PUBLIC BANKING FEASIBILITY STUDY

FINAL REPORT

for the

City of Santa Fe
The Oldest Capital City in the United States

Consultants

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Executive Summary

A public banking initiative for the City of Santa Fe is feasible and has the potential to provide enhanced fiscal management, improved net interest rate margins, and a more robust local lending climate. This need not be accomplished solely by starting a public bank, but rather also can be done by improving and integrating current City financial activities, using the relationship with local lenders to greater economic advantage, and encouraging new modes of lending to improve the over-all financial system in the region.

The recommended approach is deliberate and recognizes the need to treat any changes in financial policy at the City with the caution warranted when managing public assets. A staged approach encompasses the following steps, more fully explained in the body under The "Strawman," the description of a Santa Fe bank that allowed the Consultants to actually analyze specific fiscal and economic impacts:

- Fund more of the City's capital improvement projects with internal funds. Use current bond underwriting practices to vet the projects. This substantially reduces the current interest rate differential between invested cash and borrowed cash of at least 2 to 3% per year. This also requires streamlining fund balances accounting and clearly segregating operating and capital accounts.
- Review and implement alterations to the collateral policy of the City. In conjunction with the City's banking depositories (banks), develop strategies to increase local lending, including increased funding to local Community Development Financial Institutions and Credit Unions. This helps address the most under-banked segment of the market, and could over time help combat the predatory lending practices of pay-day lenders.
- Charter the City's banking operation and broaden the interdepartmental funding strategy to other public entities in Santa Fe, such as the County and School District, if they choose to participate.
- Encourage and broaden use of crowdfunding techniques which may help the sourcing and funding of smaller loans. The City may even use such a technique to fund smaller City-sponsored capital improvement projects, as an alternative to raising taxes or using limited bond proceeds.
- As and when loan demand increases, participate upon request (and approval) in up to 50% of loans underwritten by the banks that qualify under a Local Economic Development plan.

Most of the actions above can and should be launched even before a bank or mutual fund State charter is obtained. The State charter requires the creation of an independent board which may help raise the confidence in the bank as an *independent* and more transparent public entity.

Legal and administrative requirements remain and should be further examined in a more detailed implementation plan, if staff and City Council approve moving forward to implement the strategies described in this report. The ultimate feasibility of the plan will depend upon these crucial steps. The projected fiscal and economic impact to the City exceeds $24 million in the first seven years, based upon assumptions of how much of the City's deposits are deployed in self-funding and reduced collateral programs. The community support for the approach outlined depends on the actual implementation plan. There is a high degree of skepticism surrounding governance, which should be a major focus of any actual "roll-out" of a public bank.

This study has been a challenge given the disparate views on public banking. Our research suggests that the strategies are viable and beneficial to the City. It is based upon a broad review of local and national conditions described in the section entitled Consensus Document. This due diligence helps explain much of the staged approach, but it also helped develop a measure of agreement among even the most divergent viewpoints. In general, the City's constituents all want a program that enhances the City's financial well-being and transparency. We think this does both. Thank you for letting us work on this project.

Introduction

Background and Purpose

The banking sector of the U.S. economy has had a continuous, strong relationship to the government sector. At the Federal level the Comptroller of the Currency, the Federal Reserve, and the Federal Deposit Insurance Corporation all have an intertwined relationship with both private banks and quasi-public institutions, acknowledging the importance of cooperation between commerce, governance, and the well-being of society. At various junctures in our history imbalances have occurred which have triggered government responses, some temporary and some much longer lasting. The most recent crisis, the 2008 mortgage implosion, engendered a massive injection of liquidity into the banking system, institutional bailouts, and tighter commercial bank regulations. It also triggered a popular angst, generally summarized as, "Wall Street vs. Main Street." It is in this context that the City of Santa Fe boldly questioned whether or not it would make sense to embrace the public banking movement which began to surface around the country. This national movement was responding not just to the 2008 mortgage crisis, but also to the loss of community decision making, as over half of the community banks have been lost to mergers into much larger (and distant) organizations in the last 30 years.

The scope of the Public Banking Feasibility Study commissioned by the City of Santa Fe includes:

- **Draft a Consensus Document:** Understand the current financial environment
- **Consult Others**: Develop an understanding of the community's interest, concerns, and contributions to a public banking initiative
- **Identify a "Strawman**": Describe a potential approach to establishing a public bank which can then be specifically evaluated for feasibility.
- **Articulate Risks**: Give voice to concerns and identify methods of addressing the risks
- **Quantify the Impacts**: Provide to the City some measurable and objective quantification of a public banking initiative

This document will incorporate much of the content in prior deliverables. Some of the information has been condensed, or edited, in order to provide a more coherent and complete presentation. Additionally various community and city presentations have been incorporated, where graphs or pictures can enhance the presentation. At times, throughout the engagement, people have complained about the technical nature of the material. To some extent that cannot be avoided. In response and to the extent possible in this document, text box inserts will be used to provide layman summaries of the material.

Consultants

While the breadth of experience of the two primary consultants is appropriate and deep, it would be a major oversight not to acknowledge the hundreds of people with whom we have consulted, both one on one and in large group meetings. Over 100 meetings have encompassed well over 200 voices. A third of those meetings have been with public officials and the remainder with private sector advocates, skeptics, area experts, and finance specialists. These conversations have led to a deeper understanding of Santa Fe, local banking, City mechanics, politics, regulations, community leadership, and collective community needs from housing to planning to education. It would be appropriate to identify all of these sources, although many provided input confidentially and openly, in hopes of improving our understanding of Santa Fe. So…a collective and thoroughly insufficient acknowledgement goes out to all who generously shared knowledge and viewpoints. Thank you.

Complete CVs of the prime consultants are included in Appendix A. The following brief summary biographies provide the basis for the expertise brought by the consultants to the public banking feasibility.

Lead Consultant: Katie Updike

Ms. Updike has done extensive work in finance for over 30 years both within the private banking industry as a Managing Director in two money center banks, and as an advisor to numerous non-profits, government entities, and private sector project sponsors. She has studied North Dakota's history and the more recent study and referendum in Vermont. With specific knowledge of community non-profit banks, impact investing, and government incentive structures, Ms. Updike has direct understanding of alternative mechanisms which communities can use to address an absence of credit to vital sectors that have become commercially "unbankable." She also has led funding initiatives addressing many community needs around the country, such as charter schools, energy and water conservancy, affordable housing, non-profit capital expenditures, historic preservation funding, and tax credit funding.

Additionally, Ms. Updike managed the relationship with the Farm Credit System and Bank for Cooperatives in the US. She worked in finance and studied in Brazil, China, and Peru, all of which have robust public banking sectors. She developed an investment memorandum (2009) for the implementation of a "border bank" which could complement the limited scope of lending provided by the North American Development Bank (NADB), a public bank authorized in 1993 by the U.S. and Mexico to fund environmental infrastructure and projects along the US-Mexico border and to address needs resulting from NAFTA.

Economic Consultant: Chris Erickson

Dr. Erickson has extensive experience in conducting economic impact studies, having done so for public sector clients, private clients and NGOs. Among his clients are New Mexico Base Closure Commission, the Lea County Development Corporation, and Sunland Park Race Track & Casino among others. Dr. Erickson is in NMSU's Economic Development Program, where he teaches graduates students in the proper methodology for conducting impact studies. He is a recognized expert on the economy of New Mexico. The study entitled "New Mexico's Public Funds Investment Policies: Impact on Financial Institutions and the State Economy" (2009), found at http://arrowheadcenter.nmsu.edu/sites/default/files/uploadecd/bankingstudy.pdf, provides baseline information for the Santa Fe public banking study, thereby reducing duplication of effort.

Limitations of the Report

Both the scope and the logic of this report by necessity have omitted several crucial elements. While legal questions have been posed and broadly answered, no legal opinion has been sought formally by the City. No over-arching legal obstacles have been identified or raised by others. However, the actual mechanics of setting up a separate legal entity by the City will require appropriate City action, resolutions, and legal documentation. Additionally, in order to undertake meaningful reviews of feasibility and economic impacts, a "strawman" was developed. This entails imagining what the entity might look like, how long it will take to implement a phased approach, and what volume of business might be done. To the extent possible, the strawman was designed as the most feasible approach for successful implementation. That said, further refinements should be made as an implementation plan is constructed, only if and after the governing body endorses the strategy and opts to move forward with the full engagement of legal, accounting, and management services.

One limitation of the report has turned into a strength. When the engagement commenced in early 2015, the City was undertaking a rigorous new budgeting effort, then the defense of the Park bond, and most recently, the evaluation of a looming budget deficit. While this study could have been derailed, instead it strengthened the thoughtful analysis of how a public banking initiative could bolster the City's financial management policy and procedures. Specifically the study has evaluated depository collateral regulations, interdepartmental cash flows, liquidity management, and Capital Improvement Project ("CIP") forecasting and funding. In other words, the study is working real-time with real issues, with the primary objective of enhancing the City's controls and professional management of its financial assets.

Brief History of Public Banking

The primary reference point in the U.S. for public banking is the Bank of North Dakota ("BND"). The BND was established in 1919 as a response to a crisis in the agricultural sector, triggered in part by reduced lending from eastern banks. It took many years for the bank to evolve into its present form. BND faced opposition from opposing political parties and from the financial sector itself. From the 1940s until the early 1960s, the bank served primarily as a public funds depository and municipal bond buyer (in essence funding intra-governmental debt). Its economic development activity has expanded as BND became a participating bank with the local banking community which helps provide liquidity to the local economy. The strengths of the state bank are impressive. It has served as an anchor to the economy (even before the oil boom), and has strengthened the private local community banks, which have remained remarkably resilient and independent, despite national consolidation trends. BND is a member of the Federal Reserve System, but not a member of the Federal Deposit Insurance Corporation (FDIC).

BND is the only state-owned public bank in the United States other than the Puerto Rico Government Development Bank. According to the Federal Reserve Bank, seven Indian tribes currently wholly own or substantially control a bank, arguably also operating as public banks. The Federal government has sponsored other types of banks. Typically these are organized as mutual institutions, owned by private sector member lenders. Examples include the Farm Credit System and the Bank for Cooperatives. These entities address sectors of the economy that suffer from lack of attention from mainstream credit institutions and tend to require specialized expertise. Similarly the eleven Federal Home Loan Banks provide specialized funding to the home loan sector. Perhaps the best known federally sponsored credit institution is Fannie Mae (Federal National Mortgage Association), founded in the Great Depression to help increase liquidity in the home ownership market. These examples of publicly sponsored banks, while not exhaustive, are now relatively independent institutions, but generally trade close to par with Federal paper. Credit Unions and Community Development Financial Institutions (CDFIs) also have had key Federal intervention and funding, primarily targeted at helping make credit available to less advantaged sectors in the economy.

Other communities that are studying public banking concurrently besides Santa Fe are California and Pennsylvania (both State and various local jurisdictions), Vermont (first step is an infrastructure funding revolving fund), and Colorado. Over 20 states have a public banking advocacy groups working with local and state officials to support public banking initiatives. The fundamental concern of all of these groups is to encourage local government entities to make a greater impact on the economic well-being of their constituents, and to increase financial stability.

Locally "Banking on New Mexico" has been the leading citizens advocacy group. A member of the New Mexico group also sits on the Public Banking Institute board of directors, the national advocacy entity. Mayor Gonzalez proposed studying a public bank as part of his election platform. A conference on public banking was held in September 2014 to broaden the understanding of the concept. Subsequently the City Council endorsed and issued a Request for Qualifications to perform a Public Banking Feasibility Study. The Mayor, various Council members, and key staff members have all been engaged throughout the study helping ensure that the consultants provide a useful and pertinent document.

The Consensus Document

Introduction

As part of the Public Banking Feasibility study, the City and Building Solutions LLC (Consultant) determined that it would be useful to survey the City's current banking sector policies and activities, as well as both local and national market conditions. This exercise helps develop an understanding of where the market is functioning as expected and where there are opportunities for the City, or for other financial sector players, to improve regional economic performance. The survey of current conditions is useful in identifying areas where making changes could improve financial sector performance (whether by the City or others). Not all of the areas covered in this document *require* the implementation of a public bank, however, they all relate to banking functions, regardless of the ownership of the institution.

Summary of Banking Sector Concerns

The concerns noted below are national and are not isolated to Santa Fe. Each region has its own nuances, however, the generalized statements have been echoed in the local market.

> *The most important finding in the Consensus Document is that the banks in Santa Fe have a lot of cash to lend and less demand for qualifying loans than they would prefer. For this reason, the Consultant does not expect that "participating in bank loans" can be a near term source of business for a public bank, as it is in North Dakota.*
>
> *Of greater importance is that the City's own balance sheet reflects a large level of cash which could be used to invest in the public sector's own debt, in essence, funding itself, rather than relying extensively on the external bond markets. The City could fund some of its own construction on capital projects, and manage its liquidity in more than one way. This would save the City money which could be used to fund City activities or mitigate taxes.*

- Banking sector liquidity, and regulatory changes in capital requirements, is reducing willingness to take large deposits, as are historically low Net Interest Margins. Will the City have difficulty placing deposits in the near future (at least until some of the financial sector liquidity is deployed/lent) or could interest rates dwindle to zero or negative levels reflecting the cost of reserves and collateral?

- Loans under $500,000 are more difficult to obtain, particularly from traditional commercial banks. Emerging web-based portals may fill some of this demand but the lack of regulatory oversight, and low borrower awareness and preparedness may limit early adoption in the region. What can or should the City do to stimulate this class of lending?

- Regulations are proving to be extremely onerous for smaller community and regional banks. The regulations may have the unintended consequence of encouraging further consolidation of local banks into larger banks, and more distant decision-making.

- All of Santa Fe's local banks appear to have acceptable Community Reinvestment Act (CRA) ratings. The implication is that deposits received in the area are being redeployed in the area[1]. This, however, is over-shadowed by the fact that Loan to Deposit ratios are at 30-year

1 Century, Community Bank, and NM Bank & Trust are listed in FDIC records as having Satisfactory CRA ratings as of 2012 and 2013 review dates. Wells Fargo Financial Bank (not specific to New Mexico) has an Outstanding rating as of its last review in 2008. Los Alamos and FNB of Santa Fe are not listed in easily accessed public records, however, they are cited as having excellent community relations.

lows nationally (implying that there is weak conversion of deposits to loans). New Mexico (and Santa Fe) loan to deposit ratios are substantially below the low national levels.

- The emergence of on-line lenders, which use both private and public data to make loan decisions, are growing quickly, and providing further competition to community banks. While they are still a relatively small sector in the market, they are filling gaps in the consumer and small business lending market. This is further complemented by the "impact investing" trends which reflect an increasing desire on the part of investors to make a difference while also making a profit.

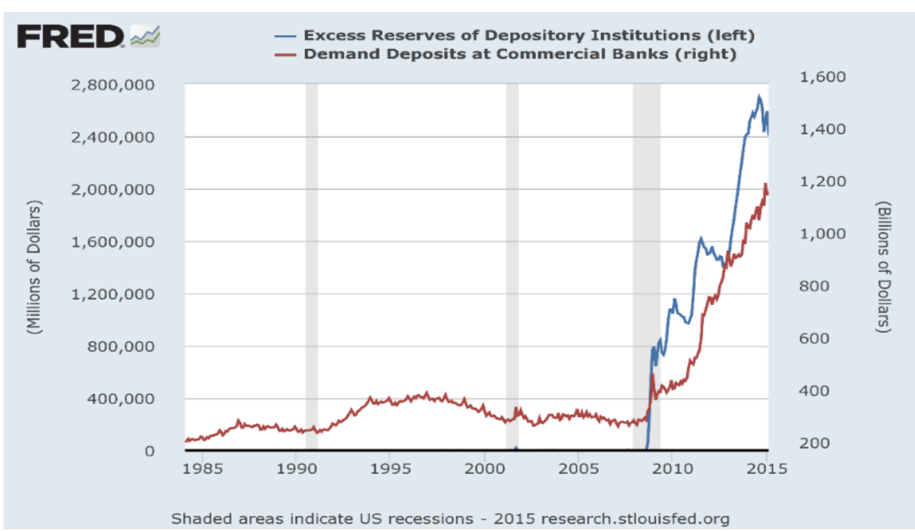
City of Santa Fe Collateral Policy

N.B. The City of Santa Fe Finance staff follow guidance of the Government Finance Officers Association ("GFOA") for developing policies which are approved by Council, and which conform with New Mexico State laws. Finance management follows a prudent guideline that prioritizes security, liquidity and yield – *in that order*.

City policy requires 102% collateral on all bank deposits (in excess of FDIC insurance levels of $250,000). Full collateral is common among governmental entities nationwide, even though the State of New Mexico requires by statute only 50% collateral and per regulatory practices uses a tiered collateral requirement ranging from 50% to 102% based upon ratio analyses. 102% collateral levels mean that very little of the City's deposits are available to the Santa Fe community, HOWEVER, the collateral provides excellent insurance against bank credit risk. Some municipal collateral policies allow for a wider class of collateral, even including performing loans. New Mexico's statutes appear to limit collateral (50%) to high grade federally issued or insured paper and New Mexico investment grade governmental bonds, or the purchased guarantees of those entities.

The "cost of collateral" (the cost for a bank to provide collateral) is at historically low levels due to excessive liquidity and low interest rates. This means that the foregone interest revenue of full collateralization is relatively modest…maybe $100,000 to $200,000 per year[2]. This abnormally low premium for the collateral is due to the unusually high levels of excess deposits/reserves, as demonstrated in the following graph:

Reserves and Demand Deposits - Commercial Banks

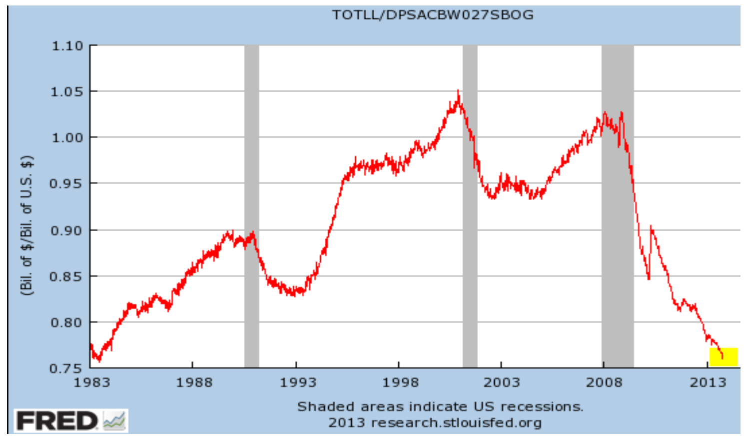


[2] $100 million City's deposits X 10 to 20 basis point premium (.0010% to .0020%) = $100,000 to $200,000

Bank Loan to Deposit ratios also reflect the excess reserves (see chart below). This ratio is at 30 year lows due to tighter regulation, limits on real estate lending, and high excess reserves resulting from the "quantitative easing" at the Fed as noted above. Thus, if the City altered its collateral requirements, the banks might not have loan demand (or the willingness) to utilize those funds in the near term, unless safe and attractive alternative investments are identified. Santa Fe's depository banks have even lower Loan to Deposit ratios than the national average, but they appear to be higher than New Mexico's level of 66%, suggesting a sluggish lending environment.

U.S. Bank Loan to Deposit Ratios 1983 to 2013

New Mexico's depository bank ratios average about 66% - a level which is below the national average of 75%.



These conditions are expected to persist nationally for some time given low inflation, reluctance of the Fed to raise interest rates, and risk averse behavior among depositories world-wide. It is unclear why New Mexico banking institutions have loan to deposit ratios which are so much below the national averages. It could be lack of lending competition, concerns about the New Mexico economy, weaker loan demand, and/or heavier regulation. It is also possible that the relatively high level of public funds in the banking system in New Mexico creates a structurally lower Loan to Deposit ratio, given the regulatory collateral requirements.

Liquidity

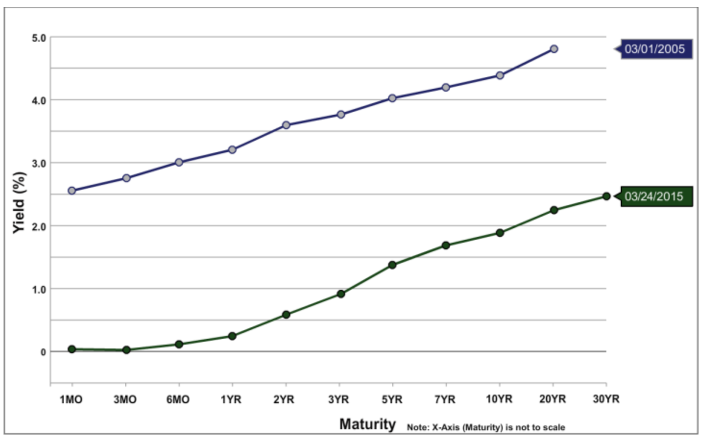
Liquidity, immediately available funds, in the City's investment portfolio (including restricted and unrestricted cash) appears excessive, although it may reflect the almost flat yield curve under one year. On demand cash (immediately available without penalty) is being maintained at $50 to $90 million. June 30, 2015 total investments of $226 million had a weighted average maturity of 283 days, or slightly over 9 months. The June 30th financial report on yield and maturity is in Appendix B. As the report illustrates, the difference between short and long term investments is between 25 and 100 basis points in foregone interest revenue for short term deposits. This level of short term liquidity, while not uncommon among government entities, reflects uncertain cash flow forecasting. *Ideally* the City would attempt to manage its investment portfolio in an improved maturity "matched" or laddered approach, reflecting a more neutral position relative to interest rate markets, and maturities which specifically match expected cash requirements. Part of the reason that the City has difficulty predicting cash usage is that most of the City's cash is "allocated" to funds, for both operating and capital expenditures. Unfortunately the number of funds (estimated at 411) makes cash forecasting and budgeting difficult, at best. At worst, it is being used to avoid good budget and capital management oversight by Council.

One further note is necessary regarding municipal liquidity. The State encourages municipalities to maintain no less than 1/12th of their budgeted expenditures in unrestricted and unassigned cash ("General Fund") as a measure of liquidity. The City's calculation was down to 35 days (or $83,278 above the 1/12th budget level) as of year-end 2014. This is a decrease from prior years and is "too tight for comfort." The State guideline may become a requirement in the future. The ratio also is monitored by the rating agencies. The excessive use of 'funds' noted above, strips the City of appropriate *predictable* liquidity, and restricts the City from making the most efficient use of its cash, both among departments and in the markets. The ratio may also penalize the City in credit assessments, which could have more serious long term consequences.

Improved cash forecasting and budgeting, even at currently depressed interest rates, could add substantially to interest earnings, even with relatively modest extensions of the weighted average maturity. If more of the City's funds were actually invested longer term – perhaps in the City's own borrowing needs, the NET interest savings would be substantially greater. Decisions such as these must be weighed against the possibility of increasing rates and liquidity needs.

The table below illustrates the Treasury rates which generally parallel bank deposit rates. The comparison between 2005 (prerecession) and 2015 illustrates not just the drop in rates, but also the flattening of the yield curve in the period under 1 year.

Comparison of Yield Curves in 2005 and 2015

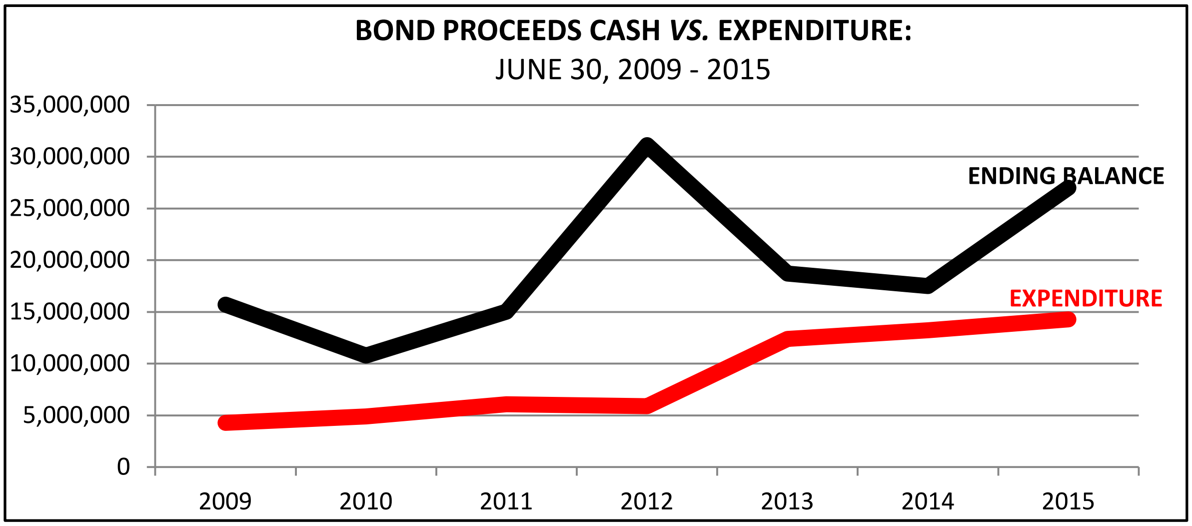


The City has lost almost $9 to 10 million per year of reduced earnings from its deposits as interest rates have declined.

However, the biggest issue is that the City is funding long term projects with more expensive bond money, often long before the project is ready, and the excess long term bond funds must be invested at much lower short term investment rates.

External Bond Funding

Santa Fe typically issues bonds for capital outlays long before the projects are "shovel ready." This usually means that the Finance Department (or New Mexico Finance Authority "NMFA") must invest the funds at a substantial discount to the bond rate for a period of time that typically exceeds the policy to expend proceeds in three years (sometimes for more than five years). Admittedly it can be difficult to predict the expected cash flow as bond projects are being planned, bid, built, and put into service; however, the cost of funding these projects long before they are ready to commence is substantial. Using the bonds issued in the last seven years as represented on the table below, the City of Santa Fe could have saved over $10 million if it had used its own cash to finance the $88 million in debt issued. Of that amount $4 million is attributable to the excess cash proceeds which were not readily disbursed. Future external bond issues should focus on projects that are truly "shovel ready" and have predictable and immediate cash requirements. Additionally the financial and administrative controls over disbursements are critical aspects of long term project management. Better planning for capital expenditures together with improved "matching" on cash expenditures could meaningfully lessen the financing costs imbedded in capital expenditures. (Note: A twenty year bond with a twelve year average life, issued at 4% p.a. coupon, has financing costs approaching 50% of the initial project cost.)



Prepared by City of Santa Fe, Finance Department

Market Conditions

The lending "gaps" in the market seem to be (anecdotally) in the following areas:

a) **Small business lending** – under $500,000. The chart below illustrates that despite an increase in GDP (post recession), there has been a continued decrease in small business lending, most dramatically by the largest banks[3].

b) **Real estate lending**. There continues to be increased regulatory scrutiny regarding loans backed by real estate collateral. This appears to be impacting the credit availability of rental units more than homeownership credit.

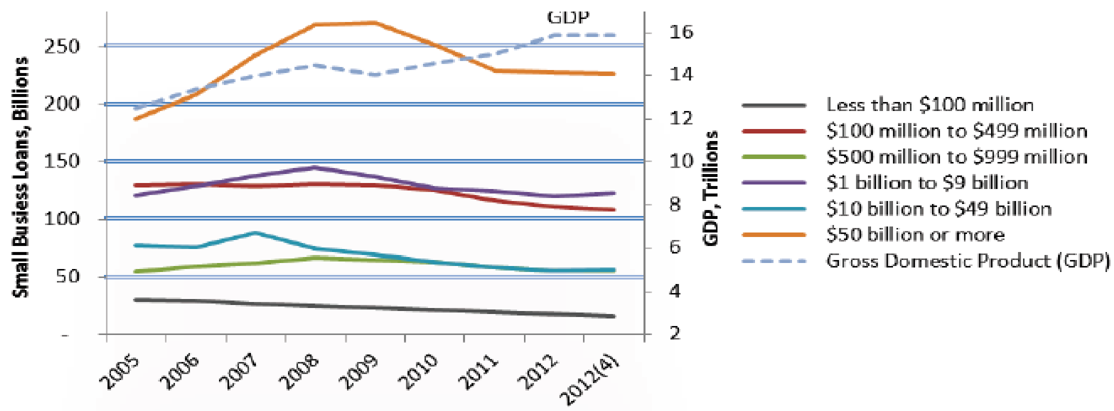
c) **Angel capital** and to a lesser extent Venture Capital (in Santa Fe).

d) **Impact investing**. It is too early to tell what foundations and qualified investors will do in this arena, however, the national and international trend should be beneficial for Santa Fe, which has a disproportionate share of investment advisors and investors who make Santa Fe a part-time or full-time home.

e) **Small consumer loans** do not appear to be a problem in Santa Fe; however, the ubiquitous presence of "pay-day lenders" is of substantial concern.

[3] The lending market *may be* further exacerbated by interstate banking. In an effort to curb taking deposits in one state and lending them in another state, Section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act) requires non-state domiciled banks to maintain a Loan to Deposit ratio that is 50% or greater than the host state ratio. New Mexico has one of the lowest Loan to Deposit ratios in the US at 66%, and thus compliance would require that only 33% of New Mexico deposits in non-New Mexico banks need to be reinvested in New Mexico to maintain compliance.

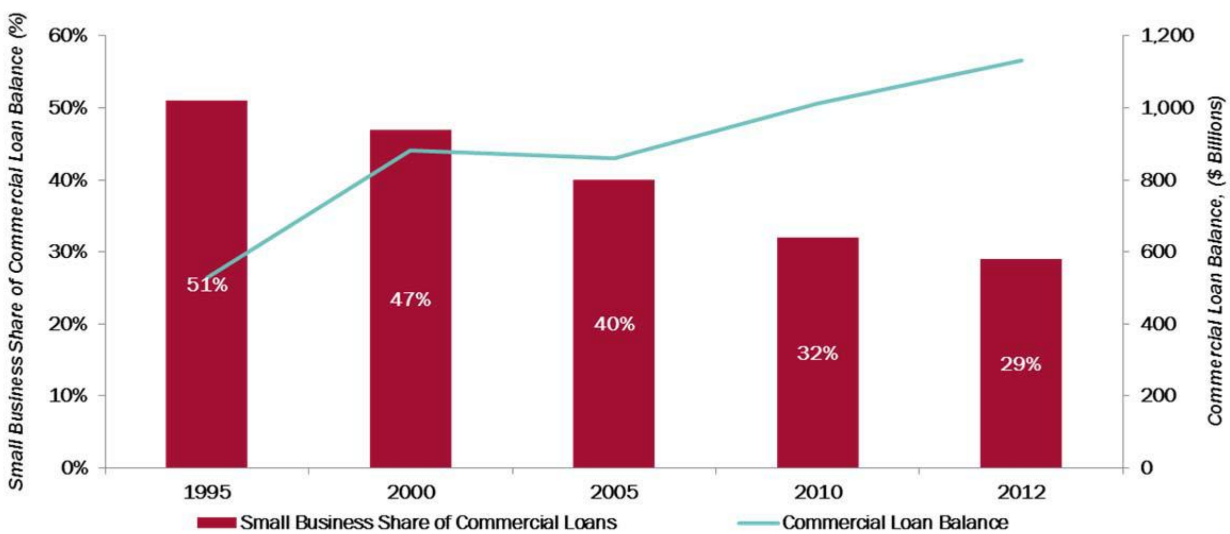
Total Value of Small Business Loans by Depository Institution Size
June 2005 to June 2012



Source: U.S. Small Business Administration, Office of Advocacy, based on Call Reports from the Federal Deposit Insurance Corporation.

Small Business Loans as a Share of Total Loans Are Steadily Declining

Small Business Share of Loans at Banks (%) vs. Total Outstanding Commercial Loans ($ Billions)



Source: Federal Deposit Insurance Corporation, Call Report Data. As of June 2012.

In general, the "market" for smaller business loans is scattered, unorganized, and difficult to serve.[4] The entities perceived to best serve this market are the Community Development Financial Institutions ("CDFIs") and credit unions. CDFIs obtain grants from the Federal government, foundations, and sometimes local governments, and raise debt from the marketplace (including commercial banks). These

[4] An excellent summary of the small business lending market can be found in a 65 page working paper issued by the Harvard Business School, written by Karen Gordon Mills and Brayden McCarthy in 2014. **"The State of Small Business Lending: Credit Access during the Recovery and How Technology May Change the Game,"** (http://www.hbs.edu/faculty/Publication%20Files/15-004_09b1bf8b-eb2a-4e63-9c4e-0374f770856f.pdf)

non-commercial bank entities have helped target services to lower income and more difficult to serve markets in the region, although they are constrained in part by:

a) lack of long term funding (eg., Homewise, a CDFI focused on residential mortgages),
b) lack of operating (over-head) funding (eg., Accion, a CDFI micro-credit lender),
c) too few qualified loans (e.g., The Loan Fund, a CDFI), and
d) commercial loan limits on credit unions (e.g., Guadalupe Credit Union).

Homewise claims to have the majority of the mortgage market in homes under $350,000 in Santa Fe, a significant achievement and a major source of homeownership capital. Throughout the country these entities have been filling key niche areas of lending that have either been abandoned by commercial lenders or deemed as too difficult to serve (e.g., neighborhood groceries, preschools, charter schools, etc.). In some markets, such as Chicago, the traditional commercial banks and the government are funding CDFIs as an alternative to staffing their own community lending groups. This cooperation has meant that CDFIs have developed significant expertise in specialized community finance. The relationships between government, commercial banks, and CDFIs in northern New Mexico appears to be occurring, but is less robust. Regardless, the CDFIs and Credit Unions exist and potentially can play larger roles. In some ways, CDFIs are a form of public bank in as much as they receive Federal funding (and often local government funding) and they must demonstrate that they are filling an underserved community need.

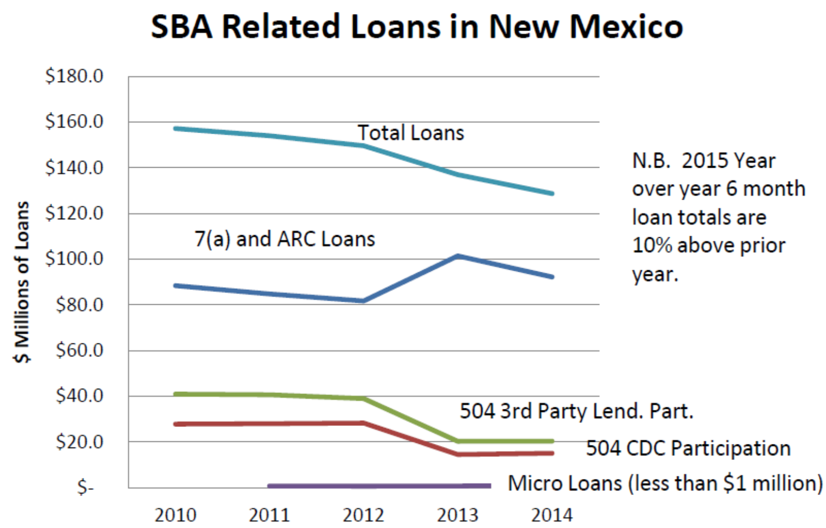
Focusing more specifically on credit needs locally, a recent 2015 survey conducted by the City of Santa Fe with over 600 businesses (over 90% under $1 million in payroll) further confirmed the concerns regarding access to capital:

Need for Capital

Access to Capital	High	Medium	Low	
Strong	2%	5%	23%	30%
Fair	5%	16%	23%	44%
Weak	8%	5%	13%	26%
	14%	26%	59%	100%

As might be expected the businesses with medium to high need for capital are more likely to have fair to weak access to capital. What percentage of these firms are credit-worthy is uncertain; however, national and local indicators would suggest that growth is curtailed by a reduced access to capital.

The Small Business Administration (SBA) has been a key component in developing borrower capacity and in providing guarantees and funding to this more difficult to serve market. Notwithstanding the temporary surge in credit post-recession as a result of the JOBS Act infusion of capital through the SBA, the New Mexico SBA reports the following credit extensions.



Source: SBA regional office in Albuquerque, New Mexico District Lender Rankings and Loan Activity, 2010-2015

Emerging Banking Entities

There is growing interest in peer to peer lending, crowdfunding, and other forms of internet based lending. The Securities and Exchange Commission's Regulation "A+", released March 25, 2015, further clarified and documented the requirements for smaller "public" offerings, as required by the Jobs Act. This feasibility study is not intended to forecast the effects that these regulations will have on the markets, although it is expected to make it easier to publicize and sell securities, as well as broaden the investor market, to include investors who do not qualify under Regulation D as sophisticated investors (high net worth and annual income). These emergent financial vehicles could provide Santa Fe with a more robust financial 'ecosystem', especially if there can be a more visible and transparent understanding of the relatively new markets. [5]

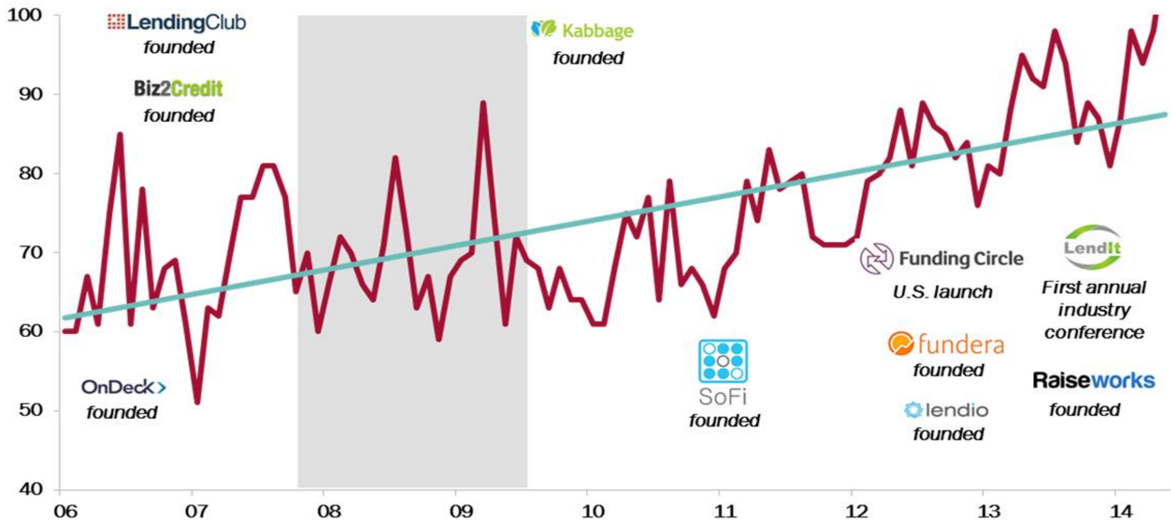
Similar to Amazon, AirBnB, and ZipCar there are robust web-based platforms for consumer credit. Increasingly business credit, particularly for the market under $1 million, is also being targeted. It is too early to tell how these emergent technology based lenders will fare under adverse market conditions. The following two charts illustrate the rapid recent growth of the sector, precisely during the post-recession years.

Online lending and crowdfunding are emerging trends. It is not certain how these new "banks" will mature, however, they are making significant impacts in the home mortgage market and more recently they are competing more effectively in the business loan market. There are also players who are thinly disguised internet reinventions of "payday" lenders.

While it is too early to predict the growth patterns, there is no doubt that the financial world is now being affected. Many old line banks are now looking at how they can use the emerging technology to enhance their competiveness and profitability. At this point, we should "stay tuned" and help our community banking industry stay competitive.

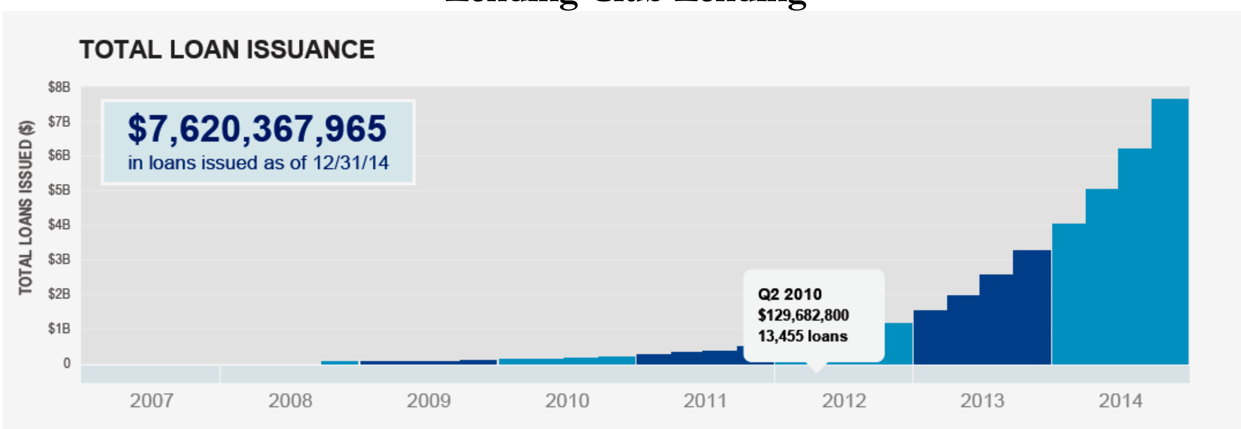
[5] As this document is being finalized the Securities Exchange Commission published on October 30, 2015 more lenient and permissive rules for crowdfunding under $1 million, thereby responding to earlier criticism that the previously published regulations did not adequately address the new technology available for funding smaller loans and equity investments. It is too early to know how these new regulations will affect State regulations or the markets.

Average Monthly Google Searches of "Term Loan"

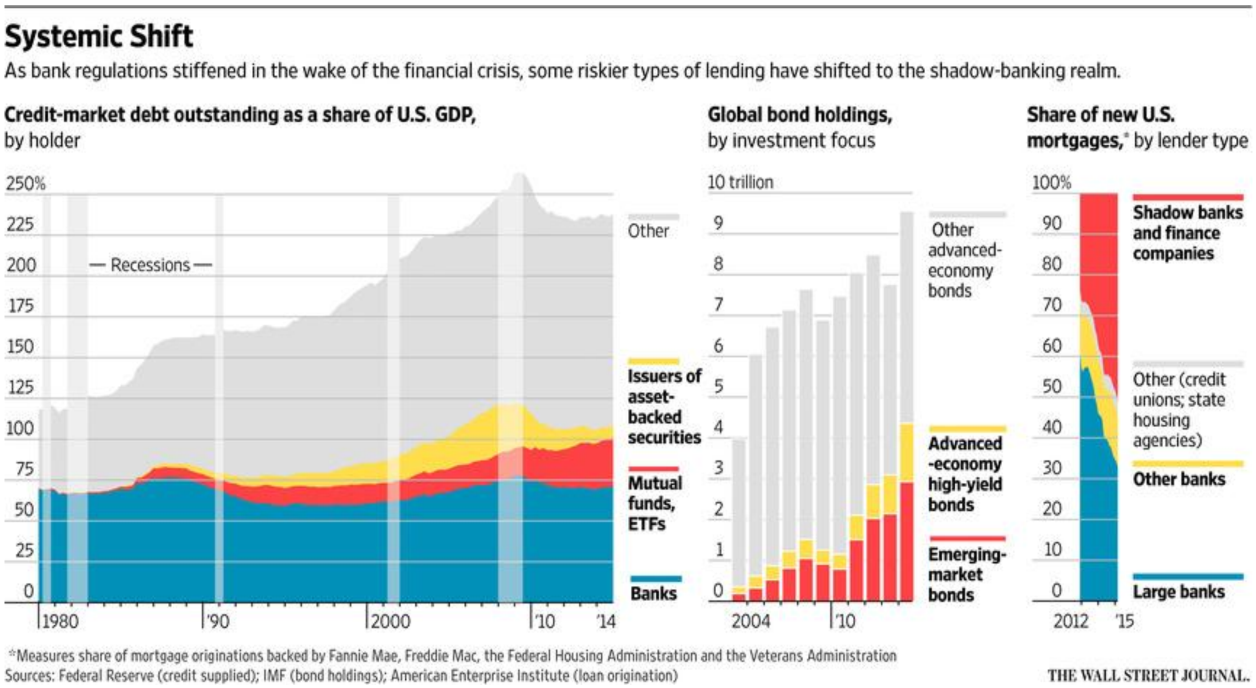


Source: Google.com/trends. As of May 2014.

Lending Club Lending



Note: This chart shows loans "issued," not loans outstanding. Less than $50 million was lent in New Mexico since inception, presumably because Lending Club did not find it efficient to register in New Mexico (secondary market trading is permitted). Lending Club went public in December 2014, which now opens their market for investors to all 50 states, including New Mexico, although as of June 2015, Lending Club was still not accepting investors from New Mexico. Some analysts note that a substantial growth came from traditional banks buying loans, rather than from Peer-to-Peer growth.



While Lending Club is one of the largest players in this market, there are many others with both competing models (including payday lenders), and different modalities. The modalities can basically be divided into on-line lenders, brokers (Marketplace), and peer lenders (P2P). See the chart below. Some traditional lenders are finding it attractive to bridge their clients into this market, yielding a better return for themselves (fee) and minimizing the credit and regulatory risk to themselves. The efficiencies (and lack of regulations) seem to be compelling enough for some traditional lenders to attempt to maintain the client relationship, while introducing their customers to loan products through the internet lenders.

The introduction of internet lending can be compared to the hospitality industry. The direct lenders are akin to Holiday Inn on the Web. The brokers are like Kayak or Orbitz and the Peer to Peer lenders are similar to AirBnB.

Three Emerging Models in Online Lending to Small Businesses

	Online Balance Sheet	Marketplaces	P2P Platforms
	OnDeck Kabbage	fundera Biz2Credit	LendingClub Funding Circle
Model	Use balance sheet capital to decision loans via new risk scoring algorithms that include non-trad'l data	Connect borrowers with range of traditional and alternative lenders, incl. big banks, SBA, new players	Connect prime and super-prime quality borrowers with capital from consumers, inst'l investors
Loans to Date	Est. $1.5B as of 4Q13	N/A	Est. $4.7B as of 4Q13
APR	20 – 50 percent	Wide variation given range of products and lenders	9 – 12 percent
Terms	6 – 12 months on average; focused on new loans	Wide variation given range of products and lenders	3 year or 5 year; largely focused on refinancing of credit card debt
VCs	Google Ventures, First Round, Tiger, SAP Capital	Khosla Ventures, First Round Capital, Square 1	Khosla Ventures, Kleiner Perkins, General Atlantic

Source: Harvard Business School Working Paper, 2014

Of particular concern both nationally and at the state level is how these emerging financing vehicles should be regulated. They generally fall "between the cracks" of the FDIC, SEC, and Consumer Finance Protection Bureau regulations. Efforts to regulate also are tempered by the fact that many of these vehicles are serving the very gaps left open by the retreat in commercial bank lending subsequent to the 2008 financial crisis. Regulation (or market place opinions) will, or should, address the following areas:

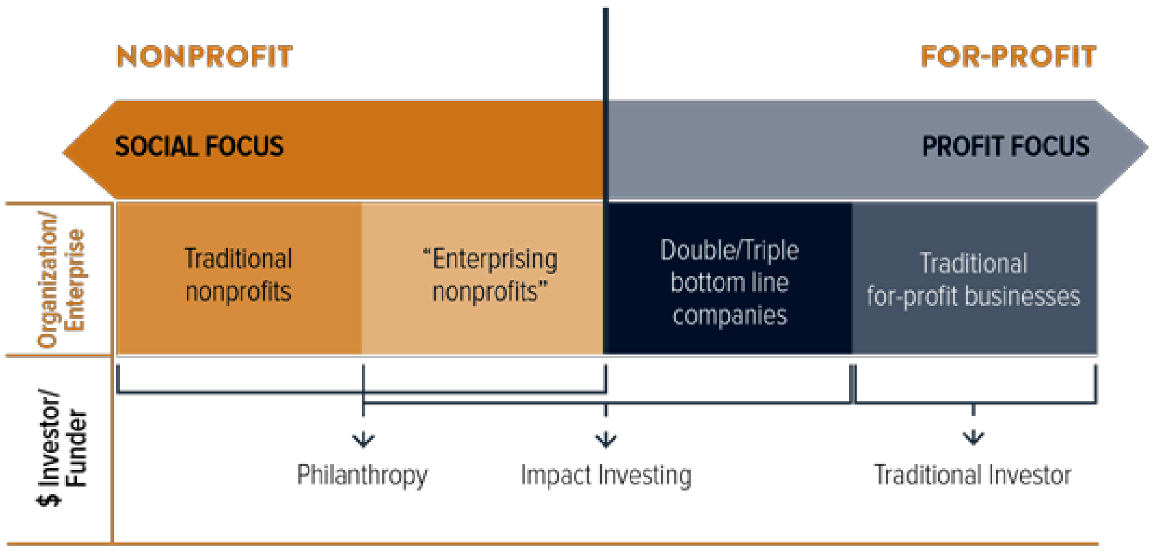
a) Transparency and disclosure
b) Oversight and monitoring
c) Borrower education and literacy

Twenty states, including Oregon, Colorado, and Arizona, have or are in the process of developing permissive "crowd-funding" platforms for intrastate transactions between borrow and lender. By restricting activity within state boundaries, these states are able to establish in-state platforms, thereby gaining an advantage over states that wait for Federal regulation. The in-state regulations are designed to allow smaller individual investments by investors, who may know local conditions, but who are not exempted by Regulation D as an accredited investor (e.g., $1 million net worth and $200,000 annual income). Most of these regulations appear to be more permissive than Federal regulations, albeit for smaller limits. Local markets may become important alternatives, especially for smaller transactions. New Mexico has developed new regulations which are expected to be published by the end of 2015.

It is worth noting that the online and marketplace lending is gaining increasing traction and does not need to wait for 'crowdfunding' legislation. This is lending that is using the internet, robust credit scoring systems, and social media to find investments and evaluate them. An Albuquerque firm, Main Street Crowd, https://www.mainstreetcrowd.com/content/about_us/ , for example, is currently installing such a system in Miami, Dade County, under the auspices of the National Development Council (NDC). Another interesting use of such a platform was launched by the Michigan Economic Development Corp. They funded 33 out of 34 projects for "public spaces", accepting donations, often with matching funding from a public entity, thereby funding smaller capital projects that had high community appeal, but lacked adequate government funding. Donated funding is not governed by the SEC. See Appendix C for a full article.

Impact Investing

Another sector that has gained cache, particularly in recent years, is impact investing, the concept of meeting more than just a financial bottom line. Terms such as Triple Bottom line, B corps, and mission related investing, all point to the concept that the very simple tax distinction between Non-profit and For Profit is blurred. There are many philanthropic ventures looking for more sustainable, financeable business models, and increasingly shareholder driven companies are recognizing the value of having robust social goals.



Foundations can use their corpus (investment funds) to make mission or program related investments, rather than just making grants. The Santa Fe Community Foundation and SVH Support (related to Christus St. Vincent Hospital) are collaborating as they begin making loans to non-profits and/or for-profits with tangible social missions. Impact Network Santa Fe (IN Santa Fe) has convened both investors and potential entrepreneurs to encourage the growth of this type of investing in the local economy. Kellogg Foundation, a long time impact investor, is providing support as well. Demographic research is identifying larger numbers of women and millennials in the investor markets as key drivers of this trend. Increasingly fund managers are documenting that returns on "sustainable" investing, another subset of the impact investing market, appear to be achieving equal or better returns than traditional portfolio investing.

IN Santa Fe has identified and engaged in conversations with several of the emerging impact investors who are using web portals to post opportunities (investees/borrowers) and to allow investor/members to seek, review, and ultimately fund opportunities – both locally and globally. This approach could help bridge the investor market in Santa Fe with the emerging Peer to Peer and MarketPlace lending platforms and illustrates another way in which the internet is providing access to capital in new ways.

The Strawman – A Feasible Approach to Public Banking

The "Strawman" is a basic hypothesis of what a public bank could be in Santa Fe. This technique is used in order to analyze the feasibility. To the extent possible the Consultants have attempted to design a "strawman" that indeed is feasible; an approach that addresses community and staff concerns. Notwithstanding this hypothesis (or "strawman"), the Public Banking Feasibility Study was not intended as either an implementation plan or a legal review. The Strawman contains two *parallel* tracks, i) a city banking function, and ii) a crowd-funding platform(s), although they are related given the potentially significant impact that public deposits have in the regional financing network. In designing the Strawman approach, economic feasibility, has been complemented with consideration of fiscal, operational, legal, administrative, and political feasibility, all of which impact the willingness and ability of the City to change present operations.

City Banking Function: Create an entity called the Santa Fe Bank ("SFB") to receive and manage all public sector deposits, initially just the City's cash. Use the SFB to fund City projects, especially prior to the issuance of larger, more fee efficient bond financings. Once created, the charter of the SFB will detail the scope, board oversight, jurisdiction and basic policy.

Possible Phasing of the Banking Function:

Phase I: Create a separate City entity which assumes the basic cash management functions of the City, including lending on approved City capital expenditures. This separate entity does not require a banking charter. The entity will establish policy and procedures for lending which will create a more transparent and "arms length" financial relationship, thereby providing the economic and financial incentives within the City for improved cash management, particularly for Capital Improvement Plan (CIP) transactions, both disbursements and funding.

Fund Balance "Clean-Up": Current "fund balances" should be reviewed based upon stringent financial policies: i) transferred to the General Fund and re-appropriated annually through the budgeting process, ii) established as a "loan" from an internal bank (with terms for repayment), or iii) left in the originating "fund" for the explicit purposes of a grant, legal requirement, or bond covenants.

Appropriate Liquidity Policy: One of the major financial opportunities that Phase I offers is the 'right sizing' of the City's liquidity. This can be done by paying down callable bonds with cash that is being invested in low yielding short term bank accounts. Extra and significantly less expensive liquidity also can be achieved through lines of credit or collateral resale agreements with the City's depositories. This allows the City to temporarily return collateral in exchange for short term cash investment mismatches (e.g., a certificate of deposit matures in 6 months, but there is a one week period before it matures when extra cash is needed, e.g., before taxes are received). It is an excellent mechanism to smooth cash flows when there are unexpected early cash disbursements or late revenue receipts. The SFB can provide the confidence to develop such a Liquidity Policy.

During Phase I changes in the city's depository collateral policy will be investigated with the primary objective of incenting local banks to increase lending in the region, particularly lending which will enhance access to credit by smaller businesses and consumers. Current low loan to deposit ratios may inhibit rapid uptake, but this approach may also make it easier for local banks to accept deposits from the City, and hopefully will improve deposit rates. Bank lending to CDFIs in particular could enhance the reach of the CDFIs to participate in the smaller business, consumer, and mortgage markets.

Possible Collateral Reduction Plan: On up to 50% of the City's investments with depository banks, allow for a reduction in collateral of up to 50% in exchange for collateral consisting of loans to CDFIs and Credit Unions for lending in the region. This program can be integrated with robust internet linkages between and among lenders and investors, thereby helping to simplify access to credit sources, especially for smaller borrowers.

Phase II: Apply for a State banking charter which allows all of the functions provided in Phase I. In addition the charter will seek permission to accept deposits from other public entities and charitable organizations. The new bank can pursue either a conventional equity model or a mutual bank model depending upon ongoing investigation with State regulators and legal counsel. The new bank will broaden its lending mandate to include the other public entities which choose to participate (e.g., County, public schools).

Note: It is possible that a bank charter can be pursued in parallel with Phase I. The charter will take time to draft, vet, and process. In the meantime, the City will gain important expertise and develop policies which will enhance its ability to transition to a separately chartered institution.

Phase III: Broaden the lending function to include *public interest loans* underwritten by community banks in the region. Non-public sector lending will require a minimum participation by the private sector banks of 50% and should not trigger any "anti-donation" laws; however, if legally advisable, the LEDA plan should be amended to specifically include the external activities of the bank.

Governance Considerations for Phases I, II, III

Cross-departmental funding currently exists at the City, through "fund accounting," severely reducing the ability of the Finance Department to forecast cash flow requirements, and costing the City in excess borrowing. By formalizing policy and procedures, as well as updating liquidity mechanisms available for cash management, not only can the City enhance its bottom line, but also it can significantly increase transparency. Incentives for good departmental cash management will allow the City to fund internally much of its capital needs in the foreseeable future, thereby further enhancing net interest costs and flexibility. The City should take this opportunity to establish an Advisory "Blue Ribbon" Commission composed of citizens with ample financial experience to advise the Finance Director and Finance Committee as policies and procedures are developed. This committee also might serve as the advisory group for reviewing a bank charter application.

Any bank charter application will require a substantial and complete description of the governance mechanisms of a new bank. At a minimum, a Board will need to be described (and later appointed) which insulates the Bank from election cycles. A possible approach might be the following:

City Only Deposits (7 member board)	**City, County, and School District Deposits (9 to 13 member board depending on participation)**
Council Member	Council Member
3 Independent Financial Experts	County Commissioner
2 Citizens at large	School District Board Member
Finance Director of the City	3 Independent Financial Experts
	2 Citizens at large
	Finance Directors of participating public entities

The Board's most important function is that of selecting a CEO to run the bank. It is also relatively common for the Board to have one or more subcommittees that focus on operational policy, such as a loans, audits, and investments.

Operational Considerations for Phases I, II, III

Loan requests from the City should include the following details:

- Detailed Proposed Use
- Amount
- Term Requested
- Source of repayment and/or pledged revenues (including operating revenues and expenses)
- Forecast of recalculated City liquidity and leverage ratios after the loans is made
- Necessary approvals for loan and dedication of repayment source

Note: The SFB should require standards that are just as rigorous as public bond underwriting in order to make sure that the credit rating and long term access to capital is maintained.

Cash management responsibilities should include:

- Operating under guidelines which conform to State regulation for municipal entities, but which may be stricter, as directed by the depositors, e.g., the City. Encourage and monitor depository lending goals which enhance community economics.
- Insuring liquidity for the City's operating and debt repayment needs.
- Obtaining and/or providing temporary liquidity for short term cash management, in order to optimize an investment ladder which is appropriate for the City's needs.

Loan requests from a non-City Entity to the SFB must include:

- From a public entity (e.g., County or School District): Deposits with the SFB which are no less than 150% of the loan request, and meet the other deliverables for a loan request.
- From a private financing institution: In addition to the information required above in City infrastructure loans, (i) a commitment to fund the loan for no less than 50% of the principal required, and (ii) a clear description of the expected public benefits of the transaction.

Examples of Potential Loans*

Intra-City and Public Lending (Phase I and II)	Community Lending (Phase III)
Green Energy Infrastructure for City with Payback (ie., Water Recharge or "Purple Pipe")	Co-lending program with CDFIs
Construction and/or long term funding for CIP	Affordable housing construction financing
Investment in public transit which matches private investment in car and bike sharing.	Social Impact Bond underwriting for pre-school education

*Any interest reduction program is expected to come from a budgetary allocation to SFB.

City Policy Issues:

- Change in collateral policy.
- Deferring external bonding.
- Delineation of policy, staffing, and oversight for separate lending and cash management function. Eventually, these policies and procedures would be included in a written charter for the SFB.
- Radical realignment of the use of 'funds' in order to enhance liquidity and transparency. Through use of a consolidated treasury management function, the SFB should be able to lengthen the Weighted Average Maturity of its portfolio in coordination with the City, specifically through improved forecasting of cash flow requirements in operations and for CIP.
- Amendment of LEDA possibly required for direct lending.

Financial/Economic Impacts:

- Funding CIP internally allows the City to improve its earnings on deposits by using them to fund the planning and construction phase of projects, thereby reducing or eliminating the negative interest rate between borrowing rates and investment rates.
- Determine if banks would provide higher interest rates and lend more if deposits required less (or less costly) collateral.
- Evaluate potential and cost for a liquidity 'back stop' from NMFA or banks.
- Reduce bond financing costs (legal and financial) by minimizing external bond issuance.

Local Crowd-Funding/Peer to Peer Lending Hub: Provide support and convene the local market participants (banks, CDFIs, credit unions, foundations, Mix, Startup SF, INSF, SBA, RDA, et al) in order to "jump start" a New Mexico intra-state lending portal for Santa Fe.

> Note: While crowd-funding is not directly related to the public banking initiative, the economic power associated with the new funding source is too important to overlook. It has the potential to bridge the traditional angel and venture capital market and the commercial bank market with local investors who have a vested interest in the local economy. The "sharing economy" is now impacting the financial markets and creating new ways to fund enterprises – particularly new, innovative ideas that catch the imagination of the public. Santa Fe is a creative economy….a tech savvy economy…and has a strong investor class. Encouraging local crowd-funding portals and support systems to grow, may address the core public banking objectives, faster, cheaper, and less politically laden than almost anything else the City can do on its own. In some ways it is introducing the most democratic of all funding vehicles. Additionally, commercial banks are increasingly looking at online vehicles, including crowdfunding, to lower their origination costs, thereby potentially making Santa Fe's own banking sector more competitive.

While the City does not need to be directly involved, in fact its deposits with local banks can help provide liquidity to the market. If commercial bank depositories use part of their City deposits to invest in CDFIs and Credit Unions, the financial entities that tend to fund smaller loans, the City can help stimulate access to credit indirectly without assuming a direct participation in loans of commercial banks. Additionally the following steps could be taken by the City to encourage a speedier development of the infrastructure necessary to take advantage of the new State regulations permitting crowd-funding within the State.

Steps

(Not necessarily in time sequence order)

Step 1: Identify staff responsibility (perhaps co-sponsorship with the County) and convene start-up support groups, CDFIs, Banks, and other interested parties in order to review and comment on the new State regulations.

Step 2: Run an RFP for an existing platform(s) which can be readily used to launch a Santa Fe portal for both social capital/impact investing, as well as market rate based funding. Consider funding start up costs, if necessary.

Step 3: Provide links through various economic development services.

Step 4: Launch one or more City projects through the site in order to encourage usage. Consider incentives (e.g., interest rate write-downs) for projects which have direct public interest. See Appendix C which describes the Michigan Economic Development usage of crowd sourced funding to underwrite public works projects throughout the state.

Step 5: Monitor (and publicize) usage…again and again and again. Track estimated economic impact and celebrate it. Metrics for the initiative could include absolute growth in funding, tracking start-up businesses, and surveys.

Examples of Crowdfunding Investments (City MAY or MAY NOT participate in these)

Social Capital and/or Non-Profit Investments	Market Rate and/or For Profit Investments
Reward/product premium deals	Start Up and/or Venture Capital for a new business
Social campaigns (e.g., funding a recycling program)	City Social Impact Bond or a Neighborhood Improvement Project
City Park Improvement Plan	Participating loan among financial institutions
Membership campaigns	Capital for business expansion

City Policy Issues:

- Role in encouraging the development of a "portal" or a Hub.
- Approval of LEDA status for any direct lending by the City through the portal.
- Establishing any priorities for incentives which might be used to encourage community support of key city initiatives (e.g., affordable housing, startups, etc.)

Financial/Economic Impacts:

- Increased access to loans/capital.
- Growth of the entrepreneurial environment.
- Potential to increase competition and/or disrupt lender markets.

Risks and Mitigants

Public Banking Initiative

Risks	Mitigants	Follow-up Work
Governance of a banking function and risk-taking involved in making loans are inherently subject to attempts to influence decisions based upon political concerns rather than strict financial and economic considerations.	In Phase I a separate management advisory committee can be established to parallel the function of an independent board of directors. If and when a bank is chartered, a separate and independent board will be required. Note: Political concerns can affect the current treasury function of the City. The Phase I focus on cleaning up the 411 funds used by the City will significantly increase transparency and proper over-sight of City spending.	Designate specific treasury functions which will be managed by the internal "bank." Provide the organizational support to make the changes. Appoint qualified oversight for the function which has a separate reporting function.
Self-funding Capital Improvement Projects ("CIP") reduces the "discipline" of the market in determining the borrowing capacity of the City.	Each loan request should provide to the City "bank" all of the same financial information required by the external markets, including dedicated source of repayment and ongoing costs (and revenues) from the project. Bond advisors and counsel will continue to advise the City on its financial condition and rating predictions. The City will continue to access the external bond markets (even for the projects which have been initially funded internally), as and when long term liquidity is sought.	Implement a comprehensive CIP 5-year plan with annual updates.

Risks	Mitigants	Follow-up Work
Failing to fund CIP projects with long term bond funding when interest rates are low (as they currently are) risks increases in rates in future external funding.	Current practices result in a negative "carry" of at least 10% to 15% of the CIP capital amount during the first 5 to 7 years of the project. 20 year interest rates would have to increase considerably (and quickly) for this present value discount to be erased. Currently the City is investing its cash at a Weighted Average Maturity of less than one year. With internal financing, the City effectively will be lengthening its deposits (loans) to a longer term, higher interest rate, offset equally by the same term by the internal City "borrower." This should offset concerns over any perceived mark to market requirements.	Complement existing financial policies with a more "neutral" policy relative to interest rate risk.
Internally funding long term CIP will decrease liquidity of the City.	Alternative methods of maintaining liquidity are less expensive, specifically either lines of credit with local banks, and/or collateral repurchase agreements.	Create a policy which governs these liquidity enhancement techniques.
Lowering collateral requirements in order to incentivize local banks to lend more will subject the City to increased risk of bank failure.	Federal agency risk would in no event fall below the State minimum of 50% of the deposits. If additional collateral is reduced, it might be substituted (rather than reduced) by local performing loans in the portfolio, perhaps by more than 100%.	Solicit input from depository banks for their suggestions of ways to increase local lending in their portfolios and improve their appetite and/or interest rates for receiving City deposits.
A banking function will add to the administrative costs of the City.	Most of the Treasury function currently performed could be "transferred" into the new entity. The gradual phased implementation permits the City staff the opportunity to grow into the full banking functions without unduly relying on external consulting and staffing. In Phase II and beyond additional overhead will be required in order to maintain bank reporting and compliance tests. It is projected that the incremental cost would be less than 1%. This cost is far less than the current spread between depository and bond rates, which exceeds 3%.	Seek an exemption (or substantial reduction) from FDIC insurance for public to public deposits. This will save approximately 10 basis points p.a. Other regulatory burdens may also be eased due to the relatively simple construct of the bank, especially if the deposits and loans are solely in and among Santa Fe public entities.

Risks	Mitigants	Follow-up Work
Existing commercial banks and CDFIs will view any City banking as a competitive threat, thereby jeopardizing a state charter and a cooperative relationship.	Focus initially exclusively on intra-city lending. Look for ways to alter the collateral requirements on deposits with the banks to enhance their ability to lend locally. Require any external City funding to be initiated at the request of the commercial bank and require at least 50% underwriting by the private banking sector.	Establish a policy which encourages private sector lending, rather than public sector lending, unless or until the banks find it advantageous or necessary to access additional liquidity from the City.
The City has an inadequate source of unrestricted cash from which it can source equity for a bank.	An internal "banking" function which is not state chartered does not require separate equity. Upon chartering a bank adequate equity will have to be provided. The public entities providing the equity can (should) receive a higher yield on those funds. Alternative sources of equity can also be considered, such as: Charitable fund (PRIs) Bond issue from public entity Mini-bond funded by citizens	A thorough implementation plan and offering memorandum would be necessary for any external financing and would parallel the preparation of necessary application materials for a state banking charter.

Crowdfunding Initiative

Risks	Mitigants	Comments
City involvement could 'telegraph' that the City in one way or another is guaranteeing the investments which are being 'crowd-funded.'	Review investment materials and insure that disclosures are adequate, and do not imply City credit support. If the City is crowd-funding a project directly, the source of repayment and whether or not the City is adding its "full faith and credit" must be carefully explained.	
Role of City is not clear.	Determine an explicit role for the City. Engage professional management, if necessary, to define and legally articulate roles and responsibilities.	Marshall Neel of Mainstreet Crowd may be a resource. Community Sourced Capital (Portland) expressed interest to INSF of having a private label/SF site.

Feasibility – An Overview

The Public Banking approach under The Strawman section of this report outlines an approach which the consultants consider feasible. In order to quantify the fiscal and economic impacts, a pro forma was developed which forecasts the possible volume of deposits and loans made through a Santa Fe bank and the related treasury improvements. In summary, increased investment either in equity or debt in the Santa Fe area (regardless of its source) has a stimulative effect on the economy, as long as it is not a direct offset (reduction) to another source of investment – a substitute. In order to conservatively project the economic impacts of each source of funds, a "haircut," or reduction, was made to the estimate of what might be expected as a total investment in the forecast.

In addition to the analysis of the *economic* impact, we have provided an estimate of what might be the fiscal enhancement of the City budget. This impact is generated through a more efficient deployment of City deposits, using more of the City liquidity to 'self-fund' CIP investments. The immediate effect is that of eliminating the costly difference between long term bond rates and short term investment rates under most interest rate scenarios (whether interest rates are high or low). Self-funding also provides the City with the ability to reduce bond fees associated with almost yearly debt issuance.

While the consultants have focused in this section on the economic and fiscal impact of the public banking initiative, the development of The Strawman approach specifically took political, community, and legal considerations into account in the design.

Public Bank Strawman – Overview of Feasibility

Feasibility	High Medium Low	Issues	Potential Mitigation
Political	**Low**	While the political will of the Council appears to be there, approval for a State Chartered bank will require approval by the Financial Institutions Division of the State. There is no precedent for the approval of a bank such as this. IF no banks oppose the application (maybe even support it), this could be easier.	There is no reason that the City cannot commence operations without a bank charter. This would allow the City the time and resources to "prove" that the mechanism is well-managed and operationally robust. Commercial bank and CDFI support from Santa Fe banks (and the Chamber of Commerce) would be useful.

Community Support	**Medium**	There is a wide range of opinions regarding the advisability of a public bank for the City, however, most community members (institutional and individual) are willing to concede that it would be useful for the City to use its cash deposits actively to fund at least the design and construction phase of infrastructure projects.	Independently appointed and qualified Board and Staff are critical to maintaining the support of community members.
Legal	**High**	No explicit legal obstacles have been flagged, although this study did not include a full legal review. The primary concern has been the potential for anti-donation laws to be used as an objection. N.B. One source has assured the Consultant that the Federal Reserve Board will not allow a public bank to be a member of the Fed. This would not block the City from creating a bank.	If the Bank is funding intra-city or public needs/infrastructure, there should be no objection. Upon commencing an activity which contemplates participating in a bank loan to a private entity (even if it has a demonstrable public interest), an abundance of caution would suggest that a modification of the LEDA plan would be appropriate. Certain activities, such as affordable housing financing, are already exemptions to anti-donation laws.
Financial	**High**	See pro formas below.	
Economic	**Medium**	Introducing new lending vehicles only stimulate the economy if they result in net NEW investment in the community. If they are substitutions for existing public or private investment, they generate no new economic impacts.	Most of the value of funding infrastructure internally is "financial" in nature. The primary Economic value of the SFB is in its potential to stimulate NEW lending through one of the following methods: ➢ Reduction in Collateral to Banks ➢ Encouragement of Crowdfunding ➢ Direct loans/spending from the City

Economic Impact Analysis – Arrowhead Study

Introduction

This chapter summarizes an economic impact study done by Arrowhead Center at New Mexico State University. In particular, Arrowhead Center was asked to determine the impact of the proposal put forward by Building Solutions LLC. The methodology measures the total impact on a local economy by taking into account both direct and indirect effects of changes in expenditure. The author of this chapter is Dr. Christopher A. Erickson. His CV is in Appendix A.

In preparing this report, estimates and projections provided to Arrowhead Center by Building Solutions, LLC were relied on. Arrowhead did not make an independent evaluation of these estimates and projections. The full report prepared by Arrowhead Center is available from the City, or can be obtained by emailing Chris Erickson at chrerick@nmsu.edu.

Building Solutions, LLC has proposed three alternatives for consideration by the City. These are 1) reducing reserve requirements to allow increased funding of CDFIs and Credit Unions, 2) the creation of the Santa Fe Bank (SFB), and 3) the creation of a crowd sourcing hub to facilitate lending. The economic impact of each of these proposals is evaluated.

Multipliers for the County of Santa Fe were obtained from the U.S. Department of Commerce, Bureau of Economic Analysis (BEA). The BEA has developed U.S. multipliers based on an input-output table reflecting the structure of 500 U.S. industries. This information, in conjunction with local wage and salary data, has allowed the BEA to estimate multipliers for smaller economic units such as states and counties. The multiplier used for lending is that for the industry classification of "Federal Reserve banks, credit intermediation and related services." In addition to an output multiplier, earnings, employment, and value added multipliers are also provided by the BEA. The multipliers are:

Output multiplier	1.7234
Earnings multiplier	0.3226
Employment multiplier	9.9062
Value added multiplier	0.9634

The output multipliers indicate that for every one dollar of new lending, gross receipts in Santa Fe County will increase by $1.7234. The earnings multiplier indicates that 32.26-cents of each dollar of new spending becomes household earnings.[6] The employment multiplier indicates that, for every one million 2010 dollars of new spending, 9.9062 jobs are created.[7] And finally, for every one dollar of additional spending, value added increases by $0.96340.[8]

A problem is that the BEA multipliers are by county and are not available for individual cities, but the goal of this study is to determine the impact of "public banking" on the economy of the City of Santa Fe. Unfortunately, there is no simple way to allocate economic impact between the rest-of-the-county and the City. The approach we take is to allocate economic activity to City using gross receipts data. Based on the four quarters ending June 30, 2014, 83.0% of total County gross receipts are generated inside the Santa Fe

[6] "Earnings" includes compensation paid to workers and profits received by business owners.

[7] Because employment is a real number, revenue must be converted to the multiplier base year price, which is 2010. The adjustment factor for converting 2015 dollars to 2010 dollars is 0.91.

[8] Value added is defined to be gross receipts less the cost of intermediate goods. It represents the change in GDP attributed to an increase in economic activity.

city limits.[9] Thus, assuming that the initial loan is for a project in Santa Fe, then the output multiplier becomes 1 + 0.7234*0.830 = 1.6004, which works out to 92.8% of the countywide multiplier. The other multipliers are therefore adjusted by 0.928. The City level multipliers are:

Output multiplier	1.6004
Earnings multiplier	0.2678
Value added multiplier	0.7996
Employment multiplier	8.2221

While the technique we use to derive the city level multipliers is reasonable, it is important to keep in mind that it is an approximation. All that we can say for certain is that the City level multipliers are less than the County level multiplier.

The problem with using public banks for lending

For lending to have an economic impact, it must be new lending that would not have occurred had not the collateral reduction program been put in place. Federal Reserve action since the 2008 financial crisis have substantially altered the banking system. The Fed has begun to pay interest on reserves so that the cost of holding excess reserves has fallen substantially, while at the same time, the Fed engaged in a series of asset purchasing programs collectively referred to a Quantitative Easing. Consequently, excessive reserves have expanded by orders of magnitude. For example, for the week ending December 26, 2008, prior to Quantitative Easing, banks collectively held $2.4 billion in excess reserves; for the week ending September 16, 2015, excess reserves were $2.6 trillion, more than 1000 times greater than before the start of Quantitative Easing. The U.S. economy is simply awash in liquidity.

Turning to "public banking," to the extent that a "public bank" funds projects that are socially desirable, but otherwise would not have been funded, the "public bank" has an economic impact. A problem arises from the fact that profitable projects, given the level of excess reserves, are already being funded by traditional for profit banks. Indeed, there is a shortage of such projects relative to the available funds so that competition for such lending opportunities is relatively intense. This does not mean there is no role for a public bank as there are projects that have positive social value yet are unprofitable using traditional accounting standards. These projects are undesirable from the point of view of a traditional lender, but still are desirable from a social perspective. The problem is that lending for these projects will generate a negative cash flow, thus, require a subsidy if the bank making the loans is to remain viable. These subsidies could take a number of different forms including direct financing by government (e.g., road construction), loan guarantees (e.g., U.S. Import-Export Bank), tax breaks (e.g., residential mortgages), or concessionary interest rates (e.g., direct federal student "Stafford" loans). To the extent that a "public bank" enables socially desirable but unprofitable projects, either through guarantees or loans, the "public bank" contributes to economic activity. But because the pubic bank is funding projects that private banks aren't interested in funding, the "public bank" will earn a below market return or might even experience a loss. Indeed, to the extent that the "public bank" is earning a normal profit, then it is funding projects that could have been undertaken by the private sector, hence, contributing nothing to net economic activity. Thus, a "public bank" will require some sort of subsidy if it is to contribute to economic activity.

[9] An alternative would be to allocate based on population. The population of the City according the 2014 U.S. Census estimate is 70,297 while that of the County is 148,164, which means that City accounts for 47.4% of the total County population. However, this estimate understates the likely true impact of projects on the City of Santa Fe as people living in outlying areas shop in Santa Fe, so income initially generated in the rural Santa Fe County will disproportionately find its way into the City economy.

Funding Community Development Financial Institutions and Credit Unions

Building Solutions is proposing three changes to City of Santa Fe for improving fiscal management, thereby, freeing funds for lending via a public bank or otherwise. The first proposed change is to reduce or substitute required collateral on deposits, and having the funds released be loaned to Community Development Financial Institutions (CDFIs) for use in community development projects.

The Building Solutions proposal is to reduce the required collateral from 102% to the extent that the depositories agree to provide additional loans to CDFIs operating in Santa Fe. This approach has the advantage that it channels funds to entities that are funding socially desirable projects. A CDFI, for example, can combine grants with loans to fund a socially desirable project, such as low income housing, that would not qualify for a traditional private sector loans. Table 1 reports economic impact of the proposed Collateral Reduction Program. The program is assumed to begin in 2017 with banks lending $5 million to CDFIs for the first six years, increasing to $10 million thereafter. Loans are assumed to be repaid one-third each year, with repayments becoming available to finance new loans. We estimate that the program would in its seventh year generate $49 million in gross receipts, support 232 jobs, and produce an additional $1 million in gross receipts revenue annually. Moreover, the funding provided to CDFIs will have been used to finance loans to underserved groups. In fact, there is considerable precedent for cooperation between commercial banks and CDFIs. It is routine, for example, for commercial banks to refer potential borrowers who do not qualify for traditional loans to an alternative financial institution.

Table 1: Economic Impact of from Lending Financed by Reduced Collateral Requirements ($000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Newly Available Funds	$5,000	$5,000	$5,000	$10,000	$10,000	$10,000	$10,000
Loans Repaid and Available for Relending	NA	$1,667	$3,889	$6,852	$10,802	$15,514	$21,056
Total Loans Financed by Collateral Reduction Program	$5,000	$6,667	$8,889	$16,852	$20,802	$25,514	$31,056
Economic Impact							
Gross Receipts (New Lending x 1.6004)	$8,002	$10,669	$14,226	$26,970	$33,292	$40,833	$49,702
Household Earnings (New Lending x 0.2678)	$1,339	$1,785	$2,380	$4,513	$5,571	$6,833	$8,317
Employment (New Lending x .91 x 8.2221/1,000,000)	37	50	67	126	156	191	232
Value Added (New Lending x 0.7996)	$3,998	$5,331	$7,108	$13,475	$16,634	$20,401	$24,833
Gross Receipts Tax (@ 3.1875 % of Gross Receipts)	$159	$213	$283	$537	$663	$813	$990

Source: Building Solutions, LLC, and Author's calculation.

Creation of the Santa Fe Bank

Another proposal put forward by Building Solutions is the creation of an entity to better manage City internal cash reserves. For purposes of the report this entity is being called the Santa Fe Bank (SFB). As proposed, the SFB would be implemented in three phases with Phase I being the creation of a separate City entity that assumes basic cash management activities. This phase would not require a bank charter. Phase II involves applying for a state banking charter so that the bank can accept deposits from other public entities and charitable organizations, and so that the various entities can "self-fund" public debt needs more efficiently. Phase III would broaden the lending function to include public interest loans originated and underwritten at least 50% by commercial banks. In conjunction with Phase III, the City's Local Economic Development Act (LEDA) plan would be amended to specifically include external public interest banking activities.

Overall, it is expected that the Santa Fe Bank will generate net savings for the City ranging from $2.4 million the first year to $3 million in seventh year. This saving will allow the City to mitigate taxes paid by citizens while maintaining services. Tax mitigation has a positive impact on economic activity by allowing increased spending by households. However, the multiplier is a smaller multiplier because tax mitigation works through changes in disposable income rather than by direct expenditure. To the extent that an increase in disposable income is saved rather than spent, the multiplier is small. The BEA household spending multiplier for Santa Fe County are:

Output multiplier	0.8776
Earnings multiplier	0.2284
Value added multiplier	0.5461
Employment multiplier	8.4463

The above county level multipliers are adjusted by a factor of 0.830 to create city multipliers:

Output multiplier	0.7284
Earnings multiplier	0.1896
Value added multiplier	0.4533
Employment multiplier	7.0104

Table 2 gives the impact for the Santa Fe Bank. The City benefits from the Santa Fe bank through increased interest income on deposits, reduced interest cost by better timing issuance of bonds with the expenditure financed by the bond, and on profit earned on capital contributed to the bank. The reduction in taxes allowed by more efficient management of funds provided by the Santa Fe Bank will generate $1.5 million in gross receipts, $69 thousand in increased GRT revenue, and create 14 jobs by 2023.

Table 2: Santa Fe Bank Economic Impact ($000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Mitigation of Tax burden	$2,421	$2,551	$2,229	$2,597	$2,227	$3,309	$2,954
Economic Impact							
Gross Receipts (New Lending x .7284)	$1,763	$1,858	$1,624	$1,892	$1,622	$2,410	$2,152
Household Earnings (New Lending x 0.1896)	$459	$484	$423	$492	$422	$627	$560
Employment (New Lending x .91 x7.010/1,000,000)	15	16	14	17	14	21	19
Value Added (New Lending x 0.4533)	$1,097	$1,156	$1,010	$1,177	$1,009	$1,500	$1,339
Gross Receipts Tax (@ 3.1875 % of Gross Receipts)	$77	$81	$71	$83	$71	$105	$94

Source: Building Solutions, LLC, and author's calculation.

Crowd Sourcing

A parallel proposal put forward by Building Solutions is to establish a crowd sourcing hub to facilitate local lending interaction. Certainly, crowd sourcing is likely to account for a larger share of funding going forward, both nationally and locally. However, the loan activity generated on a hub is likely to draw funds from other more traditional sources, so lending on the hub per se does not represent a net increase in lending. On the other hand, by providing a low cost method for identifying high quality projects, crowd sourcing hubs will improve the efficiency of the financial system. In effect, a hub will make it easier to do business in Santa Fe. Thus a hub plays the same role as, say, building a road that reduces traffic. Identifying the economic impact from infrastructure projects, such as a new road or the creation of a crowd sourcing hub, is notoriously difficult. Good roads, nice parks, art districts, and lending hubs all contribute to the economic viability of a community, but actually attributing a particular job to a particular infrastructure project is usually not possible. Given this, we elect not to provide an estimation of the economic impact from a crowd sourcing hub.[10]

[10] To be clear, we decline to quantify the economic impact of creating a crowd sourcing hub does not invalidate the desirability of creating a crowd source lending hub. It is only that quantifying the economic impact is difficult when the impact arises from overall business climate, rather than from a direct increase in economic activity.

Combined Fiscal and Economic Impacts

The economic impacts analyzed in the prior section are positive, but modest. The most meaningful impact for a SFB implementation strategy comes from basic fiscal management tools: better cash management, increased internal funding, and improved liquidity management tools. These all promise to reduce the current deficit projected by City management.

The forecast below is not meant to be predictive, however, it is based upon reasonable assumptions given the size of the City investment portfolio and the size of the Santa Fe banking market. The 7-year forecasts are developed using a simplified banking spreadsheet, designed to illustrate the areas of potential savings and income, rather than an attempt to replicate a banking "call report," the mandatory report required of all regulated banks. In order to forecast and evaluate the economic and fiscal impact of a public bank in Santa Fe, various assumptions had to be made, most of which are clearly evident in the following spreadsheets. Some of these assumptions are summarized below:

The primary assumption that drives the largest portion of the return to the City (and other participating public entities) is the extent to which the City can fund its own debt using its own cash deposited in the SFB. This requires better discipline in forecasting cash needs, better capital improvement project (CIP) management, and alternative liquidity management tools with the SFB.

a) Most of the City's cash is transferred to the SFB, except for cash with 3rd party restrictions and cash being used to pay off bonds which may be advantageous to pay off in the next 2 to 3 years. The savings associated with those pay-offs is NOT included in this analysis. That additional revenue could be substantial depending upon interest rates at the time of the pay-off.

b) The participation of other public entities, such as the County, is small and is inserted for illustrative purposes only. A larger participation would significantly increase the potential of a public banking entity to "self-fund" public projects in the region, for and on behalf, of a largely over-lapping tax base.

c) Earnings in the bank are retained in the SFB in order to bolster capital. Slower growth or a more rapid utilization of deposits for public sector loans could result in common stock dividends. The low loan to deposit ratio in the early years of the bank reflect the transition from a treasury management function to a more traditional banking function.

d) The interest rate on loans reflects a discount from the external bond markets, but also may reflect shorter maturities. There has been no effort to predict an increase or decrease in interest rates. The "savings" to the borrower is forecast to be 1.5% regardless of maturity or interest rate level.

e) The SFB is projected to maintain a 10 basis point spread (.10%) between the interest paid and the interest received on cash, perhaps reflecting the cost of managing the cash portfolio. Again, this assumption does not require a specific assumption about the direction of future rates.

f) Reserves for bad debts are ignored until outside (non-public sector) loans are made.

g) Operating expenses are projected (personnel, lease, and professional); however, it is difficult to discern what the "incremental" expense would be above and beyond current treasury management expenses. In fact, changes in these assumptions do not make a big difference to the over-all fiscal impacts. Additionally, if and when other public entities join the SFB, there could be an over-all savings to the public sector as a whole, if redundant roles can be consolidated in the SFB. The largest and least predictable expense may be the need of a chartered bank to be a member of the FDIC (current State requirement) and to conform to a host of regulatory guidelines. The cost has been projected, yet the simplified construct of the bank should permit for reduced insurance costs and for simplified regulatory reporting. At least for the foreseeable future almost all loans and deposits are within the public sector.

h) The equity required for the SFB, targeted at 10%, is assumed to come from the City. It is possible that this equity could be provided from a consortium of public entities, including the County and other public bodies. Additionally it may be that one or more charitable foundations may find an investment in the SFB an appropriate "impact investment" of their 'corpus' assets. The 8% p.a. preferred rate on the equity is probably high, but does not have a large impact on the cumulative value of the SFB strategy because the cash is coming from the City and being returned to the City.

i) The 6 to 12 month extension of the Weighted Average Maturity (WAM) on deposits merely reflects a modest extension in WAM, resulting in a .50% increase in average rates, regardless of the underlying interest rates.

j) The collateral reduction program reflects a very modest participation by the bank depositories in making increased loans to the CDFIs and Credit Unions. The value of that program comes from a small potential increase in deposit rates, and the economic impact of increased lending.

A thorough and complete implementation plan will refine this forecast and will better reflect policies and procedures that a board will implement. That said, the basic building blocks are found in the following 7-year projections.

Public Bank Balance Sheet ($000s)

Scenario: The bank starts as an internal City entity which solely handles internal City loans. No later than Year 4 (2019 or 2020) the City has obtained a State Banking Charter and it invests $10 million of equity into the bank for which it receives a preferred return. (N.B. This could come from other sources). The County joins the City by making a deposit and using the bank for County funding and intra-public lending. In the final year a small LEDA qualified external loan is made by the bank (e.g., affordable housing, economic development, etc.) at the request of a local community bank with 50% or more participation.

	Internal Operations Only			Bank Charter City Contributes Equity County Adds Deposits		3rd Entity Adds Depost	LEDA Loan
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**
Assets							
Cash and cash equivalents	110,200	90,220	80,240	92,000	82,000	72,000	57,000
Reinvested Retained Earnings & Reserves	471	1,272	2,101	3,167	4,390	6,231	8,369
Loans and advances	30,000	50,000	60,000	90,000	100,000	130,000	145,000
City	30,000	50,000	60,000	70,000	70,000	80,000	80,000
County				20,000	30,000	40,000	50,000
Other Public Entity (SFISD?)						10,000	10,000
Private Participation							5,000
Other assets							
Total assets	140,671	141,492	142,341	185,167	186,390	208,231	210,369
Liabilities							
Deposits from Public Enterprises	140,000	140,000	140,000	170,000	170,000	190,000	190,000
City (after early bond redemptions)	140,000	140,000	140,000	140,000	140,000	140,000	140,000
County	-	-	-	30,000	30,000	30,000	30,000
Other Public Entity (SFISD?)						20,000	20,000
Other liabilities							
Total liabilities	140,000	140,000	140,000	170,000	170,000	190,000	190,000
Equity							
Retained earnings	471	1,272	2,101	3,167	4,390	6,231	8,269
Reserves (only on external loans)							100
Equity (initially just personnel and eqmt)	200	220	240	12,000	12,000	12,000	12,000
Total equity	671	1,492	2,341	15,167	16,390	18,231	20,369
Total liabilities and equity	140,671	141,492	142,341	185,167	186,390	208,231	210,369
Equity Ratio (target 10%)				8.19%	8.79%	8.76%	9.68%
Loan to Deposit Ratio	21%	36%	43%	53%	59%	68%	76%

Note: This proforma has been developed in order to illustrate the value associated with internal funding of capital expenditures, initially just within the City, and later in and among other public entities. The volume of loans are not predictive, but rather illustrative. The Equity Ratio target can be achieved either by reducing deposits accepted or by increasing equity contributed.

The forecast assumes that the bank does not become fully chartered until the third year. This perhaps is an unnecessarily conservative assumption. To the extent that the governance tools and the necessary policy decisions can be adopted more quickly, the SFB can make the transition to a chartered bank earlier.

Public Bank Profit and Loss Statement ($000)

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
	Assumptions							
Avg. Interest income on Loans	2.50%	750	1,250	1,500	2,250	2,500	3,250	3,625
Interest Exp. - Pd on City Deposits	0.40%	560	560	560	680	680	760	760
Net interest income		190	690	940	1,570	1,820	2,490	2,865
Net income from bank deposits	0.50%	551	451	401	460	410	360	285
Other revenue - Guaranty fees?								
Other income								
Revenue		741	1,141	1,341	2,030	2,230	2,850	3,150
Reserves for bad loans (Pvt only)	2.00%	-	-	-	-	-	-	100
Incr. Personnel expenses (1)		200	220	240	300	320	320	320
Operating lease expenses		20	20	22	24	27	29	32
Depreciation and amortization								
Other expenses (legal, act'g, etc)(2)		50	100	**250**	640	660	660	660
Expenses		270	340	512	964	1,007	1,009	1,112
Profit for the year		471	801	829	1,066	1,223	1,841	2,038
Preferred Rate on Equity	8.00%	16	18	19	960	960	960	960
Net Cash Flow		455	784	810	106	263	881	1,078

(1) Most functions can be "transferred" from the City, however, additional senior oversight may be useful. This should more than cover expenses.

(2) One time professional expense for Charter is added to Year 3. FDIC waiver or reduction is expected given "in-house" nature of deposits. Additional $500,000 is added annually thereafter for regulatory compliance.

Net Savings/Earnings for the City ($000s)

	Assumptions	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
City Savings Only	**Assumptions**							
Interest Savings on Bonds	1.50%	**450**	**750**	**900**	**1,050**	**1,050**	**1,200**	**1,200**
Upfront Bond Issuance Costs (1)	5%	**1,500**	**1,000**	**500**	**500**	**-**	**500**	**-**
Split of Bank Earnings (Attributed Public Entities based on Deposits)								
"Bank" Profit		471	801	829	1,066	1,223	1,841	2,038
Contributed Equity		200	220	240	12,000	12,000	12,000	12,000
Return on Equity	8%	**16**	**18**	**19**	**960**	**960**	**960**	**960**
Net Income Avail. After Equity		455	784	810	106	263	881	1,078
Split of Equity Returns:								
City		100%	100%	100%	82%	82%	74%	74%
		455	**784**	**810**	**87**	**217**	**649**	**794**
County		0%	0%	0%	18%	18%	16%	16%
		-	-	-	19	46	139	170
3rd Public Entity		0%	0%	0%	0%	0%	11%	11%
		-	-	-	-	-	93	113
Net City Improvement Incl. Equity		**2,421**	**2,551**	**2,229**	**2,597**	**2,227**	**3,309**	**2,954**
Cummulative Value to City (2)		2,421	4,972	7,201	9,798	12,025	15,334	**18,288**
Other Potential Revenue Enhancements in Treasury Management:								
6 to 9 month extension in WAM (3)								
Deposits with Banks		110,200	90,220	80,240	62,000	52,000	22,000	7,000
Incr. in Rates	0.5%	551	451	401	310	260	110	35
Collateral Reduction (4)	Program	5,000	5,000	5,000	10,000	10,000	10,000	10,000
	0.10%	5	5	5	10	10	10	10
Total City Return incl'g Treasury Mgmt.		**2,977**	**3,007**	**2,635**	**2,917**	**2,497**	**3,429**	**2,999**
Incr. in GRT from Economic Impact (5)		236	294	354	620	734	828	1,084
Total Incr. from "Public Banking" Strategy		**3,213**	**3,301**	**2,989**	**3,537**	**3,231**	**4,257**	**4,083**
Cummulative 7-year Estimate of Value to City Only (6)								**24,612**

Notes:

(1) Bond issuance costs including legal, underwriting, and advisory. These normally are paid out of bond proceeds.

(2) The cumulative value to the City illustrates that the Equity investment in the bank is returned within 5 years.

(3) The deposits in banks decline as the City uses more of its cash to internally fund projects.

(4) Most value from collateral reduction comes from the economic stimulus produced from increased lending in the community (see Incr. GRT below). As the maturity is extended, or as liquidity tightens, the cost of 102% collateral increases. This estimate is ONLY on the funds that are dedicated to the CDFI's and Credit Unions.

(5) This value is attributable to the increase in Gross Receipts Taxes from increased lending.

(6) A larger participation in the bank by other public entities would significantly increase returns to taxpayers.

Summary of the Financial and Economic Impacts

The SFB forecasts suggest that a cumulative value over 7-years to the City exceeds $24 million. While this value is significant and points to a logical and robust public policy, the majority of the returns come from better treasury management, as follows:

- Funding more capital needs internally
- Implementing better cash management forecasting policies
- Lengthening maturities on cash deposits

The portion of the public banking impact that may be understated in only 7-years of operation is the ability longer term to play a more active role in economic development activities with the community banks. This includes, but may not be limited to the following:

- Increasing the Collateral Reduction Program based on good collective work in the financial community
- Providing guarantees on loan programs that have a direct impact on the collective common economy with measurable returns to the public sector
- Participating in loans underwritten by the community banks in times of decreased liquidity, especially after excess reserves are absorbed and reduced.

It is useful to note that between 1940 and 1960 the Bank of North Dakota did nothing other than intra-public lending. The credibility and management capability to expand its business came in a deliberate and thoughtful manner. In Santa Fe it is critical that the City build the trust and capacity steadily and professionally. This also has the added advantage of building the tools and the relationships with the community banks to enhance their ability to contribute to the well-being of the City and the community.

Appendix A- Consultant Curriculum Vitae

KATHERINE L. UPDIKE

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Ms. Updike has led the development and consulting business of Building Solutions LLC for over 20 years after serving as a Managing Director of Bankers Trust Company and The Chase Manhattan Bank, as well as Vice President and Division Head of First Chicago. As a banker she headed strategic planning for corporate business, managed the relationship with the Farm Credit System, including the Bank for Cooperatives, one of the closest examples of a national public bank. Ms. Updike has combined her extensive financial background with a strong commitment to the development of healthy communities. As a developer she founded a new charter school in Colorado, led the fundraising and implementation of programs for the YWCA Senior Housing (the largest in the country), the rehabilitation of a hospital complex for the largest social service agency serving the Hispanic community in Chicago, and multiple initiatives for the largest Illinois homeless agency. Most projects entail complex documentation, multiple monitoring requirements, and extensive political coordination.

She has sat on both sides of the banking table (borrower and lender). She wrote an Investment Memorandum to form a non-profit bank to serve the border region, as a conduit for local and international (North American Development Bank) public and private funds (summary below). The violence in northern Mexico derailed interest in mounting the initiative, however, the underlying need to fill the void created by decreasing community lending by national financial institutions is a broad issue.

In most projects she has had to combine the efforts of volunteers, board members, elected officials, paid professionals, donors, and staff, often an artful balance of setting clear goals and celebrating successes.

Educational Background:
MBA, Escuela de Administración de Negocios (Founded by Stanford Graduate Business School)
Lima, Perú (fluent in Spanish)
Bachelors of Arts, Mathematics and Biology, Texas Tech University

Selected Relevant Professional/Community Activity:

American Water Recycling
Founding Board Member, patent pending water nano-filtration membrane. First customer is in New Mexico. Filtration methodology is transformative, if scalable.

City of El Paso
Chair, City Plan Commission; Appointed by Mayor to Downtown Tax Increment Redevelopment Zone

Sunland Park, NM
Wrote a Municipal Redevelopment Area (MRA) Plan for the town at the request of a private development entity. Advised several developers on potential redevelopment approaches.

Public Service Board/El Paso Water Utilities
Advised utility on alternative land strategies which would complement water conservancy objectives and reduce budget and taxation forecasts through more sustainable development patterns and incentives.

Studios at 18th and Wabash, Chicago, IL
Brought together City of Chicago, the State of Illinois, and other financial parties in order to build the first new affordable single room occupancy residence in downtown Chicago in over 50 years - with full neighborhood support for a large homeless agency and 17 churches and synagogues. Later developed second 170 unit building and new headquarters for agency. Multiple layers of financing, monitoring, and reporting required extensive coordination with all parties.

Model Job Training Program for Homeless, Chicago, IL
Defined and implemented a landscape management program (related revenue for the non-profit) bringing together the homeless agency with the leading U.S. corporation in landscape services and the City of Chicago. Program generated substantial revenue for non-profit and led to follow-up programs in maintenance and food-service.

Marble Charter School, Marble, CO
Wrote and successfully obtained the eighth charter in Colorado. Formed board, hired staff, and successfully obtained funding, contractors, and volunteers to rehabilitate National Historic Register 1908 school house into both Historical Museum and school. School continues to thrive and has become the anchor institution for the small community.

Building Solutions LLC – Advisory Services

Building Solutions provides development advisory services to projects which have strong social capital goals. Projects include work with financial institutions, operating corporations, non-profits, and municipalities in order to design strategies which address specific goals of the Board and/or Executive Management. The development of a strategy – including key implementation steps – is key to realizing any project whether it involves "bricks and mortar" or the roll-out of a new product or concept. Most strategic planning is a process of discernment between the organization, its key constituents (shareholders, funders, clients, etc.) and the neighborhoods and markets in which the entity practices.

The Building Solutions team always encourage clients to go well beyond the typical SWOT (strengths, weaknesses, opportunities, threats) approach to strategic planning and to look for those services, ideas, and approaches which help the organization 'break out of the mold'. Strategic "leaps" that have been significantly bolstered by assistance from Building Solutions are:

- Roll-out of a risk management service and system to clients by an international financial institution using cutting edge research, firewalls, and advisory services.
- Development of a landscaping service which used the finest industry training with homeless services from a large social service agency. The business is still running profitably (for both entities) and has spawned hospital maintenance and food service companies all of which contribute significantly to the sustainability of the services to homeless (not to mention the service to the formerly homeless themselves).
- Development of an internal monitoring and valuation system for a privately held corporation in order to assist family members contribute more productively to firm decision-making.

In 2008-2009 the drop in Federal and private bank lending along the US-Mexico border (both sides) was becoming increasingly alarming to both the public and private sector. Ms. Updike conceived of a Border Bank concept which could provide a parallel banking structure on both sides of the border funded by the government, private banks, and philanthropic (foundation) entities. The bank structure was designed to start in El Paso/Juarez and then expand along the border, both East and West as funding and experience allowed. The concept was received positively, however, the increasing violence in Mexico, particularly in Cd. Juarez, reduced the appetite for any funding program.

Dr. Christopher A. Erickson

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Dr. Christopher A. Erickson is a Senior Economic Analyst at Arrowhead Center where he specializes in economic impact studies. He has been on the faculty of the Department of Economics and International Business at New Mexico State University since 1987. His main research interest is regional and border issues and he is the author or co-author of numerous articles, including articles on NADBank, the Mexican peso crisis, China's impact on the Mexican maquila industry and a supplemental money and banking text that was adopted on over 100 campuses. Chris has written a weekly column on the local economy for the Las Cruces Bulletin since 2008. He has authored or co-authored numerous studies on local businesses and industries for clients including the New Mexico Military Base Commission, the Lea County Economic Development Corporation and the City of Sunland Park. Dr. Erickson frequently speaks on issues concerning New Mexico, Las Cruces, and the border economy. He currently serves as the editor of the New Mexico Business Outlook.

Education

PhD, Arizona State University, 1989.
BA, Willamette University, 1980.

Professional Positions

Professor, New Mexico State University, College of Business Administration and Economics, Las Cruces, NM. (August 1987 - Present).
Senior Economic Analyst, Arrowhead Center. (January 2012 - Present).
Visiting Professor, National Chung Hsing University, Taichung, Taiwan. (June 2004 - July 2004).
Visiting Professor, Instituto Tecnologico y Studios Superiores de Monterrey, Juarez, Chihuahua, Mexico. (August 2003 - December 2003).
Visiting Professor, NIRMA Institute of Management, Ahmedabad, Gujarat, India. (August 2000 - December 2000).

Awards and Honors

Contributor: Western Blue Chip Indicators, 1991-Present
Stan Fulton Research Award, College of Business. (August 2012).
Domenici Fellow, Domenici Institute. (May 2012).
College of Business Faculty Graduate Teaching Award, New Mexico State University. (August 2011).
Daniels Ethics Fellow, Daniels Fund. (April 2011, April 2013).
College of Business Faculty Service Award, New Mexico State University. (August, 2007).
College of Business Undergraduate Teaching Award, New Mexico State University. (August, 1992).

Selected Publications

Archambault, S. J., Downes, C. M., Van Voorhies, W., Erickson, C. A., Lammers, P. *Nannochloropsis sp.* algae for use as biofuel: Analyzing a translog production function using data from multiple sites in the southwestern United States. *Algae Research*. Revise and Resubmit
Erickson, C. A., Raghuram, G. Impact of Capital Market Reform on the Asset Pricing Behavior in the Indian Market Emerging Markets Review. *Emerging Markets Review*. Under Review
Erickson, C. A. The Government Spending Multiplier: Evidence from County Level Data, *Social Sciences Journal,* Revise and Resubmit.
Erickson, C. A. Power Generation in the U.S.-Mexican Border Region: Regulation of Transborder Power Generation. *Journal of Borderland Studies*, Revise and Resubmit
Sankaran, H., Saxena, M., Erickson, C. A. (2011). Average Conditional Volatility : A Measure of Systemic Risk for Commercial Banks. *Journal of Business and Economics Research, 9*(2), 79-93.

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Erickson, C. A. (2003). "Banking and Finance". In Stacy Lee (Ed.), *The United States and Mexico*. London: Brown Partworks.
Erickson, C. A. (2003). “NADBank” In Stacy Lee (Ed.), *The United States and Mexico*. London: Brown Partworks.
Erickson, C. A., Eaton, D. (2001). "Border Finances: Paying for Environmental Infrastructure" in Paul Ganster (ed.). The U.S.-Mexican Border Environment: Border Environmental Infrastructure: Now to 2020, SCERP Monograph Series, No. 3, San Diego: Southwest Center for Environmental Research and Policy.
Erickson, C. A., Lujan, C., Falk, C., Mexal, J., Lujan Alvarez, H. (2001). Desarrollo Agroforestal Comunitario Sustenable en la Region Fronteriza Mexico-Estados Unidos de America. Ciencia Forestal, 26, 81-91.
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Erickson, C. A., Ghosh, S., Enomoto, C. E. (1992). "Revenue-Stablilizing Tax Rates over the Business Cycle". Quarterly Journal of Business and Economics, 31(3), 84-97.
Erickson, C. A. (1989). Chaos, Coffee Cups and Butterflies: Implications for Financial Investment. Business Forum, 3-6.

Regular Column

Erickson, C. A. Economic Matters. *Las Cruces Bulletin,* 2008-Present.
Erickson, C. A. Talking Points. *New Mexico Business Outlook,* Monthly (2003-Present).

Contracts, Grants and Sponsored Research

Erickson, C. A. (Co-Principal), Downes, C. M. (Principal), Archambault, S. J. (Co-Principal), Erickson, C. A. (Co-Principal), Downes, C. M. (Principal), "Algae Transition Support Project Modeling Support to Algae HTL Pathway," Sponsored by Pacific Northwest National Laboratory, Federal, $155,312.00. (May 29, 2013 - January 31, 2014).
Erickson, C. A. (Principal), "Internal Award - Domenici Fellowship - Erickson," Other, $27,681.00. (May 1, 2012 - October 31, 2013).
Erickson, C. A. (Co-Principal), Sohn, H. (Principal), "On the Management of the North Korea's Potential Proliferation Ambitions: Models and Methods," Sponsored by National Science Foundation, Other, $140,614.00. (January 1, 2010 - December 31, 2011).
Erickson, C. A. (Principal), "Tax Study," Sponsored by Lea County Community Improvement Corporation, Other, $8,500.00. (July 1, 2005 - December 31, 2005).
Erickson, C. A. (Principal), "Economic Impact Analysis for Lea County and the City of Hobbs," Sponsored by Economic Development Corporation of Lea County, Private, $30,000.00. (January 3, 2005 - June 30, 2005).
Ward, E. (Co-Principal), Erickson, C. A. (Principal), "NMEDD Professional Services Contract (New Mexico Base Closure Commission)," Sponsored by NM Economic Development Department, Local, $10,175.00. (October 28, 2003 - June 30, 2004).

Consulting

Laguna Development Corporation, Laguna, NM. Pro Bono. (January 1, 2014 - January 13, 2014).
Coronado Partners, LLC, Las Vegas, NV. (July 1, 2012 - July 31, 2012).
Coronado Partners, LLC, Las Vegas, NV. (January 1, 2011 - December 31, 2011).
New Mexico Rural Electric Cooperative Association, Santa Fe, NM. (June 1, 2009 - December 31, 2010).
Miller Stratvert, Las Cruces, NM. (August 15, 2010 - December 10, 2010).
Sunland Park Race Track and Casino, Sunland Park, NM. (August 15, 2010 - November 15, 2010).
City of Sunland Park, NM, Sunland Park, NM. (December 2007).
Double Eagle, Inc., Mesilla, NM (December 1, 2006 - May 1, 2007).
Committee to Protect Dona Ana County, Las Cruces, NM. (October 2003 - October 2004).

E. Examination of Portfolio by Maturity and Average Yield

The weighted average maturity (WAM) decreased from 322 days to 283 days. The shift is largely due to the called bonds that were converted to cash. The term structure has been shortened in anticipation of the Federal Reserve beginning to increase short term interest rates. This shorter portfolio maturity structure reduces market risk and better positions the portfolio to take advantage of expected rate increases later this year.

The first table below shows the term distribution by percent of the portfolio, and the second table shows the same distribution by average yield. On June 30th, 51% of the portfolio was either fully liquid or scheduled to mature in less than 6 months with another 38% scheduled to mature in under two years.

PORTFOLIO BY MATURITY

Short-Term		April	%/Total		May	%/Total		June	%/Total
Immediately - 24 Hrs. Notice	$	105,030,018	41.95%	$	82,407,221	36.57%	$	92,466,867	40.84%
NM Local Gov't Invest. Pool		694,655	0.28%		694,655	0.31%		694,655	0.31%
Less than Six Months		19,450,000	7.77%		22,950,000	10.18%		23,450,000	10.36%
Subtotal Short Term	$	125,174,673	50.00%	$	106,051,876	47.06%	$	116,611,522	51.50%
Long Term		**April**	**%/Total**		**May**	**%/Total**		**June**	**%/Total**
One Year	$	27,268,896	10.89%	$	29,268,999	12.99%	$	31,769,101	14.03%
Two Years		66,556,213	26.59%		63,704,753	28.27%		56,203,600	24.82%
Three Years		26,069,307	10.41%		21,065,503	9.35%		19,064,710	8.42%
Three to Five Years		5,275,000	2.11%		5,275,000	2.34%		2,775,000	1.23%
Subtotal Long Term	$	125,169,416	50.00%	$	119,314,255	52.94%	$	109,812,411	48.50%
TOTAL	**$**	**250,344,089**	**100.00%**	**$**	**225,366,131**	**100.00%**	**$**	**226,423,933**	**100.00%**
Weighted Average Maturity - Days			**307**			**322**			**283**

PORTFOLIO BY MATURITY AND AVERAGE YIELD

Short-Term		April	Ave. Yield		May	Ave. Yield		June	Ave. Yield
Immediately - 24 Hrs. Notice	$	105,030,018	0.20%	$	82,407,221	0.20%	$	92,466,867	0.20%
NM LGIP		694,655	0.13%		694,655	0.12%		694,655	0.13%
Less than Six Months		19,450,000	0.40%		22,950,000	0.38%		23,450,000	0.34%
Subtotal Short Term	$	125,174,673	0.25%	$	106,051,876	0.24%	$	116,611,522	0.23%
Long Term		**April**	**Ave. Yield**		**May**	**Ave. Yield**		**June**	**Ave. Yield**
One Year	$	27,268,896	0.35%	$	29,268,999	0.40%	$	31,769,101	0.43%
Two Years		66,556,213	0.62%		63,704,753	0.65%		56,203,600	0.68%
Three Years		26,069,307	0.99%		21,065,503	1.03%		19,064,710	1.03%
Five Years		5,275,000	1.25%		5,275,000	1.25%		2,775,000	1.25%
Subtotal Long Term	$	125,169,416	0.70%	$	119,314,255	0.68%	$	109,812,411	0.70%
TOTAL	**$**	**250,344,089**	**0.47%**	**$**	**225,366,131**	**0.47%**	**$**	**226,423,933**	**0.46%**
Weighted Average Maturity – Days			**307**			**322**			**283**

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State-backed crowdfunding initiative hits 97% success rate in first year

http://mibiz.com/item/22697-state-backed-crowdfunding-initiative-hits-97-success-rate-in-first-year

Written by Andy Balaskovitz

The Michigan Economic Development Corp. worked with the crowdfunding platform Patronicity and the Michigan Municipal League to create the Public Spaces, Community Places initiative, which allows residents to donate to public projects. Local examples of the public placemaking initiative include the Exit Space public art installation project from the Urban Institute for Contemporary Arts in Grand Rapids, which raised $10,315 that was matched with $10,000 in funding from the state.*COURTESY PHOTO OF MURAL AT UICA*

As many remain skeptical of crowdfunding's ability to bolster growth among private-sector entrepreneurs, economic developers have found the fundraising model holds promise for public placemaking efforts statewide.

In the first year of the **Michigan Economic Development Corp**.'s "Public Spaces, Community Places" initiative, a partnership with crowdfunding platform Patronicity and the **Michigan Municipal League**, 33 out of 34 projects from around the state have met their fundraising goals, according to the program's website.
As of July 8, five more projects were still accepting donations and two of those had hit their goals before deadline.

Observers say a 97-percent success rate is a rare figure among crowdfunding campaigns.

"I was hoping for a 50-percent success rate," said Katharine Czarnecki, the MEDC's community development director who oversees the program. "The fact that we have 97 percent is crazy."

As part of the relatively small program — fundraising goals range from a few thousand dollars to $100,000 — the MEDC matches the amount raised from the public, or "patrons," with grants.

To date, the MEDC has matched just less than $900,000 in grants, while project organizers have raised even more than that through donations beyond the match goal, according to the project website.

The projects are as varied as the communities pursuing them. They range from a historic manufacturing building restoration in Calumet and a recreational sports complex in Sparta to an outdoor soccer field a few blocks from the Capitol Building in Lansing and a public art installation in downtown Grand Rapids. They also include a neighborhood opera house in Detroit and a new pavilion along the Kal-Haven trail in Southwest Michigan.

Instead of the state telling communities what kind of placemaking projects they should do to get funding, the Public Spaces program lets communities decide what might get the most public buy-in.

"With this project, we are trying to drive public spaces to be reactivated," Czarnecki said. "The state is focusing on placemaking and we kind of left it up to the community to find what projects they want completed."

Czarnecki said state funding levels will remain at $750,000 for the fiscal year, and the MEDC is hoping to get $2 million for the next fiscal year. Money for the program comes from the MEDC's corporate fund, which draws revenue from tribal gaming compacts.

"It has been tremendously successful from our end, with the project creators and with donors who love it as well," said Ebrahim Varachia, president and co-founder of Detroit-based **Patronicity**. "It has been incredible to see that this program has allowed for more than $2.3 million in community impact from the state and citizens."
"It is quite rare," he added, to see crowdfunding initiatives with that level of success.

Finding partners

The state originally approached Patronicity — which grew out of a business incubator that the MEDC supported — about using the platform to help startup food trucks in Detroit. That morphed into an idea for funding public projects whereby the state uses community grants to match fundraising efforts.

Varachia refers to the model as "crowd-granting."

"It is revolutionizing the way funding has been done," he said. "With the match, there is so much more on the line. If you hit your goal, you don't just get that money, you double the amount. Donors love it because they feel their $10 or $100 is $20 or $200. It really changes what projects can be done by giving them a lot of leverage."

Czarnecki said the program "actually got off to a slow start" with funding available only for an alley restoration project in Midtown Detroit. Organizers there raised more than $52,000, which the MEDC matched with a $50,000 grant.

After Jan. 1, "projects really started to take off. We've been successful in every project except for one," Czarnecki said.

The project that failed to reach its fundraising goal was for redeveloping a park along the Kalamazoo River near **Arcadia Brewing Co.**'s new pub just east of downtown Kalamazoo. An Arcadia official could not be reached for comment.
While the Kalamazoo project did not reach the goal to qualify for the state match, Varachia said it will be able to keep the funds raised from the public because of the way its fundraising was structured from the start. Other Patronicity projects are all-or-nothing, meaning donors' credit cards aren't billed if the goal is not met.

'Eye-opening innovation'

Using crowdfunding in the private sector has led to mixed results and skepticism, particularly with equity or securities-backed fundraising. *MiBiz* reported in June about the waning interest among entrepreneurs in securities-backed crowdfunding after lawmakers passed the Michigan Invests Locally Exemption (MILE) Act in 2013.
"I think there is a lot of merit to continue to explore that as a financing mechanism for real estate and small business development," Czarnecki said. "But I can tell you our leadership team is a little hesitant [to support that] until things get ironed out at the state and federal level."

Specifically, she cited concerns over fraud and a lack of federal rules or guidelines.

However, the matching funds the state provides for successful fundraising goals as well as Patronicity's willingness to provide support and training to project organizers make this community-based crowdfunding model unique, Varachia said.

"We see ourselves as the training wheels," he said.

The **Urban Institute for Contemporary Arts** in downtown Grand Rapids raised $10,315, which was matched with $10,000 from the state, for its Exit Space project, an ongoing public art program with installations throughout the city. The funding will allow for two or three additional murals within the city, said Kristen Taylor, UICA's development director.

“The thing that I liked about the [Public Spaces] program is that it was very specific to placemaking,” she said. “It hit the UICA mission, a large part of which is to [foster] a creative community. It was a way to involve the entire community on a project that would directly benefit the entire community.”

Bob Trezise, president and CEO of the **Lansing Economic Area Partnership**, the capital region’s economic development agency, called the program “a really eye-opening innovation in how we’re going to move forward with economic development.”

Four projects in greater Lansing — including the **Beacon Field** soccer project downtown that exceeded its $60,000 fundraising goal by more than $10,000 this year — are participating in the program. Plans to raise $35,000 to upgrade the city of Charlotte’s tennis courts were also announced recently.

“It’s not the answer, it’s just a different answer” that could be useful during times of cuts to incentives and municipal budgets, Trezise added.

Trezise questions how successful the model would be for larger, more expensive endeavors. But for now, it’s working as a “marginal solution,” he said.

“While it’s a small program, it’s not unimportant,” he said. “I’ve been so impressed with the results so far (that) I begin to wonder whether we could actually use this tool as an incentive to companies. I wonder how far we can push the envelope here. It’s been an important experiment and one that’s worked with rave reviews.”

Appendix D - List of Abbreviations

Term	Definition
BEA	Bureau of Economic Analysis. The BEA is a division of the US Department of Commerce which tracks important economic statistics.
BND	Bank of North Dakota. Established in 1919, BND is often referenced as the prime example of a public bank. It is a member of the Federal Reserve System, but it is not a member of the FDIC.
CDFI	Community Development Financial Institution. This is a non-profit lending entity which focuses on under-served markets in a given locale.
CIP	Capital Improvement Project for the City
CRA	Community Reinvestment Act. The CRA was issued in 1977 in order to monitor and require that banks provide services to their entire community, especially market areas that are less advantaged. In particular it was designed to prevent "redlining," a practice which avoids making mortgages in certain poorer neighborhoods.
FDIC	Federal Deposit Insurance Corporation. This entity was federally established in 1933 in order to reestablish confidence in banks. Banks pay fees to the FDIC in order to receive insurance on the first $250,000 of a customer's deposits.
Fed	The Federal Reserve System. The Fed is the US central banker. It allows for efficient clearance of money between and among banks. It also is responsible for decisions on money supply and liquidity, which it exercises through the purchase and sale of government securities. Although it is owned by the US government, nationally chartered banks are required to hold stock in their regional Federal Reserve Bank. The Federal government receives all profits, after a dividend is paid to the stockholders of the regional banks.
GDP	Gross Domestic Product. GDP is a measure of economic output.
GRT	Gross Receipts Tax. The GRT is the primary revenue source for the City and is effectively a sales tax on all goods and services, except medicine and food.
LEDA	Local Economic Development Act. The Act allows New Mexico governing bodies to create a plan which permits certain economic development investments which might otherwise be prohibited by "anti-donation" laws which restrict public investment in private ventures.
NMFA	New Mexico Finance Authority. NMFA provides bonding capacity and bond issuance support to entities throughout the State, including at times Santa Fe. It also manages programs which target economic development support to difficult to fund segments of the State.
SEC	Securities and Exchange Commission. The SEC was created in 1934 and has primary responsibility for governing and enforcing laws regarding securities, publicly or privately offered loans and equity. It is a Federal agency.
SFB	Santa Fe Bank. SFB is the working title used to reference the public bank approach used in this report. No name has been selected. It is purely used for convenience.