F I S C A L I M P A C T R E P O R T

ORIGINAL DATE 2/5/07
SPONSOR Varela **LAST UPDATED** **HB** 532

SHORT TITLE Local Government Public Fund Investments **SB**

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	**FY08**	**FY09**		
	NFI			

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
State Treasurer's Office (STO
Department of Finance and Administration (DFA)
Higher Education Department (HED)
State Investment Council (SIC)

SUMMARY

Synopsis of Bill

House Bill 532 amends Section 6-10-1.1 NMSA 1978 to make several changes to the fund commonly referred to as the local government investment pool (LGIP).

The bill relaxes current restrictions on the type of entities that may participate in the LGIP. Under current law, participation is limited to local governments, school districts, higher education institutions, and a list of several specific governmental entities. This specific list of eligible entities is replaced to allow participation by any local government, tribe located wholly or partially in New Mexico, or other governmental or quasi-governmental body created pursuant to New Mexico statute. Participation would be subject to approval by a participating entity's governing authority. To reflect this broader participation, the bill changes the statutory name of the LGIP from the "short-term investment fund" to the "participating government investment fund."

Participation in the LGIP would also be expanded to allow the state treasurer to invest general fund balances in the LGIP so long as general fund deposits do not exceed 5 percent of LGIP balance. As of December 31, 2006, 5 percent of the LGIP balance was $36.5 million.

The bill would allow the state treasurer to create separate sub funds within the LGIP that may be invested to both short and medium-term maturity. The treasurer would also be authorized to create a sub fund consisting of participating entity bond proceeds. Also related to bond proceeds, the bill would allow the state treasurer to offer services to participating entities related to requirements of federal income tax laws applicable to bond proceed investment including arbitrage rebate calculation services.

The bill would also remove the current restriction that funds may not be deposited in the LGIP for more than 180 consecutive days. This restriction currently results in many participating entities having to remove their funds every 180 days and reinvesting them on the same day.

The bill extends the maximum duration of LGIP assets from 397 days (13 months) to three years.

The bill amends statute regarding fees paid by participating entities to the state treasurer for expenses incurred to administer and invest the LGIP. Under current law, there is no limit to the fees that may be charged to LGIP participants. The bill would require the fees to be approved by the state board of finance.

While these LGIP fees are currently collected by the state treasurer and deposited in the general fund, the bill adds new language so that subject to appropriation by the legislature, these fees would be appropriated to the state treasurer to cover the costs of administrating and managing the LGIP, services provided to participating governments, and other services. Any fees remaining in the treasurer's operating fund at the end of a fiscal year will revert to the general fund.

While current statute requires the LGIP to maintain a rating from a national rating agency of "AA" or higher, the bill would require the short-term portion of the LGIP to maintain a "AA" rating.

Because this bill contains an emergency clause, its provisions will become effective upon signature by the governor.

FISCAL IMPLICATIONS

The bill amends statute so that subject to legislative appropriation, fees collected from LGIP participants will be spent by the state treasurer on costs related to fund administration. These fees, which total about $400 thousand per year, are currently deposited in the general fund. The bill has no fiscal impact, however, because it is assumed that if these fees are appropriated to STO their general fund appropriation will be reduced proportionately.

SIGNIFICANT ISSUES

Currently, statute must be amended each time a new tribal or quasigovernmental entity wishes to participate in the LGIP and the participating entity must enter a joint powers agreement with STO. The bill will allow tribes and quasi-governmental agencies to enjoy automatic eligibility in the LGIP without entering a joint powers agreement. Eliminating the requirement that entities must remove their deposits every 181 days also simplifies participation.

The LGIP provides a secure investment alternative for local governments and tribal entities in New Mexico. The fund is especially beneficial to small entities that may not have the investment expertise necessary to manage funds internally. The fund is required under current law to maintain a AA or higher rating from Standard and Poor's. Currently, the find is rated AAAm, the highest possible rating. Currently, the fee charged by STO for this investment service is 5 basis points, one of the lowest fees charged for this type of service nationally.

SIC reports that it manages funds for 16 agency clients including universities, counties and municipalities. Such clients may choose asset allocations including bonds, large cap stocks, mid cap stocks, and other assets. This bill may cause some of these clients to move their funds from the SIC to the STO.

PERFORMANCE IMPLICATIONS

The proposed changes will have a minimal impact on STO performance.

TECHNICAL ISSUES

The State Board of Finance notes that while Section 6-10-10.1 NMSA 1978 outlines bond rating requirements for short-term investments of the LGIP it does not outline bond rating requirements for medium-term investments. Also, the terms "short-term" and "medium-term" are not defined.

SS/nt