks to find out what would make them more receptive?

Mr. Fluetsch said that the city has adopted a new CD Policy and they have put up 10% of the city portfolio, that is the maximum, by policy, they can allow by CD. We do $4 million per quarter and we solicit bids from all; there are 13 banks that I send a letter to at the beginning of each quarter. Those are our efforts that we have been trying to outreach to the banks.

Ms. Sullivan: What have you learned as to why you are not more receptive.

Mr. Fluetsch: Most of the time it is cost of capital, 6-10-36, the requirement that whatever CD we do buy has to have an equivalent yield or interest rate of the Treasury of the same maturity. That is a really tough hurdle. The banks just done want to pay that, they can find capital cheaper elsewhere. The other comment that is said is that they just don't have the loan demand to justify paying that much in deposits.

Ms. Sullivan: So it does sound like there has been outreach to them to say, we hope you understand what is going on.

Mr. Fluetsch: We do a CD bidding process. That is when we get the feedback and they all send back letters saying thank you but they have no need. If I call them because I haven't gotten the letter back then I get a little more information. It is all anecdotal.

Mr. Mang: One question for clarification; you liquid funds are what you are putting in to your CDs I take it.

Mr. Fluetsch: By statute we can buy up to the maximum security for a CD by statute is 3 years. We are looking at buying 1 year, 2 year, 3 year CDs.

Mr. Mang: The funds that are invested in Wells Fargo, those are more permanent funds, are they subject to the 102% collateralization or how does that work?

Mr. Fluetsch: The funds held at Custodial bank; Wells Fargo are invested in government money market funds, prime money market funds or US Treasury and Agency Securities.

Mr. Mang: There is no liquidity in terms of how they are investing it?

Mr. Fluetsch: Money Market Funds are same day cash. If we want money I have to get the request in before noon and I can get cash the same day. So it is 100% liquidity on the money market funds. The agencies if I really needed money, the agencies all of the investments are highly liquid and could be sold. Liquidity is not an issue. None of those investments need to be collateralized.

Mr. Fluetsch: That was on the Collateral Policy. While in the Feasibility Study they recognize that the city had excessive liquidity. The problem that we found as a new Treasury Department was that not only was it in Passbook Savings Accounts earning 17 basis points which we had same day liquidity as a money market fund. It is just that we were not earning very much. The first question you have regarding liquidity is what does it take to meet the day-to-day cash flow needs for the city. After you have met that amount of liquidity, the next question is an investment question. At this point in time we have more liquidity, a very short duration, a large balance in our money market funds and mainly we do that because of the interest rate risk. As interest rate goes up the value of your fixed income holding goes down. Duration tells you how much your portfolio is going to go down given a short change in interest rates. As the Feds have been raising rates, our money markets are earning more everyday but our securities; their market value is going down in losses. If you have a one-year treasury and a 30-year treasury, if interest rates change by 1%, your 1-year treasury is going to drop in value by 8/10th of 1% and your 30-year bond is going to change about 12% and it will drop by about 12%. So if you had \$100 it would be \$88, where if you had a 1-year Treasury and it was worth \$1 it would be 99.2 cents. That is interest rate risk.

Chair: The reason for that is because in the long term you are stuck in that investment for a long time, you can't get a way. In the short term you aren't stuck for such a long time and in money market you are not stuck at all so you are gaining a benefit.

Mr. Fluetsch: The excessive liquidity in the portfolio today is not because we don't know how to budget; it is because we are avoiding interest rate risks. Under the liquidity part, we know how much we need to operate from day-to-day and then we are managing the portfolio in a prudent net way.

Mr. Hibben: Can you distinguish between liquidity and the restriction and non-restriction of funds. Some of those liquid assets could be restricted.

Mr. Fluetsch: Restriction of funds, in this case, the State of New Mexico requires each municipality to have 8.33% of their annual expenditures, basically one month in a reserve. It is restricted, yes, it is just part of the whole overall investment pool. Some funds are restricted; Lodgers Tax Revenue can only be expended on certain items and certain programs. So they are restricted from a spending perspective but it is not restricted, it is part of the overall investment pool. The portion that they need to spend next month is in the liquid pool, the rest of it is in the portfolio.

Judy Cormier: I am curious, what is the impact you see if the potential interest rate changes with the Feds?

Mr. Fluetsch: The city will earn more money.

Ms. Cormier: I didn't finish the question. As far as not investing in long-term bonds, if interest rates go up do you envision the city going in to long-term bonds?

Mr. Fluetsch: Not 30-year bonds. We are capped at 5-year maximum maturity.

Ms. Cormier: But you are not in 5-year now, you are in money markets and the overall duration of the portfolio is .25. The duration of just the securities in money market funds, cash and everything else is probably closer to 1.4, basically we are all 2 years and under.

Chair: The city will earn more money in regards to its investments.

Mr. Fluetsch: Not any of its existing debt.

Chair: I understand that, new debt. You aren't in any variable rate securities when you are borrowing so those items are fixed. The value of those items the holdings might go down.

Mr. Fluetsch: The third point was Budgeting and I don't believe that it was ever an issue. The city produces a comprehensive budget annually. Knowing the cash flow day-to-day was never an issue.

The last point was external bonds and the main point in the Feasibility Study was that bond proceeds are not expended in a timely manner. Since that time and actually before the city had adopted a 5 year CIP program and that way each department is out looking at how we are going to spend our Capital Improvement Funds. There is a list; that 5-year list is approved by the City Council annually. We know what projects need to be done and when we have funds or we issue a bond. I will use the example; the City Council has approved the issuance of about 11.2 million in gas tax bonds. We already know what streets we are going to fix, the Street Department has already identified which streets, which intersections and so when we do issue those tax gas bonds those proceeds are going to start to be spent immediately. The City Council adopted a reimbursement resolution which allows them to spend money now and reimburse those expenses with bond proceeds. I believe there has actually been some already expended on streets on this new tax bond that is coming out.

Two other loans were taken out this year, one was for fire equipment and those funds were expended immediately and the other one was an NMFA loan for recycle cards and again it was a reimbursement loan. We actually expended the funds, submitted the purchase of the cards to NMFA and they reimbursed the city so those funds were expended prior to the bond.

Chair: In my own experience, particularly representing the State of New Mexico, it is not endemic to only Santa Fe that governments are challenged. Unfortunately my client the State Board of Finance under DFA are notorious, having bonds issued for hundred and hundreds of projects through a legislative process that could be criticized and then because of the need for diligence in spending money, spending money is slower than it ought to be. The Federal Government on the other hand encourages strongly through its Tax Policy that that money be spent effectively. You have to spend 75% of that money in 3-years or else explain why not. It is not only in Santa Fe that has the challenge of dealing with bond proceeds promptly and it is good to know that you have things in place where you are using reimbursement Resolutions which allows you to spend and then take bond proceeds to repay yourselves for expenditures already made or otherwise spending as promptly as you could.

Mr. Hibben: In a $10 million dollar Bond issue in the Feasibility Study it talks about self-funding future obligations, was there an opportunity or funds sufficient internally to provide for that finance vs. going to the Bond Market?

Mr. Fluetsch: Because we had just diffused the 2008 General Obligations Bond and paid off two NMFA Railyard loans on this facility, in the new Debt Policy that was adopted in May this year by the City Council, we provided for up to 10%

of the portfolio for internal loans. The challenge in that is finding first, unrestricted, unallocated, spent or earmark money to loan. And then, what is the timeframe? We spent roughly 8 million in cash to diffuse the 2008 fund out of the Portfolio, most of it came out of the portfolio and that used about half of what our policy allows for. The recycle cards and the fire equipment probably could have been done with internal loans but we were in the midst of writing a policy when we were closing on those loans.

Chair: Let me ask a couple of things; I think I understand this and if I do, and if I don't I want to understand it more. When you speak about self-funded or when you speak about internal loans, I am thinking of something called pay as you go which is to say, you have the money on hand, you spend the money and you just spend it, you don't take out a loan. To the extent that it is a loan it is a book entry item. Not anything with a promissory note or interest, I need money in this account, I'm going to get more money in this account but later, let me move this money from this account and then when the money comes in I will reimburse the other account. That is not really borrowing it in essence. I know we use the term loan or self-funded.

Mr. Fluetsch: In this case it was the Water Department and the Utility that lent money to the City to pay off or diffuse the 2008 Bond. While there isn't a formal loan agreement there is interest calculations, payment schedules and everything that you would think about in a loan, there is a promise to repay.

Chair: That is because the Water Department is its own special fund account, it is a separate enterprise. In a separate enterprise you have to document it differently.

Mr. Fluetsch: The difference is fund vs. account. The Water Department is its own fund and where I have a couple bank accounts at Wells Fargo or any bank you can move money back and forth but they are within one fund. When you involve more than one fund, which is when you need the loan.

Chair: In my experience with the City of Albuquerque let's test this scenario. Do you have a separate airport fund? That is a separate enterprise. Do you have a refuse fund? Do you have a golf or recreation fund?

Mr. Fluetsch Yes.

Chair: Beyond those are there others?

Mr. Fluetsch: Yes, Parking, Convention Center.

Chair: So there are 4 or 5 what I would call enterprises and that is where the lending might occur. The enterprises are dealt with in certain funds. There is not really a negotiation of terms.

Mr. Fluetsch: We sat down with the Water Department and asked about their CIP, they had this xx amount fund balance which we are eye-balling for other uses.

Chair: The feasibility study is saying; take more advantage of those kinds of opportunities. My response would be that is all well and good but each enterprise might have its own restrictions, like external borrowing.

Mr. Fluetsch: It depends on the project that you want to fund. If it is a building and it's going to be your asset, none of the enterprises or the city has the capacity to lend for 30 years for an internal project.

Ms. Cormier: You said you take out a loan from another department plus interest, who determines the interest rate?

Mr. Fluetsch: We do, the Finance Department.

Ms. Cormier: The Finance Department tells the Water Department.

Mr. Fluetsch: Yes, the Finance Department tells them what the loan, the rate and the term will be.

Chair: Presumably that would be a factor not a profit. But a factor of what the payback to the Water Fund would be.

Ms. Cormier: That is what I was trying to understand, is it profit driven or what.

Mr. Fluetsch: The actual is the interest on the loan is what the Water Department would have earned on the portfolio. There is zero opportunity cost lost.

Ms. Cormier: That is what I needed to understand, thank you.

Mr. Mang: Is it indexed? Indexed to your investment.

Mr. Fluetsch: Yes, it is tied to the performance of the Portfolio.

Ms. Cormier: And that is consistent no matter who you borrow from?

Mr. Fluetsch: Within the City, yes. That is our policy.
In my opinion that takes care of reviewing the Feasibility Study and the Report from the Finance Department as it pertains to what the Feasibility Study identified to be done by the City.

Chair: In your view, not necessarily the formal view of the city; are there still opportunities that are out there that you haven't been able to take advantage of because you have been so busy fixing these other things, first. Are there other things on the list that will be done that will follow through over this philosophy of what you are trying to accomplish here?

Mr. Fluetsch: Right now the Finance Department is going through an ERP transition, Enterprise Resource Program. In essence we are getting a new accounting system. We have a new time card and payroll system, we are getting a new Utility Billing system and basically the City is updating virtually all of its digital processing, i.e., equipment, software and in that sense there are a lot of policies and procedures and processes that are going to be changing as well. It will make the City and the Finance Department much more efficient than it is now.

Ms. Cormier: What is the time frame on that, do you have a sense yet?

Mr. Fluetsch: It is all going to be rolled out in the first quarter of 2019.

Ms. Cormier: There was an audit done in September of the Finance area by the consulting company where they identified areas to approve controls, is it a fair expectation that those areas that need strengthening will be incorporated in to this systemic conversion?

Mr. Fluetsch: Yes

Mr. Mang: This is information for the Task Force. Is it possible to get a list of the various funds on how they are allocated at this point?

Mr. Fluetsch: The City has the budget book; the City has roughly 400 funds. Their balances range from ten to twenty million to zero.

Mr. Mang: Is it possible to get a list of those.

Mr. Fluetsch: It is listed in the budget book on line.

Ms. Cormier: The control issues that were identified, obviously you are not going to wait until 2019, where are you on implementing those controls? I realize it is a moving target.

Mr. Fluetsch: The issues with Procurement were one of the first areas and Christina is more apt at speaking about this, I am not quite that far up. Their processes have already started to change dramatically. As we continue in to the RFP process, we are implementing a PCard program which is a Purchase Card from Wells Fargo that will streamline purchasing immensely.

Ms. Cormier: Will you have a follow up audit for them to come back and look at all of those controls?

Mr. Fluetsch: Right now we are going through our regular annual audit. The one in September was a special audit that the Finance Department had requested and I am sure there will be additional follow up.

Chair: Did the City lose any advance refunding opportunities because of the change in tax?

Mr. Fluetsch: No.

Chair: The tax law allowed governments in a limited way to in effect pay off long term borrowing early by establishing Escrow Accounts, it is called advance refunding. The Tax Code that passed this morning will no longer allow city's to do advance refunding after the end of this year. Given where interest rates were, my experience is that most advance refunding had been done and that there weren't as many opportunities as people may have feared being lost because of that change.

Mr. Fluetsch: We did the majority of our advance refunding in June and July of 2016.

Chair: Your sense is that your report covered Report from the Finance Department and the Feasibility Study?

Mr. Fluetsch: Yes.

5.a-iii. 2017 Report from Impact Network Santa Fe (Item #5) to clarify the following:

Bob Mang: I believe everyone was able to read the Santa Fe Report, and the purpose of that was to indicate some city needs that are fairly significant. One being the infrastructure and the other needs of the city itself to raise money to be able to fund a lot of things that are in excess of $250,000,000 and it will take years for the city to address those under the current natural arrangements and there are some aspects to it that say you can't go too fast because there is a capacity issue of who can do what, even if you do have the money. There is a need to try to accelerate that to expand the capacity. The second part is in the Santa Fe report about the trade imbalance that is seriously looking at other cities similar to Santa Fe. We probably are at the extreme side; I think there is one other Capital city in the United States that equals our imbalance. Most other capital city's like ours, State Capitols of this size or even a little larger, do not have the same trade imbalance that we have.

Mr. Mang passed out (Exhibit A) providing a thought process that he has gone through in terms of relating to how we see the Public Bank in this need. What we are doing is expanding our scope to look at what are the financial needs of this city, it is not just for the city itself, it is for the economic development of the city, businesses or others, that need more financing that the city itself can fund. If we take those two needs, and I delineated some of the city's financial short fall, and it really is in excess of $250,000,000, infrastructure alone is $256,000,000 something in that range. If we look at the city's housing needs, we have so many employees, not just city staff, including police, fire, includes teachers, many of whom cannot afford to live here. They can't find housing that they can afford and we have great need for affordable housing that needs to be stimulated with certain kinds of financing. The third part is the city has committed to a policy of being carbon neutral by 2040 and the work on that indicates there is a lot of work to be done and the city is beginning to look at financing or trying to find a way to increase clean energy that they would use through solar projects and on city buildings and also purchase of electric vehicles to replace our carbon fuel vehicles. In addition to that the need for affordable housing includes higher density and that also increases the need for better transit so that your higher density supports better transit and transit supports higher density and affordability in housing. This is not a definitive list, there are many other needs that I am not aware of, but I am sure there are others that Mr. Fluetsch or other could articulate. There is need for more financing than we have available and the city is in great need of obtaining that financing, one way or another. The second part in terms of this trade in balance, we import goods and services which cause us to spend 48 cents on every dollar that goes out of the city. If you include the employees who are having to live in Rio Rancho, Espanola or other places and commute to Santa Fe, that is additional money not being spent here because they don't live here. There is a great need for addressing how do we replace the imports that we are now dependent upon, that would be a way of stimulating more economic development, expanding businesses and the study you probably know indicated certain sectors that are where we could be in to import replace. In order to do that it takes financing. My conclusion is that the City's Finance Department cannot muster the funds for these capital improvement projects in any reasonable time period, and then the question becomes, what can the City of Santa Fe Finance Department do? How much of it can it really do and then, we look to the broader picture of what kind of money do we have in Santa Fe in banks within the framework of how much banks are currently lending. How much of what they hold on local deposits are being lent back in to the city and what can they do would increase investment in things like affordable housing and other things that the Finance Department may not be able to get involved in. That leads us to if there is still a gap in the banking industry and the Finance Department can't address these financial needs, what is the financial eco system that needs to be created and what is the Public Banks role within that supplementary financial eco system. In the Santa Fe report it indicates a number of different kind of financial mechanisms that could be employed as well as, actually as I re-read the feasibility study, Katie Updike indicated a number of different possibilities too. What I am opening up here I hope is a discussion around what is the larger picture that we could begin to learn more about that would stimulate us that we could recommend or report what it is that we believe a Public Bank could do to contribute, if it can, or what other things should the city be looking at to base it on this financial need that it cannot be met unassuming by the Finance Department and by the banking industry. With that I would open it up for discussion.

Randy Hibben: If the current banking industry in Santa Fe is under loan and yet unable to satisfy some of the needs you are describing; from a credit quality standpoint how would a Public Bank fill the needs of the local bank are able unwilling or unable to fill right now?

Mr. Mang: That is a specific question about what a Public Bank can do. My point here is we need to look more broadly. A Public Bank has a role, so a specific answer to your question, last meeting I brought up the point that private banks are not lending that much for solar energy on people's homes. Those are very good solid loans because people are paying their utility bills. What is needed is a loan, and I believe a Public Bank could potentially do this; we would have to investigate more, is to create a long term loan that would be collateral by the house/property itself and the payments would be equal to what the average monthly payment for utilities. That is a pretty good solid loan. It would take the Public Bank; it would require an educational program to get people to see that they would save money eventually if they put solar on their roofs and it would serve the city of Santa Fe' goal.

Chair: Can you explain to me why the private sector banks are hesitant to take on such a project on their own?

Mr. Mang: I can't.

Mr. Fluetsch: Because most solar is now financed by the manufacturers. Solar City finances and does the mortgages; they do a build/install finance, they will package my solar panel with millions of other American around the country and sell that to the New Mexico permanent fund as a Bond so the banks never get a shot at that. It isn't that there is a lack of finance available for solar power, there is plenty of credit out there for that, it's just not anything the banks can do or even get a shot at it. Manufacturer's say, we will lend you the money to put our product in.

Ms. Cormier: If it is packaged as a Bond and it is bought by New Mexico, one would assume, if NM were to buy it is it the conglomerate of people no matter where they live? So you aren't doing it specifically for New Mexico.

Chair: When he says New Mexico I think he means this; the state of NM has two very large endowment funds; the permanent fund and the severance tax appropriation fund, they have each; one has $6,000,000 and the other has $12,000,000 and to make that money work, and it has to be invested, and one of those opportunities, not a specific opportunity, a general opportunity is to place part of that investment in a debt that is created by the company's that manufacture. The real heart of what I think Mr. Mang is getting at is are there opportunities that the citizens are missing that they want to have that is not available to them in the current financial system. It sound like what I am hearing here is that a Public Bank could do this maybe it couldn't, private banks don't. But the private banks don't because the Manufacturers haven't preempted the field, they lead the field. If the homeowner wants a solar panel on their roof, they have an opportunity or have the availability to do that just not through a bank but through a solar company. Do we think if there was a Public Bank those possibilities would be more favorable to the private homeowner, or do we think that the homeowner just isn't interested in that process in a way that is so compelling that they are going out to get it done in the manner that people believe in alternative energy believe that they should and it is not so much a question of owner opportunity but there is just not the market that dictates a Private Bank be a private bank. On the other hand the solar companies feel like they can make money doing this and are it the role of a Public Bank to compete in a way that it doesn't make money but it provides a more competitive product for the citizens.

Ms. Huddleston: Because the solar products are changing and the technology is improving, one of the reasons that the solar companies are leasing out like that is should they develop more efficient products they can also replace; and some of those contracts call for that and some don't, you would want to get the one that does that. When the product becomes better or more efficient they replace it out. Technology is changing so quickly and if you had a regular loan to do that you would be buying one thing for 20 years and it could be obsolete in maybe 2 years. That is why a lot of homeowners have an issue on buying solar panel system \$20,000 – one shot because who knows that in 2 years technology is changing so quickly it would be very obsolete and your solar system could be worth \$2,000, it is a tricky thing

Ms. Cormier: This may not be relevant, but I am going to ask it anyway. Is there any opportunity to partner with these Solar Companies like Auto Dealerships? They make the loan and it gets bought by the bank as opposed to a wrapped up product, it is a rhetorical question. I am not asking you to answer Brad, but I am wondering to your point Bob, does is it become more of a dealer loan purchaser. One loan at a time that they purchase like an auto dealer.

Mr. Fluetsch: The regulations on making a loan from Ford to a Customer compared to a Bank to a Customer, the cost for issuing that loan is infinitely cheaper to Ford than it is for a Bank.

Chair: Let me also comment, a little information might be a bad thing. I did some work for the City of ABQ several years ago where I learned that there were, coming out of the Obama Administration, federal programs that encourage governments to create in effect, solar districts so that you would have the government involved making an assessment of some kind to homeowners to pay for this and then the government would issue debt backed by the assessments and the program wasn't light enough to get off the ground. They did one in Boulder, it had its problem, I think they did one in California and it had its problems, but issues related to things like the interest of the public to having this done and the concerns of the Home Mortgage Associations that were afraid that those types of transactions were what they thought were their first mortgages. They felt badly enough that taxes come in front of them, street assessments come in front of them and now there would be solar panels coming in front of them that they slowed the work down. It wasn't necessarily a matter of governments taking opportunities but someone not structuring the opportunities that made the thing work. That was my experience in solar panel; back in New Mexico you don't see a lot of this. Bernalillo County is trying to do this again, I don't know if Santa Fe County got the PACE program off the ground.

Ms. Sullivan: The status quo seems to be totally unacceptable if we think of our affordable housing as it has been described, and we think of our

Mr. Fluetsch:

Mr. Mang: There has been difficulties for private residents under the PACE Program. To address you other question, the solar company – Solar City is not a New Mexico company. What is happening, again there is a trading balance, money is going out of New Mexico and Santa Fe to a company in California. There are a number of solar companies here in New Mexico and I can't tell you what they are doing right now. It seems to me if the city is aiming for a carbon neutral target in 2040, which the city would want to encourage doing an educational program. If the city asked the question, do the residents of Santa Fe care if they have solar or not. The fact is that they will eventually save a lot of money as rates go up. When that loan gets paid off and it varies because of the size of the house; they have a drop in their budget in terms of what their expenses would be. There are aspects to this that encourage public policy and a Public Bank or it may be that a Private Bank can do it, let's look at the role of what a Public Bank is. A Public Bank, as the one in North Dakota works with Private Banks, it is a cooperative relationship especially Community Banks. To supplement, they do the due diligence on loans with Private Banks. The Public Bank is in service of the size of the loan if they don't have enough to fund it and/or to cooperate and split the difference. Second, going away from solar another example might be construction loans for affordable housing. In this case the interest rates fund the construction part is a critical piece to be able to keep the house at an affordable level. The Public Bank in this case, still having a margin but it would be a narrow margin in order to be able to help the construction loan be as much. Those are shorter term loans which mean you can turn the money over readily. Infrastructure construction, not citywide, Affordable Housing Infrastructure is another type of loan that could be made and to some extent private banks might be interested and to some extent they may want to cooperate with the Public Bank to do that. This is why I talked about a Financial Eco-System. It is not what the Public Bank by itself can do, but how does it fit in and I do believe it has a rule. How does it fit in to the system and actually enhance the system so that we can begin to finance some of these things that we are not able to do now. That is what would go in to a business plan for a Public Bank, I can't tell you that I know all the answers, but I think it is important to raise the possibility and potential of how we can integrate and accumulate more financing through a Public, Private and Philanthropic, the foundations are looking for impact opportunities, eco-system that can bring more financing to these problems.

Ms. Cormier: I would like to add to Bob's comment is as we look at this, is there a model or a structure one could build. I think the other question is when this Public Bank partners with a Private Bank then does the Public Bank have the Private Bank service, loans. One of the big hurdles we keep hitting is staffing. If you are going to have a Public Bank where is the staff that is going to make all of the operations work? The question, rhetorical, that I want to throw out there, is it a structure that a Public Bank does lend through ta Private Bank and has the Private Bank serviced the loans for that, so you eliminate the internal structure as far as operation go, yet you don't escape audit and compliance and risk; but it is an alternative way of looking at how does a Public Bank work, if indeed it even makes sense to work with private institutions.

Mr. Hibben: In essence it would be a pass through bond process. Because in order to fund the Bank with the limited ability of the City to fund the bank, you would have to issue a bond to create deposits in the bank to than lend. How else would you get the funds?

Mr. Fluetsch: It has been suggested in the Brass Tacks group that the city would deposit $100 million of its Portfolio in to the bank. First thing you would do is take half of that away and buy collateral if this Public Bank was rated by the State. Otherwise you are going to take 102% and now the bank is at a deficit, a 2% deficit. We have $100 million dollar deposit, I have to collateralize it at $102 million, and I have to come up with $2 million of the banks money to collateralize the city's deposit.

Mr. Hibben: Are these funds unrestricted, the 50 you're left with of the 100 initially?

Mr. Fluetsch: The 50 that you are left with, you only collateralize the 50%. Then it is up to the banks policy on how it would lend that $50 million.

Mr. Hibben: But you have that $50 million unrestricted to put in the bank?

Mr. Fluetsch: No, we have roughly say $88 million dollars in money market funds right now so to the extent that bank is willing to take $100 million of the city's money that we can demand at anytime we want it back. The bank would be taking a huge risk. So they went out and lent $50 million dollars on projects, solar panels and housing, and then the city says; city hall has burned we need to build a new city hall and so bank, we want all our money back. They only have $50 million of the money to give back; the other $50 million has been lent out and won't be paid back for the next 10-30 years, depending on how it was lent.

Ms. Sullivan: I am assuming that if we decided to go forward with a Public Bank and pieces begin to fall in to place there would then be the kind of partnership that wouldn't prevent city hall from burning but it wouldn't create the vulnerability for the bank that I hear you describing, we insist that tomorrow you give our money back. I just want to push back a little on that dramatic worse case scenario.

Mr. Hibben: You still have an interest rate mismatch and you have a regulatory burden on that.

Ms. Cormier: Explain that.

Mr. Hibben: If he has immediately available funds and you are paying a market rate of x and you have a fixed rate of y, you have a huge sensitivity problem.

Ms. Sullivan: There are so many questions about the "how". What I love about this work that Impact Santa Fe has done and how it related to our work, is that it provides a piece missing at this table. We have spent a lot of time and there is a lot more time that would need to be done to get all the answers about how it could work and how the Resolution was written has a lot of direction for us to look at how it could work, what is missing, what could this model look like. The piece that in hindsight, I think we have realized it's a gap, what is the potential, what is the compelling need. That is what I get from this report. There is a compelling need in the city that is not being addressed by the status quo and won't be unless we bust through the status quo and explore it in a way that this conversation is doing possibilities. The status quo seems to be absolutely unacceptable if we think about our affordable housing crisis as it has been described. We think about our solar goal, which is an ambitious goal unless we start doing things very differently, etc. I am excited about their being a piece of "why is this worth the work".

Mr. Fluetsch: The work that Mr. Mang has done addresses the non city banking issues in the Feasibility Study that were outlined and he puts meat on those bones. The main question I thought that after we had this discussion tonight was OK from the purpose of the bank, what is the purpose of the bank. We have ruled out this bank servicing the city's day-to-day credit card, checking type of operations because it is low margin, incredibly capital meaning software, computer, staff intensive and that is not one of the things this Public Bank would do. We have ruled out that that the city really doesn't have the capital or the deposits that can be lent for long term, meaning in excess of 5-years. We have a maximum maturity in our investment policy of 5-years, I think that is a State Statute, and so it isn't a solution for long dated assets. For small, short-term things, that is what we are trying to nail the focus on what this bank would do.

Ms. Sullivan: In that category, what would excite you? If you think about small, short-term potential that really does represent a gap right now, because it is not being addressed, there is no way right now for it to be addressed.

Mr. Fluetsch: Little things like, we did a $917,000 fire equipment loan, not a problem. It is going to be paid back with funding from the State Fire Marshall. We had $1.3 million dollar NMFA Loan for Environmental Services to buy recycle carts; in 5-years it will be paid by Environmental system revenues, meaning when someone rents a recycle cart from the city, they are going to pay the city for the use of that cart. In the future we need a new Fire Station on the south-end, approximately $4-5 million dollars, it is a small amount of money. Say Ft. Marcy needs a new boiler and it is going to be $1 million dollars to replace the heating system, that heating system is a long term asset that we don't want to use cash for, you would want to finance it so that you're paying for that heating system over time. It is little things like that the city could finance internally to the extent that we wouldn't be paying profits or slightly higher interest rates. Because whatever loan you do it is going to be more than the Portfolio is earning given the restrictions on the Portfolio. Can it tackle the big issues like putting in a massive solar array, probably not? Can we put in some massive water infrastructure, put in new storage facilities for the Water Department, probably not? It is really two things that drive it, size and maturity. If it is small and a short maturity, and there are not a lot of them, and again there is a capacity, there are only so much of those that the city could actually fund. It would be for under $20 million dollars.

Ms. Sullivan: When you say that the city could fund, are you talking about a Public Bank?

Mr. Fluetsch: I am talking about internal Loans.

Ms. Sullivan: You moved away from my question, which is what about the things that you have described that a Public Bank might do would excite you.

Mr. Fluetsch: My answer to that is that in some discussions I have had with Mr. Mang that a chartered Public Bank, which this task force was instructed to look at; nothing really else, is probably the least efficient, most expensive, most ham stringed way the city could solve these problems. There are much better ways in other financial eco-system out there.

Ms. Sullivan: I think the answer to my question is there aren't any.

Mr. Fluetsch: There aren't any.

Bob Mang: Let me raise one other possibility here, which is a trade balance, an imbalance that we have. There is a lot of low hanging fruit in that area because there is already a market for those products and services. But private banks, sometimes in the expansion of an existing business in Santa Fe to be able to replace the importing and serve the company that wants the import, by producing it locally. Those are normally the expansion and support of the company requires a small loan to get started. Most private banks do not go for small loans. It takes a lot of there where-with-all to service those, they like the big ones. So, again, a Public Bank could stimulate a lot of local economic development by being available for good loans for businesses to expand in to existing markets here in Santa Fe. That would improve the revenue to the city and if you just took 10% of what we are importing and replaced it locally it would produce $30 million dollars in revenue for the state, city and county. The point I am trying to make here is that the Public Bank has the potential to leverage the small amount of money that it can loan in ways that actually improves the economy and the capability for the City of Santa Fe to address these larger issues that we don't have the financing for. It is the leveraging, it is not that it can do it all by itself and that is where the eco-system comes in.

Ms. Huddleston: Why a Public Bank and not a Community Bank?

Mr. Mang: Community Banks are very important to this. If you look at North Dakota there are 4x's more Community Banks in North Dakota than any other state per population and largely because of the state of the Public Bank of North Dakota that works with the Community banks and over time, Community Banks have been able to fund farmers and others in emergencies. They took care of victims from the flood problem that people had where they needed loans. Community Banks could not fund the whole thing and the Public Bank supplemented that. The arrangement is that the Community Banks do the due diligence on all these loans whether they are large or small and the Public Bank than participates. It is in a sense an eco-system at least a symbiotic system.

Mr. Hibben: Just a comment, we are talking about a Public Bank as a delivery vehicle for various needs. There is an interesting legal opinion on the Banking for New Mexico website from an Attorney in New Mexico who said that trying to get a Public Bank in to a Commercial Banking Charter was like trying to put a square peg in a round hole and that perhaps if you are going to approach a Public Bank there are better ways to do that via statute that wouldn't have the same regulatory concerns, maybe through existing agencies, CDFIs and that type of thing.

Ms. Huddleston: I have a question about the regulatory side, is there a self dealing limit in terms of if you are a Chartered Bank, federally chartered or nationally chartered.

Ms. Cormier/Mr. Hibben: 23A, Reg W.

Ms. Huddleston: You all talked about that before, is it 15% of your total collateral?

Mr. Hibben: 15% of capital and surplus? Don't quote me.

Ms. Huddleston: I know there are ways around that, but you can't just sit there and loan yourself all your money, which is an issue, that is a big problem here, am I right?

Chair: I have a question that is going to sound redundant and I ask it rhetorically. Why do private sector banks not make small business loans and that would be something that a private bank or Public Bank could do?

Mr. Hibben: Private Banks have an incentive to make those small loans under the Community Investment Act and do make those types of loans. So there is not a disincentive.

Mr. Mang: Even in the Feasibility Study, Katie Updike points out that there is a market for small business loans that are not being made and part of it is that some of the Credit Unions are now able to make some but they don't have the full capacity and there are limitations on them. But there is a gap there, my understanding is, I don't have the data and I don't have the statistics to give you, my understanding is, and this is from Katie Updike; if loans are under $500,000 (in her report she says $1 million), in conversation I think it is $500,000. It is very difficult to get the larger banks to make these small types of loans.

Mr. Hibben: Is it a size issue or an underwriting issue?

Mr. Mang: I don't know. We should look in to this; I can't tell you if this is true, but I can tell you that it is my understanding in talking to people that this is an issue. What I am trying to do is raise questions for us so we can start to investigate as to whether, and you will notice the bottom line is if there is something that is missing then what is the role of the bank in that. You can call it an inductive process, but what is it that is needed. To what extent can the private banks fill it, can the city Finance Department fill it if there is still something there, that is what we need to find out in more particular ways. What is the role of the Public Bank in that regard? As Brad points out, there are other things that a Public Bank couldn't do if there is that gap so other things in addition to a Public Bank need to be created in order to do that. What I am trying to say is what we recommend to the City Council when we make our report. If we still have doubts about whether a Public Bank has that much significance, we say that but then we say, this is what else is needed. We are addressing issues that the City really needs to be looking at.

Mr. Hibben: Is that within the Scope of the Resolution.

Mr. Mang: I am going beyond the resolution in this sense. The City asked us to look at what is it that a Public Bank could do to save the city money. My reason for coming on the Task Force is because I saw the Public Bank like it is in North Dakota as an opportunity to actually stimulate Economic Development in the City and that does go beyond the Resolution and I was not aware of that until we got in to it.

Ms. Brewer: I want to say a comment, one of the things that I see that the Public Bank could do is; in my experience and I have a background in bank regulation. In talking with bankers, one of the complaints that they have is, we can't get people to move their money here. Santa Fe is unique because we have people who live here 6 months out of the year, they are from Chicago, New York; they keep their money in Chicago, they keep their money in New York and the banks can't get them to move their money here. I think that a Public Bank that would offer them different kinds of investments, a different way of looking at things, investing in public housing, investing in affordable housing or solar or something. One of the reasons they won't move their account from Wells Fargo in New York to Wells Fargo in Santa Fe is; "why should I move it, you are going to invest it in the same thing that I have it in there." I think the Public Bank would give them an alternative to look at something different that they might get excited about. The other issue I see is with small loans. The cost to do small loans is more expensive for a typical bank than bigger loans. That is an area that we could look at as a Public Bank. What is the cost going to be for a Public Bank to do small loans because we have an issue in New Mexico and around the country with woman entrepreneurs getting loans, they can't get them anywhere. Looking at that issue and how a Public Bank could be set up to partner or work with other people, I see that as an advantage for a Public Bank. The third thing is working more with the city. I know that San Francisco is having this issue with taxes about affordable housing in San Francisco and one of their solutions is they are taxing people who buy houses over $2 million. They are making a special city assessment tax for those types of purchases because it helps moving it in to affordable housing because that is going to help attract the things that a city needs to live in a balanced way. I can see that some of that movement towards a Public Bank could look at these kinds of partnerships and collaborations and address these kinds of issues.

Chair: This is what I think I am hearing today. An important question is it a role of government to promote social and public policy? Some would argue yes and some would argue no. Assuming at least for the purpose of this discussion, that it is the role of government to provide mechanism to follow an important social policy. Some social policies or goals of social policy have a financial criteria to them, and the ones we touched on today only as examples would be dealing with global warming and carbon neutral activities, encouraging our capital development that would help resolve that issue. The second thing we talked about today would be providing affording housing for people who could live and work in the city area, the metropolitan area in a way that they may not be able to now because of cost of housing and cost of constructing affordable housing and the third is access to capital is important, start up of emerging businesses and people who are caught up in emerging businesses may have a challenge and access to capital. Those are three examples, there could be ten more but I point these out as sort of social policy things we talked about that have a financial element to them. Then we suggest that the private sector banking community is not fulfilling the need of what the government perceives as social policy in providing the capital that is necessary to cause these things to occur. Then the question becomes, does a Public Bank provide an alternative and why? And the question to does it provide an alternative why, I think goes to two or three assumptions that we have to look at and that is, 1) that the Public Bank does not have the same profit motivation that a Private Bank may have so that the profit that would be necessary in a Private Bank can affect the lack of making profit, still to keep the bank above water, if you will. In regards to putting programs together, providing lower interest rates, providing more efficient lending vehicles, that the profit motive is exchanged more for the need for the public to promote public policy and 2) that somehow we thing that we can manage the risk in a way that is either different than the regulatory impositions on the private sector or within the regulatory impositions of the private sector because we are a Public Bank in a way that allows this type of entity to do transactions that otherwise can't be done in the private sector because either they feel from a business perspective that it is too risky, or the regulatory element doesn't allow them to do those kinds of things. Finally, which is what we started with, is there a motivation for the Public Bank to be able to serve the government in regards to making the government more efficient. That is sort of the WHY and all of that is then balanced with the HOW. And if we determine that all of that WHY is something that is important and relevant should be done, how do we do that and what other challenges of the HOW and can we accomplish the HOW in a way to have a reasonable success rate at the WHY if we believe in the WHY. That is sort of what I heard in our discussion today. If everyone agrees with that I would say just keep the above in mind as we decide what our mission is going forward.

Ms. Cormier: I believe you were going to get clarification on the Resolution; that ties in to this.

Chair: The Chair and Ms. Sullivan did meet with the Mayor and with Councilor Villarreal. Spoke with them but did not get any absolution resolution.

Mr. Fluetsch: A lot of things that Ms. Updike brought up in the Feasibility Study – alternatives, like lending club lending. Because the banking sector is not meeting the needs of the public's finance; that has given rise to the Go Fund Me, lending networks, Quicken Loans has come in to the mortgage market in a big way. While it may not be banks that are; and this is because of the regulatory environment, that the private sector is funding alternative ways to meet some of these financial needs and we are in a 1st to 3rd inning if it were a baseball analogy of the private sector addressing these alternative lending, alternative capital means and moving away from the traditional bank to other ways of doing things.

Chair: I understand and your point is well taken. As a reminder, that just because I give certain examples, I don't mean for those to be exclusive examples. Part of what you say goes to this question of being served by the private sector. In my talk, I didn't mean to say, these are the only important social policies or these are the only problems that we would have in setting this up.

6. Next Steps, Including Scheduling of a January Task Force Meeting

Chair: I want to start out with the need for the Board to have a little more money available to complete its work. I will tell you that our Facilitator was valuable to me in helping me be the Chair, put things together, helping me collect my thoughts and there is no more money to utilize her services. I have had some discussions with her; which she has not committed to continuing her work with us, she certainly left the door open to what I see is an important role in creating some finality in the work that we are doing. We need some money to be able to do this.

Ms. Sullivan and Mr. Mang together with the Chair met with the Mayor and with Councilor Villarreal on December 19, 2017 and suggested that they would meet with the City Manager to try to find a way for us to get another $10,000 so that we would be able to have the benefit of the Facilitator and a little bit of a budget to complete the work that we need to do. I believe that the remaining work that we need to do is going to require a very articulate, written report on what we have done, what our findings are and what we recommend. I don't think that we can do that without a Facilitator or someone else to help us do that. Mayor will talk to the City Manager to request this funding and to find out if there is a way to do this without amending the formal Resolution. They were hopeful, they didn't promise, we will be following up. The Chair said that he will also follow up with Ms. Lis to insure that she is still interested in doing this work.

Chair stated that we are scheduled to go before the Finance Committee and Mr. Fluetsch was very good in putting material together for that meeting. The problem that I have and the solution we might suggest is that apparently the next meeting is the 2nd of January which is a little sooner than we expected and the Chair is not around that week. Ms. Sullivan heard from Councilor Villarreal that January 2nd might not be the ideal date due to the full agenda they are carrying for that meeting. Options are to ask for an extension until January 22nd or to ask for volunteers from this Board to present on behalf of the Chair and the Public Bank Task Force. With the help from Mr. Fluetsch we have provided all of the necessary information for an updated report, request to postpone is based on the Chair's availability to attend the meeting.

Mr. Mang moved to direct staff (Mr. Fluetsch) to request postponement of the Public Bank Task Force to present to the Finance Committee Meeting to January 23, 2018, second by Mr. Hibben, motion carried by unanimous voice vote.

<u>Discussion:</u>
Ms. Cormier: Did we get clarification on the Resolution?
Chair: No we did not. I also think that to the extent we feel that there may be important work for us to do or important findings that are consistent with the work that we are doing that we should not feel so constrained by the words of the Resolution. That is my instruction in the meantime and that is what I would expect to say to the Finance Committee.

7. Matters from the Task Force Members
Mr. Fluetsch: The purpose of today's meeting was that we were to read the Feasibility Study, we were to compare that with Finance Committee Report and efforts and what they have done, identify those non-city needs and determine what the purpose of the Bank is. We haven't had that discussion on what the purpose of the Public Bank is to be. We have talked around it about various ideas on what it could do and couldn't do. Mr. Fluetsch asked if they could have a quick discussion on the purpose.

Ms. Cormier: I was the one that raised the concept last time and what I was thinking of; let's identify what the entire thing of what should be done, what has been done and what is left to be done, and does that translate in to the need for a Public Bank. I wanted to clarify the comment, not so much as to what is the purpose but what is left to be done does that need to be in a Public Bank or in some other way.

Chair: I think we needed this very good information and discussion that we had today to help us form an opinion on that very same question. I am not sure that I want to answer that question in the next 10 minutes. What I might propose is that the main topic for our next meeting be to answer that question. If it is not too much to ask, that Brad Fluetsch and Judy Cormier do some outside work to prep us for the next meeting to be prepared to answer that question, what is the purpose of a Public Bank?

Ms. Cormier: Let me clarify that question of what was recommended overall, what was done and what is left and does that equal a Public Bank.

Chair: Also, what is the purpose of a Public Bank?

Next Meeting: Wednesday, January 17, 2018 at 5:00 pm before the January 22, 2018 Finance Committee meeting.

Ms. Sullivan asked if there could be more time for public comment than we normally allow.

8. Citizen Communication From the Floor

Jim Lodus: As you go further on, you will be confronted with certain asset liability issues. Most banks watch this very carefully, they are required to, to the extent that a Public Bank makes 5-year loans using 1 month daily deposits. It will have an enormous asset liability problem with the FDIC. The solution is that the Public Bank is going to have to require that the city reduce its availability of funds. There are a number of ways of doing it, there could be depository agreements. Regulators will not allow the bank to make large loans for long periods of time secured by daily deposits. Secondly, I understand that the Economic Development Department, under their new Manager, has a study underway pertaining to the availability of credit, small business lending and that sort of thing. I really don't know too much about it other than the title but either you should coordinate with him or step aside and let them do it, whatever the situation may be. When you talk about feasibility or what is the purpose of the bank you have to keep in mind how much it is going to cost you to set it up and run it. If you are going to support the bank by making solar loans or low interest car loans, or whatever, you are going to have to make a lot of loans in order to generate enough income to support that bank. The question; is the city going to subsidize the bank to the tune of one-half million dollars to one million a year indefinitely or for 5-10 years.

Chair: You helped me remind myself of something I wanted to mention to Mr. Fleutsch. Part of what the mission is of the Resolution was to create a Business Plan and we did mention to the Mayor and to Councilor Villarreal, with your good advice, that a responsible private group of people who are thinking about doing something in the nature of forming a bank would engage expertise in regard to doing a business plan, which expertise goes well beyond the volunteers and experience of the volunteers on this Board. If there was to be a business plan at all, it needs to be done by someone who is paid for that effort and that effort is expensive and I was of no mind to go to the City Council for the money to pay for a Business Plan. They appreciated that and I think what that means is that part of my report to the Finance Committee is going to be our reasonable conclusion that we are not capable based on our volunteer nature and budget that is afforded us to produce something that we could honestly call a Business Plan.

Mr. Hibben: It would be the same plan that would be acceptable to regulators and a charter application.

Ms. Huddleston: Yes, they are very specific on how the Business Plans should be written.

Mr. Fleutsch: Mr. Lodus makes an interesting point on the 5-year loan and Mr. Hibben had sent a link to the Roosevelt Institute and what they had modeled as a Public Bank. One of the notions that I get out of the feasibility study is that a lot of the banks will go out and issue a bond on a medium term note. So if I have a 5-year loan and I can go out and borrow money and issue a bond for 5-years at a fixed rate and mark a spread on that and relend those funds back out to the client, I have taken care of my asset liability. This is the notion I have gotten about the reason why the Public Bank is, there are just a lot of people who don't like Wall Street and they don't like the capital markets the way they have been. The point is that in the Roosevelt Institute analysis, they didn't reject Wall Street, they fully embraced it.

Mr. Hibben: They were using interest rate swaps that were cheaper than __________ which unfortunately returned the derivative.

Mr. Fleutsch: There are ways to manage asset liability but it embraces the very thing from my perspective the public likes least about Wall Street.

(Mr. Hibben to send the link to all members on the Board).

George Gamble: I want to speak about the purpose of a Public Bank and the question of WHY and HOW is great, it puts things out there and this is about the WHY. One of the driving forces has to be indeed and always; is it worth doing, it is going to cost this much, and the other question is; is it worth doing? How might a Public Bank complement and enhance the city needs and responsibilities and includes whatever the city Finance Department is doing. We are looking for something complimentary. The city obviously has a wide range of responsibilities and needs and they have a constant battle of allocating resources to those various needs. That is a big issue and a constant issue. The question is; could the Public Bank serve as an adjunct, if you will to what the Finance Department, to what the City Council is trying to achieve in the city and meet their responsibilities and their needs. We could talk about a whole variety of things; solar, wind installations in the city. We could talk about some kind of fiber network in the city which of course the business community, the city fire department, the police department, the community college, etc., which support greatly. We could talk about a plaza area in the new downtown area as to what is now referred to as south Santa Fe; fastest growing area in the city and doesn't yet have a plaza and we could talk about affordable housing. I spent a little time last week looking at the affordable housing plans that the city has. Unfortunately, if you look at over the year the affordable housing plans are not very inspiring. The problem seems to go on and on. I think one aspect of those problems is financing, and it is financing to build them. I know there are other related problems of not wanting affordable housing in certain neighborhoods. I think a Public Bank could serve as an adjunct to further affordable housing, which once again everyone in the city continually talks about our city employees, our teachers, fire department and they don't have affordable housing. In all of that the city knows that, they have it in their Affordable Housing Plans. Something needs to be done about it. I think there is a role for Public Banks to do something about it because thus far, commercial banks, the city, whatever else exists isn't doing a very good job.

Nichoe Lichen: What a great meeting today, quite a turnaround from last time. I wanted to make the point of how this whole topic came to be; it came from Craig Barnes and democratizing our economy here at the local level and we felt that there was more hope of it happening at the local level rather than the state level because of the way money interest interfere with the process. I am also very taken with the idea of how we are exporting profits that could be circulating here in our local area and one thing I remembered was what Mr. Fleutsch mention that when Ms. Updike was talking about the lending clubs and how democratic they are and democratizing money. If people are making money off Santa Fe who live far away, that is not really helping our local economy very much so I think that is something we need to look at. Also, there is risk associated with these informal systems and we need to look at whether the city would be comfortable recommending or partnering with them. We could acknowledge it; that is something I wanted to point out. That is the motivation that is coming from the public and as Councilor Dominguez says, putting the public back in to the Public Banking process. It might be interesting at the next meeting to draw some circles to show how these things related to each other. I have a bunch of questions which I am not going to address all of them, but I think we might look at how parts of the privately owned financial model translate when thinking about a private bank. We have expertise with people in private industry but we really don't have expertise in the public banking model here and we have to flip it to understand what it is. I wonder if the City Council should be brought in sooner than later because they passed this Resolution 100% and it is very important to them. We know we need to talk to them and it would be important to get their idea of what a Public Bank could serve the community and all of the un-funded mandates that they are facing where there isn't access to funding for them. It is a legacy and this is what we are looking at, something that might be a legacy, how we put the parts and the pieces together but it is about democratizing and improving our local economy.

Elizabeth Dwyer: Question for Ms. Cormier, you were talking about self-dealing Regs or something like that; can you give me the citation on that?
Ms. Cormier: 23A
Ms. Dwyer: What is 23A?
Ms. Cormier: It is a regulation under the heading of Regulation W about lending yourself money, buying services that are at the public rate so that you are inflating what you are paying for something.
Ms. Dwyer: These are federal?
Ms. Cormier: Yes, Regulation 23 A & B, there are two pieces and you would find that right on line.
Elizabeth Dwyer: I was not able to attend the public hearing, and when I read the meeting minutes I wanted to thank Mr. Lodus, he asked the question if anyone was reviewing the numbers to see if they even remotely worked out before we go through a lot of jumping. When I read that, that is exactly the question that we were trying to answer 2 years ago when the Brass Tacks team decided to stick our necks out there and create a model so we would have a tool so we could put our numbers in the boxes and talk with people who could enlighten us about stuff we needed to fix. But also who could appreciate that all of us needed the tools to follow, something that I have really learned working in the government sector for 30-years with constituents. A lot of people don't get involved because they don't know how to break in with a question or how to ask, but having a tool could help. And as I recall the idea to create our model started because I could not understand how Katie Updike got her numbers under 7-year Performa on page 37 in the Feasibility Study. We started by creating a loan portfolio for actual callable bonds. The previous Finance Director directed his staff to send us amortization schedules for existing bonds and loans. I would like to talk to someone about this and this is why my question on Regulation A came up. What we did was identified the callable loans which would have been for the first year of operations for the bank and we created a portfolio. And what we thought was based on the available cash as described in the Feasibility Study; you have to pay the bonds off if you call them, right? There would be the cash to pay off the bonds, create new loans and there are dedicate income streams when you have the bonds, right? Those income streams could then be the payment schedules for the loans and that the bank would have a ready source of loans and cash flow to start. It also would prevent some of money from going to private investors and you could be recirculating. All of this might be mute given Regulation A. After we develop the model and we tried to engage people, we didn't get a lot of people to respond or talk to us. According to the minutes, again, Mr. Hibben you said that in response to Mr. Lodus question, is anyone looking at the numbers, you said yes. The broad brush approach used by the 5-year model in your opinion is not accurate but you see by not talking to us about it, it didn't enable any of us to help understand what you were talking about and what the needs of the bank are that are a problem or if it requires a conversation with you, that would be helpful as far as we are concerned. (Remarks Attached) I have a post

note for the Task Force, at the last meeting there was some incorrect information on the bank in North Dakota and I make a post note for you to read about it.

9. ADJOURNMENT

There being no further business to come before the Public Bank Task Force, the Chair called for adjournment at 6:35 pm.

Signature Page:

Mr. David Buchholtz, Chair

Fran Lucero, Stenographer