FISCAL IMPACT REPORT

SPONSOR Rep. Roybal Caballero/Sen. Steinborn

LAST UPDATED
ORIGINAL DATE 2/3/2025

SHORT TITLE Public Banking Act

BILL NUMBER House Bill 130

ANALYST Rodriguez/Gray

APPROPRIATION*
(dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
	$110,000.0	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
STO Interest	$0.0	($2,200.0) to ($5,500.0)	($2,200.0) to ($5,500.0)	($2,200.0) to ($5,500.0)	($2,200.0) to ($5,500.0)	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
Economic Development Department (EDD)
New Mexico Finance Authority (NMFA)

<u>Agency Analysis was Solicited but Has Not Been Received From</u>
State Treasurer's Office (STO)
State Investment Council (SIC)

Because of the short timeframe between the introduction of this bill and its first hearing, LFC has yet to receive analysis from state, education, or judicial agencies. This analysis could be updated if that analysis is received.

SUMMARY

Synopsis of House Bill 130

House Bill 130 (HB130) creates the public bank of New Mexico (PBNM) and appropriates $110 million from the general fund to capitalize the bank. The bank is permitted to purchase and sell investments, loans, and bonds. The bill directs the bank to engage in activities in cooperation with economic development entities.

The effective date of this bill is July 1, 2025. A $60 million appropriation is effective on the incorporation of the bank.

FISCAL IMPLICATIONS

The appropriation of $110 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY25 shall not revert to the general fund.

The bill appropriates $50 million to PBNM, of which up to $4 million can be used for initial operating expenses. The bill also appropriates $60 million from the general fund to PBNM once the bank is incorporated, assumed to take place sometime in FY26, although incorporation could occur later.

These withdrawals come at varying degrees of opportunity cost, differing but likely increased levels of risk-adjusted investment returns, and unknown ultimate financial returns on investment.

Unappropriated general fund assets are invested in liquid, short-term investments. The investment horizon in the bill, however, is a permanent commitment, restricting state fund liquidity, and locking in an unknown return on investment. Anticipated interest lost by this deposit from State Treasurer Office (STO) would generally be the short-term interest rate of between 2 to 5 percent, or between $2.2 million and $5.5 million.

Additional opportunity costs are also created by the appropriation of general fund toward nonprogrammatic uses. These opportunity costs are challenging to estimate but are likely large given the numerous fiscal needs of the state.

SIGNIFICANT ISSUES

The bill directs the bank to engage in three major activities:

- Invest in and issue loans to state entities, nonprofits, and in other financial products as enumerated in paragraph 2 of subsection A of section 5 (see page 8 lines 10 through 25); and,
- “Cooperate” with small business development centers, regional economic development districts with “demonstrated abilities and relationships in providing financial services to new and emerging businesses.”

The bill establishes an 11-person board of directors, which is to include the state treasurer, the CEO of the New Mexico Finance Authority (NMFA), the secretary of the Economic Development Department (EDD), four members appointed by the governor, and four members appointed by the Legislative Council. The board has broad authority to establish policies that determine how the bank will execute the major objectives listed above.

The apparent intent of the legislation is to improve the state’s economy by engaging in below-market lending, expand funding opportunities, reduce predatory practices, and reduce state expenditures that go to larger national banks that provide current custodial services of state funds.

EDD points out that PBNM may duplicate several federal and state entities that offer the same products.

EDD writes:

> There are already several state-funded entities providing funding to support the credit needs of New Mexico businesses, municipalities, and support existing lenders. These entities include but are not limited to the NMFA, Housing New Mexico (formerly New Mexico Mortgage Finance Authority), State Investment Council, New Mexico Small Business Investment Corporation (NMSBIC), and EDD. These entities work collaboratively with banks, credit unions and community development financial institutions, as well as small business development centers, regional economic development districts and parties that have demonstrated abilities and relationships in providing financial services to new and emerging businesses. Establishing the public bank seems to be a redundant function of existing programs in place.

The New Mexico Finance Authority similarly points out similarities between the contemplated PBNM and the Public Project Revolving Fund (PPRF) created to assist public entities in accessing capital at low- or below-market rates. The agency notes that the PPRF has financed more than 2 thousand state projects, totaling more than $4.9 billion and carries a strong rating among credit rating agencies. The longevity of the program and the strong ratings allow NMFA to offer very low interest rates to borrowers. "At this time," the agency writes, "it is unclear how the Public Bank could offer financing for public projects on more favorable terms than those offered by the PPRF."

The agency also notes that because the PBNM will need to grow its deposit bank it "may be perceived as competing" with existing depository institutions.

EDD also notes PBNM may be subject to more risk because it provides support to transactions that other lending entities have passed on. Exposure may also be a concern. Typically, banks are leveraged at a 10 to 1 ratio, meaning for each $1 of capitalization, banks typically make about $10 in loans and investments. "While the initial capitalization/appropriation is $110 million, the state's exposure could be $1.1 billion and grow as the bank grows," the agency writes. "This leverage creates a significant contingent liability. It's unclear whether the public bank would be FDIC-insured, but regardless, the FDIC protects depositors, not the owners of the bank."

EDD notes the bank would be the lender of last resort, providing support after all other entities—including governmental entities—have considered and passed the opportunity to do so.

BG/hj/hg/sgs/rl