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## FISCAL IMPACT REPORT

SPONSOR: Altamirano DATE TYPED: 02/28/01 HB \_\_\_\_\_  
 SHORT TITLE: Permanent Fund Investments SB 232/aSPAC/aSFC  
 ANALYST: Eaton

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
		Positive	Recurring	STPF, LGPF
		Positive	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

State Investment Council (SIC)

### SUMMARY

#### Synopsis of SFC amendment

The SFC amendment removes language that would have precluded SIC investment in some New Mexico bank Certificates of Deposit.

#### Synopsis of SPAC amendment

The SPAC amendment removes the previous requirement that short term (1 year or less) variable rate debt be rated by at least two nationally recognized rating agencies. The amendment now states that one rating agency is sufficient.

#### Synopsis of Bill

This bill would allow the State Investment Council (SIC) to invest funds for any tax-exempt private endowment whose sole beneficiary is a state agency. This bill will also allow the Land Grant Permanent Fund (LGPF) and the Severance Tax Permanent Fund (STPF) to invest in additional asset classes and expand investment in some existing asset classes. Specifically, the changes are listed on the following page.

#### Additional Asset Classes

Corporate bonds rated BB, B or higher (minimum par value of issue \$100 million). Maximum portfolio allocation: 3 percent.

Real Estate. Maximum portfolio allocation: 3 percent.

Short term (1 year or less) variable rate debt rated AA or higher by at least two (one, with SPAC amendment) nationally recognized rating agencies. Maximum portfolio allocation: 100%. NOTE: Unless otherwise specified in statute, debt instruments are not limited as an asset class in proportion to the overall permanent fund portfolios.

Short term (1 year or less) time deposits with U.S. banks, fully guaranteed by the banks and rated A1 or P1 (rating requirement subsequently removed by SFC amendment) by a nationally recognized rating agency.

#### Expanded Investment of Asset Classes

Private equity (national program) increased allowable allocation from 3 percent to 6 percent for the Land Grant Permanent Fund (LGPF) only. This bill also adds the requirement that private equity funds (national program) invested by the LGPF must have a minimum committed capital of \$15 million. This brings the National Program in line with the New Mexico program regarding minimum capital.

In summary, the changes proposed by this bill would allow further diversification and may provide for increased revenue growth for the permanent funds over time. The State Investment Council is proposing these changes.

#### **FISCAL IMPLICATIONS**

The impact of this bill could increase the long run rate of return of the Land Grant Permanent Fund (LGPF) and the Severance Tax Permanent Fund (STPF). These funds distribute revenue to the state general fund based on a market value formula and therefore could increase distributions to the general fund over the long term.

#### **ADMINISTRATIVE IMPLICATIONS**

These changes may result in the SIC hiring additional money managers for some of the new asset classes, resulting in an increase in fees for these services.

#### **TECHNICAL ISSUES**

The bill addresses the clarification and updating of some terms. In all instances where the prudent man rule was previously cited, it substitutes the prudent investor rule, as cited in the Uniform Prudent Investor Act, which has been adopted by New Mexico as the de facto standard.

In the area of private equity, the bill adds a definition of "invested capital", which was previously somewhat ambiguous.