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FISCAL IMPACT REPORT

ORIGINAL DATE 2/3/06
 LAST UPDATED 2/9/06 HB 542/aHAFC

SPONSOR Martinez

SHORT TITLE State Treasurer In-House Financial Advisor SB _____

ANALYST Schardin

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	FY07		
	NFI		

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 2, HB326 and SB722.

SOURCES OF INFORMATION

LFC Files

Responses Received From

State Treasurer's Office (STO)

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriation and Finance Committee Amendment strikes the \$250,000 appropriation.

Synopsis of Original Bill

House Bill 542 would allow the state treasurer to appoint a financial advisor to manage and oversee STO investments, and to formulate and recommend investment rules pertaining to the nature of STO investments. The bill would also allow this financial advisor to hire an investment management firm to advise the STO on an overall investment plan. The financial advisor will provide the legislative finance committee with quarterly performance reports and annual reports of written investment rules approved by the state treasurer. This financial advisor shall have at least five years of experience as a financial advisor to persons other than families or individuals.

The bill also appropriates \$250 thousand from the general fund to the STO for expenditure in

FY07 for the costs associated with this investment advisor. Any unexpended balance at the end of FY07 will revert to the general fund.

FISCAL IMPLICATIONS

The House Appropriations and Finance Committee amendment to House Bill 542 removed a \$250 thousand general fund appropriation to pay for the state treasurer's in-house financial advisor.

SIGNIFICANT ISSUES

This bill was part of the recommendations that came from the impeachment subcommittee appointed to review allegations against former Treasurers Vigil and Montoya.

The House Appropriations and Finance Committee's budget recommendation includes \$44.4 thousand to convert a 0.5 FTE investment advisor position into a 1.0 FTE position, as well as a \$375.2 thousand supplemental appropriation for use in FY06 for the STO to convert from its archaic TRACS system to the statewide SHARE project, and to hire an investment consultant.

PERFORMANCE IMPLICATIONS

According to the STO, numerous reviews and audits have recommended that the STO have a regular independent review of investment activities. Independence is best assured through contracting these services out and having the contractor report directly to the State Board of Finance and/or the Legislative Finance Committee.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 542 relates to House Bill 326 and Senate Bill 722. These bills amend the powers and duties of the State Board of Finance regarding the STO and provide campaign contribution rules for the STO.

TECHNICAL ISSUES

The bill provides that the advisor will report regularly to the LFC. It may be beneficial to have the advisor report to both the LFC and the Board of Finance.

SS/mt:nt