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FISCAL IMPACT REPORT

ORIGINAL DATE 2/02/15
 SPONSOR Rodriguez LAST UPDATED 2/25/15 HB _____
 SHORT TITLE Local Government Investment in Certain CD's SB 175/aSCTC
 ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
	NFI	NFI	NFI	NFI	Recurring	State Treasurer's Investments
	**	**	**	**	Recurring	Local Governments

(Parenthesis () indicate revenue decreases

** Note: this bill provides somewhat more flexibility for local government investments and may have a neutral to positive revenue impact.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance and Administration, Board of Finance (DFA/BoF)
 New Mexico Municipal League

SUMMARY

Synopsis of Amendment

The Senate Corporations and Transportation Committee amendment adds two other federally insured investment instruments to the “brokered certificates of deposit” proposed in the original bill. These two additions are federally insured certificates of deposit account registry services and federally insured cash accounts.

Synopsis of Bill

Senate Bill 175 modifies Section 6-10-10 NMSA 1978 to include brokered certificates of deposit offered on the primary or secondary market among those investments that the state treasurer and county or municipal treasurers could employ for deposit and investment of funds.

FISCAL IMPLICATIONS

Per DFA/BoF, “... having more federally guaranteed investment options available should provide opportunities to increase returns on invested public funds. However, DFA's understanding is that some state and local treasurers may already be investing in brokered CDs.

So, the legislation is not expected to significantly impact treasurers' investment returns going forward.”

There is no effective date for the bill – assume 90 days after adjournment or June 19, 2015.

SIGNIFICANT ISSUES

DFA/BoF provides the following information:

“During recent reviews of local treasury practices it was reportedly discovered that the authority for state, county and municipal treasurers to invest in brokered CDs was unclear. The intent of the bill appears to be to clarify that the practice is allowable.”

“Brokered CDs open up investment choices from a limited number of local banks to a wide universe of banks and potentially more competitive rates than are available locally. They can also enable a large investor to spread a sizeable investment among a number of banks to ensure that the principal and interest on deposit at any one bank never goes above FDIC insurance limits (similar to the certificate of deposit account registry service). Unlike direct issued CDs, there is a small secondary market for brokered CDs. For any of these brokered CD services intermediary brokers charge fees that are normally observed in the interest rate received by the investor. Since brokered CDs may offer an investor better rates than available locally, the interest rate received by the investor could conceivably be higher than the local direct issued CD rate even after accounting for the brokerage fee.”

“As with any type of investment with an established secondary market, the primary advantage to being able to trade brokered CDs in a secondary market would be potentially more liquidity options for unexpected circumstances. Direct issue CD redemption options are quite limited. Investor’s counterparty options for redemption of direct issue CDs are almost exclusively limited to the issuing bank and the bank may not have an early redemption obligation.”

“In the secondary market, prices and yields for brokered CDs fluctuate in an inverse relationship similar to the trading of bonds. Trading brokered CDs in the secondary market could result in an investor selling a CD in the secondary market for either more or less than the maturity value. In the event that interest rate movement has caused the market value of a brokered CD to drop, the liquidation of a brokered CD in the secondary market might occur at a loss. However, it should be noted that direct issue CDs almost always impose a prepayment penalty for early redemption, which may or may not be a comparable cost of liquidation. In the event that interest rate movement has caused the market value of a brokered CD to rise, a brokered CD investor could redeem a CD through a secondary market sale for a gain. This is a potential advantage over direct issue CDs whose redemption value does not rise based on interest rate movement but rather tends to carry a prepayment penalty.”

The New Mexico Municipal League supports this bill with the following statement:

“NMML policy calls for municipalities to be empowered to invest their public funds. It further calls for state statutes that control local investment procedure to provide flexibility to local governments while insuring safety. This legislation will provide local governments with an additional investment vehicle and provide additional flexibility to local governments in determining what instruments to invest in.”

This bill does not create or expand a tax expenditure, so LFC's tax policy principles of adequacy, efficiency, accountability and equity are not invoked.

The effective date of the act is July 1, 2015.

PERFORMANCE and ADMINISTRATIVE IMPLICATIONS

None on the state, minimal on local government treasurers. To the extent that this authorizes current practice, this will resolve audit concerns.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

DFA/BoF notes that, "lack of clarification one way or another regarding the propriety of investing in brokered CDs would result in continuing uncertainty."

NMML notes that, "If this legislation is not enacted, local governments will not be able to invest in brokered certificates of deposit.

AMENDMENTS

In the original bill analysis, DFA/BoF recommended addition certificates of deposit account registry service (CDARS). This recommendation was adopted in the SCTC amendment.

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