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FISCAL IMPACT REPORT

ORIGINAL DATE 2/25/19

SPONSOR Rodriguez LAST UPDATED 3/12/19 HB _____

SHORT TITLE Additional Investment Vehicles SB 473/aHSEIC

ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
	Indeterminate but Likely Positive				Recurring	General Fund & Other State Funds
	Indeterminate but Likely Positive				Recurring	Local Governments

Parenthesis () indicate revenue decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

State Treasurer's Office (STO)

New Mexico Attorney General's office (NMAG)

State Investment Council (SIC)

SUMMARY

Synopsis of HSEIC Amendment

The House State Government, Elections & Indian Affairs Committee Amendment strikes some language and replaces it with language making it clear it is the duty of the treasurer to bring to the Board of Finance amendments to the investment policy and receive consent before the amendments take effect. It is also clarified the investment policy must be reviewed at least every two years, but there is no requirement to amend it as part of every review.

Synopsis of Original Bill

Senate Bill 473 allows the State Treasurer and county and municipal treasurers to invest in securities issued by a supranational issuer. It permits the State Treasurer to invest in securities issued by all United States government sponsored enterprises. It also restricts the maturity

timeframe for most investments by county and municipal treasurers, providing maximum maturity dates not to exceed 10 years from the date of purchase in many cases, five years for supranational securities (this is also a limitation for the State Treasurer), and 180 days for commercial paper.

The bill adds definitions for investment policy, supranational issuer, and United States government sponsored enterprises.

There is no effective date of this bill. It is assumed that the effective date is 90 days after this session ends.

FISCAL IMPLICATIONS

The bill does not require treasurers to make specific, additional investments but instead broadens the options available for investment. If the additional investment vehicles are not used, there will be no fiscal impact, but it seems likely the state treasurer and some local government treasurers would make these such investments and likely see higher returns. However, it is important to note that higher returns nearly always carry higher risk.

The State Treasurer's Office (STO) noted that permitting supranational issuers (supras) as viable investments in state portfolios increases the opportunity to diversify credit exposures as well as potentially provide additional yield advantages.

SIGNIFICANT ISSUES

A supranational organization is a multinational organization, and the term typically refers to an organization with two or more national governments as members, such as the European Union and the World Trade Organization. In this bill, it uses the more specific term "supranational issuer" and defines it as formed by two or more central governments and includes the following institutions.

- International Bank for Reconstruction and Development
- International Finance Corporation
- Inter-American Development Bank

STO reported these three institutions are all rated AAA/Aaa by Standard and Poor's and Moody's respectively, the highest credit quality ratings assignable by these institutions. The high credit quality of these issuers is attributable to the United States as the largest single shareholder within each structure.

STO also provided the following information.

As United States government sponsored enterprises, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation have been forced to reduce the sizes of their balance sheets, the supply of short term, high quality notes has decreased. As a result, yields to investors for these issuers have declined, lowering portfolio investment returns. The addition of supras as permissible investments will increase the options available without sacrificing credit quality, while potentially increasing returns.

OTHER SUBSTANTIVE ISSUES

The State Investment Council (SIC) provided the following analysis.

SIC believes the permanent funds under its purview – the Land Grant, Severance Tax, Water Trust and Tobacco Settlement Permanent Funds – would not be impacted by this bill, for the following reasons:

- 1) Under the terms of SB473, the definition of “investment policy” applies only to “this section” meaning 6-10-10, whereas the SIC enabling statute is § 6-8-1 *et seq.*;
- 2) “permanent funds” as used in SB473 presumably refers to those permanent funds within the control of local governments, *see e.g.*, NMSA § 6-6-19, Local government permanent fund;
- 3) Most importantly, NMSA § 6-8-6 divests the treasurer and transfers to the state investment officer all “powers and duties relating to the investment . . . of the permanent fund[s]” This section relieves the treasurer of any power or duty that might otherwise exist to invest the permanent funds (as defined in NMSA § 6-8-1(D) to be the land grant permanent fund, the severance tax fund, the tobacco settlement permanent fund and the water trust fund).

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