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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/23/11

SPONSOR     SRC     LAST UPDATED                      HB                     

SHORT TITLE     Private Equity Investment Committee Duties     SB     25/SRCS    

ANALYST     Hoffmann    

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY11	FY12		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	NFI	NFI		

(Parenthesis ( ) Indicate Revenue Decreases)

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

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>	0	0	0			

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

Responses Received From  
State Investment Office (SIO)

### SUMMARY

#### Synopsis of Senate Rules Committee Substitute Bill

The Senate Rules Committee substitute for Senate Bill 25 would direct the State Investment Council to establish a subcommittee of its members to evaluate economically targeted investments (ETIs) by the council.

The subcommittee would be required to be responsible for the following.

Establishment of a disclosure and transparency policy for economically targeted investments. The standards would have to meet or exceed industry and institutional investment reporting standards, but not jeopardize investments or create and increased risk of legal liability to the subcommittee or the council due to disclosure provisions in preexisting contracts or investment agreements.

Identification of performance measures for each Economically Targeted Investment (ETI) made by the council, and to track the following:

- Impact of the investment on the economy
- Return on investment
- Number of jobs created as a result of the investment
- Other economic impacts of the investment

The bill would add a definition of an ETI as “an investment made with the collateral intent to assist in the improvement of the economic well-being of New Mexico, its localities and residents and selected for its economic benefit apart from its investment return.”

The bill would also repeal Section 6-8-20 NMSA 1978 which creates the current Private Equity Advisory Committee.

## **FISCAL IMPLICATIONS**

Senate Bill 25 does not make an appropriation.

## **TECHNICAL ISSUES**

A prior analysis by the State Investment Office suggested the bill should also have similar tracking and review requirements for ETIs invested under the objectives of the New Mexico Small Business Investment Corporation’s statutes.

## **OTHER SUBSTANTIVE ISSUES**

The SIC states that many ETIs, both in film and NM private equity, have very long-term investment horizons. Films may take 7 to 8 years for the bulk of revenues to enter the profit waterfall, while private equity – specifically venture capital investments which are the primary type of NM private equity – often take 5 to 8 years for companies to find an exit. Given the recent economic upheaval of 2008/2009, the road to liquidity events has gotten even longer. Assessing valuation prior to exit with long term investments of this nature are more akin to art than science, as often major expenditures come early and profits/exit not until years later. Bottom line, it is difficult to avoid producing confusing or easily misperceived short-term investment return data on long-term investments which may or may not be profitable for years to come.

JCH/bym