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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/10/07  
 LAST UPDATED 2/22/07      HB 1031

SPONSOR Ezzell

SHORT TITLE Local Government Permanent Fund Investments      SB \_\_\_\_\_

ANALYST Propst

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates SB 511

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

State Investment Council (SIC)  
 Department of Finance and Administration (DFA)  
 State Treasurer

### SUMMARY

#### Synopsis of Bill

House Bill 1031 gives local governments with their own permanent funds of greater than \$10,000.0 additional abilities to invest these monies in a diversified portfolio of public equities, mutual funds and bonds, as long as managed by advisors/investment professionals of sufficient credentials currently managing \$500 million+ of investments.

### SIGNIFICANT ISSUES

The SIC reports that this legislation does not relate to the Permanent Funds managed by the State Investment Council, but could apply to some NM clients who use the SIC to manage their local permanent funds.

The SIC currently manages, in addition to the State Permanent Funds, funds for 16 state agency clients, including universities, cities, counties, municipalities, and NM political subdivisions.

Currently nine (9) of these clients have assets greater than \$10,000.0 and would qualify under this proposed legislation to place these assets with an outside manager, if they choose to do so.

The SIC allows clients to invest their funds among eight diversified pools of asset classes, including large cap and mid cap domestic equities, international equities, core and high-yield bonds. Current SIC costs to manage these funds for state clients are 17 basis points, or conservatively, one-half to one-third the average industry standard price for managing a diversified portfolio of institutional assets, even in amounts greater than \$10,000.0.

DFA notes that the investment instruments seem reasonable due to the long term preservation requirements of the permanent fund. Additionally, the opportunity of investment diversification could provide additional interest income to the municipalities and counties.

However, counties and municipalities should develop policies and procedures that dictate the type and acceptable investment risks they are willing to place in their respective portfolios because certain allowable investment instruments such as collateralized mortgage obligation residuals carry high investment risk elements, particularly principal-only and interest-only strips. The policy should also require an internal monthly portfolio valuation review and made part of all monthly reports to the governing body.

The State Treasurer, however, reported that the types of investments permitted by this legislation may not be appropriate for public fund investing at a local government level. Investment of public funds should incorporate safety, liquidity and return, in that order. The investments permitted in this bill are prone to net asset value fluctuations and the potential loss of principal. Safety of public funds is a fiduciary responsibility and should mandate investment in the highest quality securities such as those currently allowed by 6-10-10 and 6-10-01.1 (the State Treasurer's Local Government Investment Pool). Additionally the Treasurer notes that inexperienced local government finance officers may not understand the complexities and risk inherent in investing, especially in the security types permitted by this legislation and potentially recommended by the investment advisors.

## **ADMINISTRATIVE IMPLICATIONS**

This legislation does not relate to, and would have little if any impact on the SIC or the State's Permanent Funds.

## **DUPLICATES**

SB 511

WEP/mt:nt