

**Testimony by Carlos Mello
Director of Business and Finance
In Opposition To**

L.D. 24: An Act to Create a Public State Bank

Joint Standing Committee on Insurance and Financial Services

February 3, 2015

Senator Whittemore, Representative Beck, and Distinguished Members of the Committee:

My name is Carlos Mello. I am the Director of Business & Finance at the Finance Authority of Maine (FAME). I live in Camden and am here to speak in opposition to L.D. 24, *An Act to Create a Public State Bank*.

FAME wishes to make three points about this bill: First, we support Rep. Russell's goal of enhancing economic development in the state; second, we are proud of our record in meeting our mission as a quasi-independent state agency created to provide access to capital and take greater risks than traditional lenders for the public benefit; and third, if we wish to enhance prospects for job creation and access to capital for the benefit of Maine citizens and the Maine economy, we respectfully suggest that you invest greater resources in FAME and not create an expensive and unnecessary new state bureaucracy.

Expanding access to capital:

FAME supports the sponsor's goals of expanding access to capital for Mainers and promoting economic development in the state. We believe, however, that it is unnecessary to reinvent the wheel by creating a new and expensive entity that would essentially duplicate what FAME and others successfully do already.

For thirty-one years, FAME has been in the business of successfully providing, along with our partners in state and federal government, as well as Maine's lending community, access to capital for Maine businesses and citizens. To aspiring Mainers, FAME is the leading financial resource that expands business and educational capabilities through our willingness to invest at greater risk based on public benefit. FAME offers a variety of flexible, well-established programs that can be tailored to meet the needs of a variety of potential borrowers. We partner well with Maine governmental entities and financial institutions and help to create and retain Maine businesses and jobs. Maine enjoys a wide array of economic development and access-to-capital entities. Currently FAME, the Maine Department of Economic and Community Development, the Maine Technology Institute, the Maine Venture Fund, Maine Housing Authority, the Maine Municipal Bond Bank, Maine's lending institutions (banks and credit unions), numerous regional economic development agencies, as well as the United States Small Business Administration and

the United States Department of Agriculture, Office of Rural Development, help to provide capital to Maine's businesses and citizens.

FAME's impressive track record:

We are skeptical of the desirability and need of establishing a state-run bank. This would be a huge and expensive undertaking. You may recall that this bill is essentially identical to one considered and rejected by this committee and the Legislature two years ago. We don't believe anything has changed in the intervening period to compel a different outcome; on the contrary, FAME's research and experience since that time only confirms what we have believed all along: that FAME is an efficient and effective economic development tool for Maine that compares very favorably to other economic development entities, including the Bank of North Dakota, the Bank on which the pending legislation is modeled. FAME already provides greater access to financing for businesses that cannot obtain conventional financing in Maine than the Bank of North Dakota does in its home state, even though our loan and loan insurance portfolios are 1/14th the size of the Bank of North Dakota's. A review conducted by FAME last year disclosed that we currently provide \$85.7 million in higher-risk loans compared to \$56 million provided by the Bank of North Dakota, even though FAME's total portfolio is only \$116 million compared to North Dakota's \$1.6 billion. An independent consultant's report commissioned by the Maine Department of Economic and Community Development recently rated FAME's programs among the most effective in the state in terms of economic impact and return on investment. Last year alone, FAME supported over \$50 million in financing to 275 Maine businesses to help create and retain nearly 3,000 Maine jobs. FAME thus takes risk and successfully helps to create and retain jobs; what we lack, however, is magnitude.

I would like to share a recent success story regarding a valued Maine business: Woodland Pulp, LLC and its sister company, St. Croix Tissue, Inc. in Baileyville. The story illustrates the various tools that FAME, the Administration, and other economic development partners can deploy to help create and retain good-paying Maine jobs. In April 2011, FAME approved loan insurance on a \$5 million Machias Savings Bank construction loan for Woodland Pulp, LLC to build a natural gas pipeline connector and convert the mill from oil to natural gas, helping to reduce the mill's operating expenses and remain competitive. The loan insurance was never used by the company, however, and the construction was completed without FAME assistance. In September of 2014, Woodland and St. Croix needed assistance in financing a major expansion project exceeding \$120 million involving the renovation of its mill and the purchase and installation of two new, large tissue-making machines. FAME, in partnership with Key Bank, three Community Development Entities, the Department of Economic and Community Development and Maine Revenue Services, provided \$7.5 million in Major Business Expansion Bond financing secured by ETIF (employment tax increment financing) and BETR (business equipment tax reimbursement) claims, and authorized \$15.6 million in Maine New Markets Capital Investment Credits for over \$40 million of private investment. The financing allowed these companies to create and retain approximately 400 Maine jobs in Washington County.

The St. Croix example is just one recent story illustrating the great partnerships and economic development climate Maine enjoys without creating a new State Bank.

Invest instead in a proven and trusted resource:

If our goal is to expand economic development in the state and take it to the next level, why not invest in an existing and proven entity like FAME that can efficiently and effectively deploy resources to achieve this goal? Instead of spending \$325 million to create a state public bank (this estimate is derived from a study by the Federal Reserve Bank of Boston), why not provide FAME with more resources to lend? For example, if we invest \$37 million more in FAME's commercial loan insurance fund, FAME could increase the amount of loan insurance provided to a single relationship from \$4.4 million to approximately \$10 million, and leverage these funds over time to provide an additional \$150 million of capital to Maine businesses. This would also allow FAME to extend loan insurance to viable businesses further down the risk spectrum. Further, investing an additional \$13 million in our direct loan program would permit us to increase the maximum direct loan to any one relationship from \$1 million to \$2 million, thus doubling our capacity in this program, and would allow FAME to leverage these funds to provide an additional \$50 million in direct loans to Maine businesses over time. FAME has submitted legislation this session to accomplish these goals, and we hope you will support it.

For the benefit of the people and businesses of Maine, FAME already does largely what the Bank of North Dakota claims to do for economic development, goes where traditional lenders often fear to tread, or tread alone. In fact, based on the available data, FAME does it better and requires less state funding. We believe the bill creates a new large, expensive, unnecessary and less effective bureaucratic entity to do what FAME already does efficiently and effectively, and that the state's resources are better spent augmenting current FAME resources.

Thank you and I'd be happy to try to answer your questions.