Banking in the Spotlight in New Mexico
There was a recent Symposium in Albuquerque, New Mexico on November 7, 2015 to Promote Public Banking.

First of all, what is a Public Bank? I am not sure there is a good definition but presumably it is not a private bank or even a non-profit bank but in some sense is associated with government and I think we are talking here about something other than the Central Bank of a nation. Thus perhaps the best way to look at a Public Bank is that it is a bank owned by a political jurisdiction and intended to advance the interests of the political jurisdiction which presumably means the residents of that political jurisdiction. But there may be differences of opinion as to the range of services that need to be provided in order for this entity to be considered a bank. It is important to understand that certain banking functions are performed by governmental entities which do not have a bank charter. This could be important.

Here are statements by a state legislator. First, after eleven years in the Legislature, I was astonished to see, in a "weekly report of activity" from the LFC. The LFC is the Legislative Finance Committee which employs fiscal analysts who examine budgets and review the management and operations of state agencies, higher education institutions and public schools and participate in the state's revenue estimating process. Buried in a paragraph updating us on department activity, the sentence that "the Department of Transportation had awarded a $6 million loan for a wastewater system with Estancia. The funds will be processed through the State Infrastructure Bank."

I was astonished for two reasons: first, what is the Transportation Department doing lending money for waste water infrastructure? Second, what in the world is the State Infrastructure Bank? I confess in my time as a legislator, this entity had never been mentioned to me...at least I couldn't recollect ever hearing about it. So I did a bit of internet research, and while the NM State Infrastructure Bank eluded my search, the general concept of state infrastructure banks produced a wealth of information. I now realize that we are among the states which have for years been utilizing this simple method of financing some of our projects for highways and water. I couldn't determine for sure, but it appears in NM we have housed the "bank" in the department of transportation (bridges and roads would be one of the uses, so this makes sense).

State Infrastructure banks are "a well-regulated method for financing projects selected by the state. A low-interest, below market rate, loan is issued to finance the project. Repayments, including interest, return to the bank and are then available for lending out for additional projects." What struck me about the existence of this mechanism is that it is precisely the way a public bank would function. We, in effect, already have one--just haven't named it as such and haven't made full use of its simple, elegant mechanism...so why not?

The power of the banking lobby. Their program fits with their overall strategy of convincing Americans that banking is far too complex an issue to be attempted by anyone but members of the banking brotherhood. Leave your financial dealings to us...you'll just screw them up. This ignores the reality that is described in numerous books I've been reading on the topic following last fall's symposium on public banking in Santa Fe. Ellen Brown's "Web of Debt" is the cornerstone for the discussion. Michael Lewis, among others, has explored just how it was possible for the banking industry to get things so terribly wrong during the housing bubble and the resulting crash of 2008 in "The Big Short" and "Boomerang". What becomes clear from these works is that bankers are NOT the smartest guys in the room; that in fact the incredible profit they are able to produce out of public financial dealings is in no way a necessity. Instead, there is plenty of room for a state (like North Dakota) or a City (as Santa Fe is attempting) to omit the banking industry from many (if not all) of its finances.

Like you, I think it would make sense to move slowly and carefully in incremental steps, building on those activities in state government that are already very much like public banking, like my new discovery of the State Infrastructure Bank (SIB) or the State Investment Council (SIC). What I would see happening first would be to expand the SIB's role, increasing the amount and number of self-financed projects, projects in which we pay ourselves a modest return rather than see public money go into bankers' vaults for no good reason. In time this could include issuing our own bonds. It could involve an initial deposit from the state operating reserves of a percent or two (each percent represents $62 million and we are currently carrying over 10% reserves, far more than actuaries say is necessary). That deposit, used to finance state or municipal projects (a la the SIB) would earn a better return than we now get from the reserves, which are not invested but retained in a private bank "until we need to withdraw it".

Governance of a public bank is the big concern. It needs to be as independent as possible from the executive and the legislature. Decisions about its operation should be divorced from political considerations. We can do it...if North Dakota can. In time it could develop into a full-blown State Bank, one that buys a piece of commercial loans entered into by community banks, reducing the overall interest rate and fostering economic growth for local business.

There was a very interesting video presentation by the former Chairmen of the South Dakota Investment Council who now lives in Santa Fe, New Mexico which can be viewed here. If for some reason the sound does not work, please hit the unmute button.

There are aspects of activity in New Mexico in addition to those mentioned by Senator Ortiz y Pino that might be considered to be elements which could be used to create a State Bank and in fact there are already a variety of State of New Mexico investment programs.

The New Mexico State Treasurer invests all funds not needed immediately for the operation of State Government. You can learn more about the operation of the State Treasurer here.

The New Mexico Department of Finance and Administration facilitates the tax free bonding for private sector entities. You can learn more about that here. They have at least two other quasi-banking operations including The Smart Money Loan Participation Program and the Collateral Support Loan Participation Program.

In New Mexico, there is what is called a Fiscal Impact Report (FIR) prepared on major legislation to assist in informing the work of the Legislature and is the FIR for the above mentioned bill. It is well worth reading.

The major opposition to the concept came from the entity that was expected to provide the initial funding (from one component of the New Mexico Sovereign Trust Fund) our State Investment Council (SIC) which manages the New Mexico Sovereign Trust Fund.

What is the <a href="http://www.sic.state.nm.us/" rel="nofollow">New Mexico State Investment Council? It manages what technically is the Sovereign Trust Fund of New Mexico which is the largest in the U.S. other than Texas and Alaska. In New Mexico, the four components of the Sovereign Trust Fund are called "Permanent Funds" where "Permanent" means until a decision is made to dip into the piggy bank beyond the statutory or constitutional provisions for annual disbursements from these funds. New Mexico is mineral rich especially oil and gas and imposes a severance tax on the removal of most natural resources (which goes into the Severance Tax Permanent Fund) STPF and ten percent of the land area of NM is State owned and income from that land other than the severance tax goes into the Land Grant Permanent Fund which is the larger of the two. There are two other smaller funds. So this money and the investment returns comprises the four so-called permanent funds which in turn disperse a specified percentage of their year end value (generally about 5%) into the General Fund (Budget) of New Mexico or in some cases is paid directly to a variety of beneficiaries mostly related to education. I believe that New Mexico's share of Federal oil and gas royalties does not go into the State Sovereign Trust Fund but is paid directly into the General Fund (budget).

SIC reports there are reasons to believe the agency would conclude that its fiduciary duties would not permit this type of investment. Specifically, when making any investment, SIC must comply with the Uniform Prudent Investor Act which requires SIC to optimize risk-adjusted returns to best meet the obligations and long-term goals of the STPF [Editor's Note: STPF stands for the Severance Tax Permanent Fund. Severance tax is a tax on the extraction of natural resources and varies by the type of resource involved] . A $100 million allocation categorized by statute as a “non-profit,” placed in the sole discretion of a board of non-fiduciary political appointees focused on economic development, at face value, is likely a violation of prudent investor standard.</blockquote>
Our Sovereign Trust Funds are targeted to return 7.5% (which is ridiculous right now and a cause of concern to me re stretching for return implies accepting higher risk).

This is a news article so I do not want to introduce my own opinions into the discussion but will simply note that from I what I read and have heard at two meetings on this subject the two key issues for New Mexico are:

A. the question of the benefit of a multiple-agency approach to the necessary banking functions of the State of New Mexico versus a more centralized approach but one that has governance that is separate from the existing State Entities although the governance of the banking function might well include representatives of these entities.

B. the merit of increasing the Sovereign Trust Fund by maximizing returns on investment in order to have protection from future hard times versus using some of of the proceeds related to the natural endowment of the State of New Mexico in a way that does not maximize the direct investment return to the State of New Mexico but instead improves the current economy i.e. the economic performance of the State of New Mexico including rural areas which traditionally have great difficulty improving their economic viability. This is a different approach to utilizing the finite natural endowment of the State of New Mexico to provide for a brighter future.

In order to deal with the Uniform Investor Protection Act it may be necessary to utilize funds from other sources than those related to the natural endowment of New Mexico or if related to the natural endowment of New Mexico, funds which have not yet been added to the New Mexico Sovereign Trust Fund.

If the "investor" in the Uniform Investor Protection Act is the State, the Municipalities, and the taxpayers, then there are two ways of achieving "profit". One is to earn a higher rate of return on loans. The other is to use new State Bank funds to payout existing loans owed to private banks, and refinance with the State Bank, so that all of the interest payments are earned by the State Bank that is owned, ultimately, by the taxpayers. So like North Dakota, rather than taxpayers contributing to interest payments on Wall St loans, they make interest payments "to themselves". The former is a loss of taxpayer money to Wall St; the latter is a zero sum taking of money from one pocket and putting it in the other pocket, all within the State's finances. So the interest saving is actually a "profit" to the State, as it stops the current annual outflow of taxpayer-funded interest payments to private bankers.

Do New Mexico municipalities typically fund their infrastructure projects by issuing 15 year debentures that are sold to private banks? Or does New Mexico's Infrastructure Bank already provide "self-financing" for New Mexico infrastructure? The interest savings from self-financing is one of the major benefits of Public Banking, as fees and interest on 15 year loans typically adds 80-100% to the original capital cost of the projects. A self-financing government can build infrastructure for half price, and build twice as much infrastructure for the same amount of money, if the interest payments are kept "in house".

Municipal bonds have recently been downgraded from their risk-free status, so banks can no longer hold munis as risk-free assets. As risk assets, munis now count against a bank's

Basel III capital adequacy. Which means banks need to earn higher interest on munis to make them worth buying. This should further sweeten the incentive to implement State Public Banks to self-finance municipal bond issues within the State.