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FISCAL IMPACT REPORT

SPONSOR Salazar DATE TYPED 02/16/05 HB 466

SHORT TITLE Small Business Investment Corporation Funds SB _____

ANALYST Padilla-Jackson

REVENUE

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

(Parenthesis () Indicate Revenue Decreases)

This bill could potentially conflict with HB389, SB60, and SB392

SOURCES OF INFORMATION

LFC Files

Responses Received From
State Investment Council (SIC)

SUMMARY

Synopsis of Bill

House Bill 466 would increase the investment commitment of the Severance Tax Permanent Fund to the Small Business Investment Corporation (SBIC) from 0.5 percent to 0.75 percent of the fund's market value. Pursuant to the Small Business Investment Act, the purpose of these investments is to create new job opportunities by providing capital for land, buildings, or infrastructure for facilities to support new or expanding businesses and to otherwise make investments to create new job opportunities to support new or expanding businesses.

There is no effective date provided.

Significant Issues

- According to the SIC, an increase in funding to the SBIC would allow the SBIC to continue its efforts to fulfill its statutory duty for economic development in the state.

- It is unclear that the provisions of this bill would still be applicable if other legislation being introduced regarding the Uniform Prudent Investor Act (UPIA) is passed. This proposed legislation would remove the legal list of investments for the Permanent Funds and allow the SIC to invest in various assets under the guidance of UPIA standards.

PERFORMANCE IMPLICATIONS

The rate of return on economically targeted investments, such as those in SBIC, is typically lower than non-economically targeted investments. As such, an increase in these investments could marginally lower the overall rate of return on investments for the Severance Tax Permanent Fund. Alternatively, an increase in these investments could further the economic development goals of the state.

FISCAL IMPLICATIONS

The fiscal impact of increasing the investment commitment to SBIC investments is unclear due to the uncertainty over the future rate of return of these investments. That said, over the past five years, economically targeted investments (ETIs), which include investments in SBICs, have earned approximately 5.9 percent. This compares with the overall STPF return over the same period of 2.8 percent. Over the past ten years, however, ETIs have returned 7.7 percent, lagging the overall STPF return of 8.8 percent. The SIC notes that the 0.25 percent increase (0.5 percent to 0.75 percent) translates to approximately \$9 million in additional investments.

ADMINISTRATIVE IMPLICATIONS

The SIC anticipates that implementing the bill's provisions would have a negligible administrative impact. The bill does not require any additional reporting above what is already required. Currently, the SIC is required by statute to report semiannually on the New Mexico private equity investments to various legislative committees.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

As noted above, proposed legislation (HB389, SB60, and SB392), related to investment guidelines for the SIC, could potentially conflict with the provisions of House Bill 466, allowing the SIC more leeway to invest in various assets, under standards set by the UPIA and nullifying the list of legal investments currently in statute.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

According to the SIC, not increasing the investment contribution to the SBIC would likely cause the SBIC to have to cease investments in the near future.

OPJ/lg