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## FISCAL IMPACT REPORT

SPONSOR Robinson DATE TYPED 03/01/05 HB \_\_\_\_\_

SHORT TITLE State Investments In Film Projects & Funds SB 916

ANALYST Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
Indeterminate	Indeterminate		Recurring	Severance Tax Permanent Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to House Bill 629, House Bill 122, and House Bill 242.

Conflicts with Senate Bill 392 and Senate Bill 60 (see Other Substantive Issues).

### SOURCES OF INFORMATION

LFC Files

Responses Received From  
State Investment Council (SIC)

### SUMMARY

#### Synopsis of Bill

Senate Bill 916 increases the amount that the SIC is allowed to invest in New Mexico film private equity funds or a New Mexico film project from 2.5 percent to 5 percent of the market value of the Severance Tax Permanent Fund (STPF). The bill also modifies that maximum dollar amount that can be invested in any one New Mexico film private equity fund or any one New Mexico film project from \$7.5 million to \$15 million. Current statutes require that the State Investment Officer obtain approval after a review by the Private Equity Investment Advisory Committee and the New Mexico Film Division of the Economic Development Department.

There is no effective date provided for this bill.

#### Significant Issues

As part of the investment program in New Mexico films, the SIC offers a guaranteed, no interest loan to qualifying film projects. In lieu of interest, the SIC negotiates a participation in the pro-

ject's new revenue stream. As a loan investment, the principal amount is guaranteed, unless the borrower defaults, the SIC is only at risk for the forgone interest.

These types of investments are characterized as "differential rate" investments, which are investments authorized by the Legislature with specific statutes to encourage economic development within the state of New Mexico.

## **PERFORMANCE IMPLICATIONS**

The investment performance impact on the STPF of increasing the allocation to these investment programs is unclear. According to recent SIC data, economically targeted investments (which include, but are not limited to, New Mexico film private equity funds and New Mexico film projects) returned 1.9 percent over the past year, while the overall portfolio returned 10.7 percent. While it would be more relevant to look over a longer investment horizon, these investments are fairly new and the data is not available. In general, according to the SIC, returns on private equity investments follow a J-curve, where returns are typically depressed for the first three to five years due to management costs and lack of realized gains. Over the long term, private equity returns are expected to average four to six percent higher than returns on the S&P500 index.

## **FISCAL IMPLICATIONS**

As noted in the performance implications section, the fiscal impact of this bill is indeterminate, as historic data on the rate of return on these investments is not available.

## **ADMINISTRATIVE IMPLICATIONS**

The SIC believes that there could be an impact to staff's responsibilities due to a larger portfolio of film projects to manage and notes that the bill could potentially require additional staff.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Bill 629 would waive investment guidelines for certain film projects when the project takes place in an economically depressed New Mexico County. House Bill 122 would no longer allow the SIC purchase of the tax credits, but instead would allow the SIC to loan up to 80 percent of the expected film production tax credit, up to the maximum permissible under the statute of (\$7.5 million). House Bill 242 makes several changes to the Film Production Tax Credit, including expanding eligibility for the 15 percent film production tax credit and increasing requirements for film production company applicants.

## **OTHER SUBSTANTIVE ISSUES**

The provisions of this bill may conflict with the various bills being proposed related to the Uniform Prudent Investor Act (UPIA). If any of these bills pass, they may negate the provisions of this bill by removing all legal lists of investments in which the SIC can invest.

**OPJ/lg**