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| LFC Requester: | Brendon Gray |
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**AGENCY BILL ANALYSIS
2024 REGULAR SESSION**

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:

Analysis.nmlegis.gov

{Analysis must be uploaded as a PDF}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:

Original **Amendment**
Correction **Substitute**

Date 1.19.2024

Bill No: SB110

Sponsor: Jeff Steinborn
Short Title: PUBLIC BANKING ACT

Agency Name and Code EDD 41900
Number: _____
Person Writing Sam Collins
Phone: 505.690.0394 **Email** sam.collins@edd.nm.gov

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---------------|----------------|---------------------------|---------------|
| FY24 | FY25 | | |
| \$0 | \$56.5 million | Nonrecurring | General Fund |
| | | | |

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Nonrecurring | Fund Affected |
|-------------------|------|------|---------------------------|---------------|
| FY24 | FY25 | FY26 | | |
| \$0 | \$0 | \$0 | | |
| | | | | |

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY24 | FY25 | FY26 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|-------------|---------------|---------------|------------------------------|--------------------------------------|--------------------------|
| Total | \$0 | (\$3 million) | (\$4 million) | | | |

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
SB110 is a duplicate of HB 125.

Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Senate Bill 110 (SB110) proposes the creation of a state-owned bank. The bank is prohibited from making loans to private individuals or private entities. It is intended to make, purchase, guarantee or hold loans and investments to lending agencies and institutions. The proposed legislation details the creation, composition, and terms of an 11-member board. The board is authorized to hire a chief executive officer. It also gives the bank the authority to originate loans and purchase investments.

FISCAL IMPLICATIONS

The proposed legislation requires the state treasurer to deposit \$35 million she “shall not withdraw”. Funds held by the treasurer are intended to fund the operation of government, so this requirement would appear to make this deposit a quasi-appropriation. Additionally, a \$20 million appropriation is required in FY25 and an additional \$1.5 million to be appropriated to the Economic Development Department for establishing and chartering the public bank of New Mexico and developing the bank's lending programs.

SIGNIFICANT ISSUES

Overlap/need

The entity created by SB110 seems redundant. Several federal and state entities/programs offer the proposed products that support lending by local financial institutions. Federal agencies such as the Small Business Administration guarantee, offer support to, and purchase loans from banks, credit unions, community development financial institutions, and other lenders. In September 2022, New Mexico received the first tranche from the American Rescue Plan Act as part of the State Small Business Credit Initiative of an allocation of up to \$75 million to support the credit needs of local small businesses. The Economic Development Department and New Mexico Finance Authority have partnered to deploy these funds.

Several state-funded entities also provide funding to support the credit needs of New Mexico

businesses. These entities include but are not limited to the New Mexico Finance Authority, New Mexico Mortgage Finance Authority, State Investment Council, Small Business Investment Corporation, and Economic Development Department. These entities work collaboratively with banks, credit unions, community development financial institution 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.

The NMFA has received \$50 million in venture capital appropriations to support businesses' funding needs and recently approved investment in a fund that offers innovative products such as cash flow-based payment options.

Risk

Given the substantial amount of existing support, there would be the risk that the public bank would be the "lender of last resort" and provide support to transactions that the other entities including government entities have passed on.

Leverage and contingent exposure

While the initial capitalization/appropriation request earmarks \$20 million for capital plus \$35 million for deposits from the treasurer's operating funds, the State would also be exposed for the full amount of the loans, investments and guarantees issued by the bank. Banks are generally leveraged at a 10 to 1 ration, meaning for each \$1 of capitalization, banks typically make about \$10 in loans and investments. While the initial capitalization/appropriation is \$20 million, the State's exposure would be estimated to be \$200 million or more as the bank grows. This leverage creates additional exposure. It's unclear whether the public bank would be FDIC-insured but regardless, the FDIC protects depositors, not the owners of the bank.

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

The bill proposes that \$1,500,000 is appropriated to the Economic Development Department for the purpose of establishing and chartering the public bank of New Mexico and developing the bank's lending programs. EDD does not establish and charter banks. It also does not develop loan programs.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

None

AMENDMENTS