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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/5/18

SPONSOR Rodriguez LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Investments In Supranational Institutions SB 253

ANALYST Graeser

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY18	FY19	FY20	FY21	FY22		
	\$100.0	\$100.0	\$100.0	\$100.0	Recurring	General Fund
	\$5.0	\$5.0	\$5.0	\$5.0	Recurring	Severance Tax
	\$30.0	\$30.0	\$30.0	\$30.0	Recurring	Bond Proceed Pools
	Unknown	Unknown	Unknown	Unknown	Recurring	LGIP/Albuquerque/Las Cruces/Rio Rancho/Santa Fe

Parenthesis ( ) indicate revenue decreases

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		\$0.0	\$0.0	\$0.0	Recurring	STO, Counties/Municipalities

Parenthesis ( ) indicate expenditure decreases

### SOURCES OF INFORMATION

LFC Files

Responses Received From  
State Treasurer's Office (STO)

### SUMMARY

#### Synopsis of Bill

Senate Bill 253 permits the five Class-A counties (Bernalillo, Dona Ana, San Juan, Sandoval and Santa Fe), Albuquerque, Las Cruces, Rio Rancho and Santa Fe and the State Treasurer's Office to purchase the obligations of supranational entities operating within the United States.

There is no effective date of this bill. It is assumed that the effective date is 90 days after this session ends – assume May 16, 2018. There will be no impact in FY 18, unless the affected entities were already intending to invest in these permitted supranational institutions under the theory espoused below. Investment returns, in any event, would accrue only one month within FY 18.

## **FISCAL IMPLICATIONS**

The State Treasurer’s Office does not anticipate that any additional costs will be incurred as a result of SB253 and therefore no additional appropriation is required. STO anticipates that SB253 will have a marginal positive impact on revenues as the newly authorized securities would add incremental revenue. Our revenue estimates assume that the securities will garner an additional five basis points, which is five one-hundredths of a percent, and that the securities will make up approximately 7 percent of STO’s managed funds.

## **SIGNIFICANT ISSUES**

U.S. based supranational entities are widely regarded by market participants as instrumentalities of the U.S. Government. Given, that existing New Mexico State statute permits Class-A counties, municipalities and the State Treasurer to invest within instrumentalities of the US government, these obligations are technically already permitted within statute. That said, the bill follows the example of many other states, most notably California, by explicitly adding language authorizing investment within US based supranationals and removing the need to rely on the somewhat vague “instrumentality” wording.

Given the high credit ratings of the US based supranationals, SB253 would provide STO and the four listed municipalities with an additional high quality diversification option.

## **TECHNICAL ISSUES**

STO recommend modifying line 25 on page 5 and line 12 on page 11 to read as “institution that is headquartered in the United States” as opposed to “institution that operates in the United States”. It believes that “headquartered” more effectively ensures that only obligations of US based supranational are purchased.

## **OTHER SUBSTANTIVE ISSUES**

Supranational Bonds - Supranational debt refers to bonds issued by international organizations, often multinational or quasi-government organizations, with a purpose of promoting economic development. Examples include World Bank and Asian Development Bank, and debt issued by these entities into the Australian market is often referred to as Kangaroo bonds. Similar to semi-government bonds, these often have a higher yield than government bonds.

<http://www.schroders.com/en/archive/legacy/au2/investor/resources/education/fixed-income-and-bonds/types-of-bonds/>