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FISCAL IMPACT REPORT

ORIGINAL DATE 2/9/15

SPONSOR Trujillo LAST UPDATED 2/12/15 HB 290

SHORT TITLE Investment of Public Money in Banks SB _____

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
	**	**	**	**	Recurring	General Fund
	**	**	**	**	Recurring	Local Funds

(Parenthesis () indicate revenue decreases

** While this bill would allow state and local treasurers somewhat more flexibility in investment vehicles while retaining full federal insurance coverage of the invested funds, this may be a local-sourcing bill. For the purpose of this bill review, there will be no economic impact from the provisions of this bill.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Regulation and Licensing Department

Department of Finance and Administration, Board of Finance (DFA/BOF)

SUMMARY

Synopsis of Bill

House Bill 290 amends Section 6-10-24, NMSA 1978 and, implicitly, amends the geographic restrictions of Subsection C, of section 6-10-36 NMSA 1978. The bill will allow federally insured banks, savings and loan associations or credit unions to accept public funds, up to the amount of federal insurance, without requiring them to qualify as a public depository by giving security as required by the laws of New Mexico relating to public money Section 6-10-16, NMSA 1978. House Bill 290 removes the geographic restrictions of Section 6-10-36(C), NMSA 1978 as it pertains to public funds held by other than county and municipal treasurers, the treasurers of all irrigation districts, and conservancy districts.

All public funds, including those excluded in Subsection B may be invested in accordance with the following conditions at a federally insured bank or savings and loan association selected by the investing entities:

- The bank or savings and loan association must arrange for the investment of the funds in certificates of deposit in one or more federally insured banks or savings and loan associations, wherever located, for the account of the investing entity.
- The full amount of the principal and any accrued interest of each such certificate of

deposit must be insured by the federal deposit insurance corporation.

- The bank or savings and loan association in New Mexico must act as a custodian for the investing entity with respect to such certificates of deposit issued for its account.
- At the same time that the investing entity's funds are deposited and the certificates of deposit are issued, the bank or savings and loan association must receive an amount of deposits from customers of other federally insured financial institutions, wherever located, equal to or greater than the amount of the funds initially invested by the investing entity in the bank or savings and loan association.

The effective date of the act is July 1, 2015.

FISCAL IMPLICATIONS

DFA/BOF notes that, “No fiscal impact is anticipated, to public bodies. However, the bill may have a moderate positive impact on the State economy by increasing deposits in New Mexico banks and increasing their lending power.”

SIGNIFICANT ISSUES

DFA/BOF notes that, “The New Mexico Independent Community Bankers Association supports this bill because it will allow for public bodies in New Mexico to deposit greater amounts with local banks. Currently, many local banks cannot accept large deposits from public bodies because they are required by State law to collateralize the deposits at anywhere from 50-105 percent. The bill would allow banks to offer public bodies brokered Certificates of Deposit, such as those offered through the CDARS program. Under that program, brokers break up the public deposit into several small pieces that are each fully insured by the Federal Deposit Insurance Corporation (FDIC).”

TECHNICAL ISSUES

There does not seem to be any apparent geographical restrictions of Subsection C of 6-10-36 NMSA 1978. The statute text is set out below:

C. The agreement shall contain the terms and conditions that are necessary, in the judgment of the state board of finance, for the proper conduct of the fiscal affairs of the state and the safekeeping of the money of the state.

Subsection A of 6-10-36 NMSA 1978 uses the phrase, “...may designate a bank or savings and loan association doing business in this state and having an unimpaired capital and surplus...” This phrase allows the State Board of Finance to designate as State Fiscal Agent any bank that otherwise has a presence in the State.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Banks, savings and loan associations, and credit unions will have to provide the security required by Section 6-10-16, NMSA 1978 and qualify as a public depository in order to accept public funds for deposit.