FISCAL IMPACT REPORT

SPONSOR Jennings **ORIGINAL DATE** 02/12/11 **LAST UPDATED** **HB**

SHORT TITLE Local Govt. Perm. Fund, Additional Investment **SB** 367

ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	Indeterminate	Indeterminate	Recurring	Local Government Permanent Funds

(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
Total		*	*	*	Recurring	Local Government Treasurer's Offices

(Parenthesis ( ) Indicate Expenditure Decreases)

*See Fiscal Implications

Duplicates HB 280

SOURCES OF INFORMATION
LFC Files

Responses Received From
NM Association of Counties
State Treasurer's Office (STO)
NM Municipal League

SUMMARY

Synopsis of Bill

Senate Bill 367 would allow for greater investment diversification of local governments' permanent funds that exceed $40 million in value, when they are managed by an investment advisor registered with the Securities and Exchange Commission with at least $500 million assets under management. The types of investments would be expanded to include corporate debt securities, commercial paper, and asset-backed securities, provided that some requirements on the assets' characteristics are met.

FISCAL IMPLICATIONS

With the expansion of the types of assets that are allowed as investment vehicles, higher rates of return can be achieved. Some of these assets, specifically corporate bonds, provide higher returns, but carry more risk than their low-risk alternatives, such as Treasury notes. Depending on the liquidity needs and risk aversion of those entrusted to invest the local government funds, counties and municipalities may choose to invest more heavily in the higher yielding, longer-term assets, within the parameters specified in the bill. This would result in "revenue gains" to the local government permanent funds (or conversely, "revenue losses" in the event of a market downturn or poor investment management).

STO:

> There may be an impact on the state's Local Government Investment Pool (LGIP) due to the withdrawal of funds by the municipalities and counties that currently have balances in the LGIP.

The STO charges participants in the LGIP 5 basis points to participate in the pool. This rate is substantially lower than a standard fee from a top-rated investment manager, which could range from 25-100 basis points. However, the returns achieved could justify this increase in management fees. The State Investment Council also offers investment management services to local governments for a fee.

SIGNIFICANT ISSUES

Senate Bill 367 authorizes the investment of local government permanent funds through investment managers with no specified oversight, which could result in inappropriate use and investment of funds. When providing government officials authority to invest public funds, it is generally considered good practice to assign a designee to oversee that the money is invested prudently and to ensure that the investment managers are meeting certain pre-specified standards of performance. The designee would also monitor payment for third-party marketers, for instance.

ADMINISTRATIVE ISSUES

The local governments may need to hire financial analysts who are more familiar with the types of assets that are approved as investment instruments under SB 367 to ensure that the investment managers are maximizing investment returns, subject to the risk and liquidity constraints of the county or municipality.

TECHNICAL ISSUES

STO:

Section 1.D(2)(a) allows for the investment in corporate debt securities up to 30% of the value in the fund. Section 1.D.(2)(b) allows for the investment in commercial paper up to 30% of the fund. Section M of the state statute governing investment by municipal entities (Statutes 6-10-10 and 6-10-24.1 NMSA 1978) limits an entity from investing more than 40% in corporate entities. This proposed legislation allows for up to 60% of an entity's assets to be invested in corporate debt.

JAG/mew