F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	1/22/16		
SPONSOR	Rodriguez	**LAST UPDATED**		**HB**	
SHORT TITLE	Local Government Treasurer Investments			**SB**	56
				ANALYST	Malone

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	NFI	NFI			

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
State Treasurer's Office (STO)
New Mexico Municipal League (NMML)

SUMMARY

Synopsis of Bill

Senate Bill 56 amends Section 6-10-10 NMSA 1978 to allow local governments to purchase federally insured obligations, included brokered certificates of deposit, certificate of deposit account registry service, and federally insured cash accounts.

FISCAL IMPLICATIONS

This bill does not pose any fiscal implications for the state budget. NMML notes that the bill will expand the types of instruments that local governments may invest funds in and may allow for better returns on invested assets.

SIGNIFICANT ISSUES

STO offered the following comments on the bill:

The incorporation of this change would open up the investment alternatives for local governments that invest in CDs. They would no longer be limited to a few options but would be able to invest in CDs throughout the US that maintain FDIC insurance. If purchased with FDIC insurance there should be no risk as far as credit is concerned. The buyer should be aware however, that any purchases made in brokered CDs that are above a price of par, $100, could potentially have the premium, amount paid above par, at risk if the total principal amount paid is over $250,000.

Purchasing CDs from a broker vs. making deposits directly with the banking institution should not pose any risks to the investor. Direct deposits with banks usually carry a prepayment penalty if the cash invested needs to be obtained prior to the maturity date, and there is no secondary outlet for the sale of these commitments.

For brokered CDs, there is potentially a secondary market that would facilitate the sale of these instruments if in fact cash is needed prior to maturity. There may be limited interest in secondary market buy-back of these CDs but it is a viable liquidity source. And if interest rates actually go down, they may potentially be sold at a gain.

As far as broker fees, they usually do not show up in the price of the security. The CDs would generally be offered at par and the “fee” would be incorporated into the interest rate paid to the investor, in most cases. So instead of getting 0.25% interest rate on the CD it would be 0.24%, as an example, so not discernible. Where you make a case for this “fee” is that as you open up the marketplace to a much wider choice of issuers across a much more diverse geographic space, the rates that an investor can obtain will most likely be higher than can be obtained locally with no “fee”.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

STO notes a potential conflict with current agency activities. The office observes that local governments who have the option of investing in the Local Government Investment Pool (LGIP) would now have the additional investment options at their disposal. This could potentially be detrimental to the level of assets in the LGIP currently or curtail investments in the future. The difference of course being that the LGIP offers daily liquidity versus CDs that are usually best held to maturity.

OTHER SUBSTANTIVE ISSUES

NMML supports this legislation.

CM/jle