



# LOCAL COMMUNITY INVESTMENT INITIATIVE

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## **ABSTRACT**

The purpose of this white paper is to educate the general public and public funds professionals on the new Local Community Investment Initiative.

**Treasurer Nancy M. Bearce**

## Executive Summary

The Local Community Investment Initiative (LCII) is a program started by the Bernalillo County Treasurer's Office. Under the initiative, the Treasurer invests county public funds with local community financial institutions for a competitive rate of return. In turn, the community bank lends the money to local businesses and citizens for their use in growing their business or buying/renovating a residence. In other words, to generate more economic growth in our community. It is a way for our county to invest in its citizens.

Thus the tagline "Our Money, Our Community".

While still in its infancy, the initiative has developed selection criteria and an interview questionnaire to identify suitable partners. After making the initial selection, the next step in the initiative is to continue to cultivate relationships with our partners and develop measurable benchmarks to gauge success. This white paper will outline the initiative so far as well as outstanding areas in development.

## Background

The LCII launched in April 2019. The initiative has been in development for more than a year.

Bernalillo County Treasurer Nancy Bearce has been involved with the local community for over 15 years. Primarily helping neighborhood coalitions, one of the reasons she became Treasurer of Bernalillo County is to continue serving the citizens of the county. Secondly, her career overseeing the largest statewide public employee benefit program led her to enter elected service as the Bernalillo County's first woman county treasurer. She hopes to broaden financial opportunity by using all resources at her disposal to help constituents. Using some of the county's public funds to invest locally, to benefit citizens, is a perfect intersection the Treasurer's background and skillset.

Additionally, the adopted Mission Statement of Bernalillo County states that we should endeavor to collaborate with local organizations to the benefit of Bernalillo County citizens. This mission, combined with Treasurer Bearce's background, serves as the genesis of the program.

### *Timeline*

The following is a brief timeline of the program:

- **Restructuring of county Operating Funds.** Separation of county Operating funds into three "buckets".
- **Large retail bank meetings.** Initial exploration of large retail banks.
- **Investment Committee.** Program discussion, multiple times, in the Treasurer's advisory Investment Committee meetings, starting in 2018. The Treasurer's Office also discussed the program with the county's Board of Finance.
- **Development of Criteria.** In March of 2019, the Treasurer's Office developed criteria to build a list of possible candidates.
- **Initial outreach.** In March, contact with community banks began that met the selection criteria. Four (4) banks in the local county area were identified.

- **Evaluation of two finalists.** Following initial contact, two finalists were identified. Meetings were held with the finalist offering the best rate, but eventually a partnership with both finalists occurred.
- **Program maturation.** The LCII is still in its infancy. Collaboration with the county’s partners to further benefit the community will continue.

The first step in launching this initiative was the restructuring of the operating funds portfolio. By separating the different funds into the different portfolios or “buckets”, it allowed the Treasurer’s Office to identify the public funds that would be available for investment long-term. Additionally, it highlighted a liquidity problem; the Treasurer’s Office had excess liquidity that could be put to use.



As a result, starting in August 2017, the Treasurer's Office started having discussions with larger banks regarding the investments. The goal of this was two-fold. Firstly, it allowed the newly elected Treasurer to establish and build relationships with banking partners. The Office still cultivates those relationships today. Additionally, it allowed the Treasurer to develop an overall idea of the variety of products that were available, as well as the corresponding yield and risks.

The next phase of the program began in the Treasurer’s Investment Committee meetings. In several meetings throughout 2018, we routinely discussed doing more to help the community and New Mexico at large. Out of those meetings, the Treasurer’s Office decided to invest with the State Treasurer’s Office (STO) Local Government Investment Pool (LGIP), not only to get a very competitive yield but also to build that relationship with the State Office. While investing with the LGIP, there was the idea, the county could invest more with our local financial institutions, to grow our local economy as well.

In March of 2019, County Treasury started to research the initiative in earnest. The Treasurer’s Office, with input from Bernalillo County’s Finance Division and Public Trust Advisors, developed criteria to identify local financial institutions to target. Meetings began with the institutions, both in person and over the phone, using set interview question (see below in the “Criteria and Methods” section). Once the finalists were identified, the Treasurer’s Office selected the best bank based on several different factors, such as risk profile and yield.

In the end, the Treasurer’s Office decided to invest with both of the finalists. Negotiations continue today with other local financial institutions to continue the program as it matures.

## Criteria and Methods

### *Selection Criteria*

The main purpose of this program is to invest in the local community. As such, it is paramount the local financial institution both reside (has principle operations) in New Mexico, and does much of its business within the state. Additionally, the Treasurer's Office also wants to collaborate with institutions that have at least a satisfactory rating with the Community Reinvestment Act. This is an important requirement, as the office wants to ensure that partner institutions have substantial community involvement.

As such, the Treasurer's Office developed several sets of criteria in order to select financial institutions:

1. Primary operations and headquarters in New Mexico, with a preference for Bernalillo County. Must have at least a branch located within Bernalillo County jurisdiction.
2. No more than 5% of total asset size (as determined via CRA rating or data provided bank and verified by Treasurer's Office). Less than 3% preferred.
3. A Community Reinvestment Act (CRA) rating of "Satisfactory" or better.
4. Fifty percent of loans outstanding made to people or businesses with operations primarily in New Mexico.
5. Able to meet New Mexico State Treasurer's Collateralization requirements.
6. Reasonably competitive short-term rates. By competitive, we mean comparable to what could be reasonably obtained with a 1-month's Treasury Bill or similar banking products. Please see the "Rate of Return" section below.

### *Method and Interview Process*

The Treasurer's Office developed a rigorous interview process to determine the best fit for the program. The interviews were largely informal; most of the answers were given simply by having a conversation with the financial institution in question. In addition, it was critical to get to know the key personnel at each institution. The Treasurer's Office fully expects to expand this program in the future, as it is vital that a relationship is maintained between the County and the financial institution.

The Treasurer's Office established the following question set for each institution. The questions were asked in an informal and colloquial manner:

1. Is your bank headquartered in New Mexico? If so, what is the name of the city where the headquarters is located and what is the name of the holding company?
2. What is your approximate total asset size?
3. What is your current CRA rating?
4. What percentage of your outstanding loans are given to New Mexico residents and Businesses?
5. What banking products can you provide that are safe, reasonably liquid (within 30 days maturity) and what are the rates?

### *Rate of Return*

By definition, local financial institutions cannot provide rates similar to larger retail banks. However, the county ensured that the rate of return is commensurate to the rate received by the county's other investments such as US Treasury Bonds and the State LGIP.

The objective was to diversify the county's public investments within the community while retaining safety and liquidity. As a result, some liberties were taken with the required rate of return. As long as the banking product was within a certain range of what could be obtained via a Money Market account or Treasury Bill, the selection moved forward. Today, the Bernalillo County Treasurer's Office is getting approximately 2.25% on a Money Market account.

### **Oversight and Risk Assessment**

Oversight continues as with all our investments utilizing Treasurer's Office and its advisory Investment Committee, the Bernalillo County Board of Finance and investment advisors, Public Trust Advisors. The county is currently establishing a quarterly review process to monitor the initiative. The Treasurer's Office intends to include a quarterly report on the initiative to be included in the county's Board of Finance presentation, Bernalillo County transparency portal and the Treasurer's website.

Having adequate risk assessment measures is an important part of this investment initiative. Given its infancy, a review of the best method to assess risk with the financial institutions. The Treasurer's Office has been in contact with the State Treasurer's Office to help in this regard. While still being developed, the State Treasurer's Office has provided valuable guidance concerning the development of the initiative.

### **Benchmarks**

As a new program, the Bernalillo County Treasurer's Office is developing appropriate benchmarks to gauge the effectiveness of the program. Some of the benchmarks currently under consideration include:

- Amount of loans outstanding to New Mexican residents
- Rate of return as compared to the 30 day Treasury Bill and similar banking products
- Continued Community Reinvestment Act rating of *"Satisfactory"* or higher

This is not a comprehensive list of the possible benchmarks under discussion. Appropriate benchmarks should be measurable, as well as attainable and timely.

It is also imperative that we show a measurable impact to the community.

*"Our Money, Our Community"*

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