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FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/2020
LAST UPDATED 2/10/2020 **HB** _____

SPONSOR Candelaria

SHORT TITLE Expand Allowed County Treasurer Investments **SB** 120/aSCORC

ANALYST Hanika-Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Indeterminate	Indeterminate		Recurring	Various county and municipal funds

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

- New Mexico Municipal League (NMML)
- State Treasurer’s Office (STO)
- Regulation and Licensing Department (RLD)
- Attorney General (NMAG)
- State Investment Council (SIC)

SUMMARY

Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amendment restricts the amount of investment in mutual funds or exchange-traded funds to 20 percent of the investment portfolio.

Synopsis of Original Bill

SB120 amends Section 6-10-10 NMSA 1978 relating to investment of public funds to allow a treasurer of a class A county, or of a municipality with a population of over 65,000 located within a class A county, to invest in certain mutual funds or exchange-traded funds (ETF) and pay reasonable administrative costs and investment fees if approved by their boards of finance.

FISCAL IMPLICATIONS

Currently, counties and municipalities may invest with STO for short-term investments (less than

one year time horizon) and with SIC for longer-term investments and stock market exposure.

SIC reports it oversees \$1.27 billion in investment assets for 22 governmental clients that include schools, cities, counties and state agencies. These clients hire external advisors, or self-direct their own portfolios, using traditional equity and bond investment pools offered by SIC to put together a portfolio that matches their long-term risk and return goals. SIC passes on to clients the pro-rata share of fees charged by its external managers, but does not include administrative overhead.

SIC noted that this “no frills” service is not without its shortcomings. More specifically, there is only monthly liquidity where clients may add or subtract from their investment accounts, and reporting on total investment assets and return metrics is only offered monthly and quarterly. Some clients have at times requested daily trading, more frequent asset reporting or other more flexible options, which SIC further noted that under its current investment structures are not possible.

SIC reports it negotiates its fee-structure at an institutional level and garners discounts associated with multi-hundred million dollar investments (assets under management of \$27B). SIC believes there is a high likelihood that clients outside its pool investment structure will pay a premium in additional fees and expenses for investing with external parties to gain the additional flexibility.

SIGNIFICANT ISSUES

SB120 seeks to provide a more flexible option for long-term investing, reporting and liquidity by expanding the potential asset investment options for certain county and municipal treasurers.

SIC stated there are currently restrictions against counties and municipalities investing in stocks with external entities, although the bill narrows the scope to investing in mutual funds or ETFs that track well-respected traditional market indices used as benchmarks by SIC. This change would shift the fiduciary burden from the state to the respective boards overseeing these investments.

The proposed amendment would allow the various boards of finance to pay reasonable administrative and investment expenses directly from the income or assets of the investments.

PERFORMANCE IMPLICATIONS

On a portfolio-wide basis, SIC’s investment performance for the land grant permanent fund when compared with public funds greater than \$1 billion is above average across most time periods.

NMML reports it supports this legislation.

TECHNICAL ISSUES

The descriptive terms “substantially “and “reasonable” may be open to different interpretations.

ALTERNATIVES

SIC suggests limiting investing to passive strategies (index funds) as a less risky/costly approach.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Class A counties and large municipalities would still be limited to investing with STO and SIC.

AHO/al/sb/rl