

<b>LFC Requester:</b>	<b>Gray</b>
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**AGENCY BILL ANALYSIS  
2024 REGULAR SESSION**

**WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:**

**Analysis.nmlegis.gov**

*{Analysis must be uploaded as a PDF}*

**SECTION I: GENERAL INFORMATION**

*{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}*

*Check all that apply:*

**Original**        **Amendment**      
**Correction**        **Substitute**   

**Date** 1.23.24

**Bill No:** SB116

**Sponsor:** Sen. Hickey  
**Short Title:** Tobacco Fund is not a Reserve Fund

**Agency Name and Code**    SIC 337  
**Number:** \_\_\_\_\_  
**Person Writing**    Wollmann  
**Phone:** 5052313334    **Email** \_\_\_\_\_

**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		

(Parenthesis ( ) Indicate Expenditure Decreases)

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		

(Parenthesis ( ) Indicate Expenditure Decreases)

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

	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>3 Year Total Cost</b>	<b>Recurring or Nonrecurring</b>	<b>Fund Affected</b>
<b>Total</b>	NFI	NFI	NFI	N/A		General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:  
Duplicates/Relates to Appropriation in the General Appropriation Act

**SECTION III: NARRATIVE**

**BILL SUMMARY**

Synopsis: SB116 seeks to remove the Tobacco Settlement Permanent Fund (TSPF) from its status as a reserve fund for the state. This action would allow the State Investment Council to diversify the strategic asset allocation for the TSPF, resulting in a more optimized risk/return profile which should improve the fund’s ability to consistently grow, which will eventually result in greater revenue generation and ultimately higher distributions to tobacco cessation programs in the state.

The effective date of the bill is July 1, 2024.

**FISCAL IMPLICATIONS**

Unlike the Land Grant and Severance Tax Permanent Funds, the TSPF was not created with constitutional protections from legislative appropriation, and as a result, large amounts have been drawn down in some past years to satisfy budgetary shortfalls – including \$146 million withdrawal in FY2017. Given the uncertainty of the potential need for these assets, the fund has been managed historically by SIC with higher liquidity requirements and a conservative “lean” to the portfolio’s strategy for capital preservation. Removing the fund from reserves will allow the Council greater investment flexibility which will result in risk/return optimization and greater returns in the long-term, which will lead to more funding distributions for health-related programs which should also save the state and New Mexicans costs associated with a healthier population.

**SIGNIFICANT ISSUES**

Should the TSPF – valued at \$341 million as of 12/31/23 - be removed from the state’s official reserves and not be replaced, there is a possibility it may have negative impact on the state’s budgetary reserves, which can result in negative implications drawn by the bond-rating agencies and affect the state’s ability to borrow capital inexpensively. To what degree that may occur is unclear however and would be largely determined by the overall reserve percentage at the time, rather than the specific funds/components that comprise the total budget reserves. Current budgetary reserves have outpaced historic levels by a considerable degree.

**PERFORMANCE IMPLICATIONS**

The SIC’s current asset allocation for the TSPF, which was renewed last April, is expected to

produce returns of 6.9% across a full-market cycle. That estimate can change drastically, especially in the short term, depending on market conditions.

For the latest available investment period (November 2023), the TSPF earned 5.1% calendar year to date. For the most recent quarter, the TSPF annualized returns were as follows:

As of 9/30/23:

Tobacco Settlement PF	1 year	3 years	5 years	7 years	10 years
Net returns, annualized	6.67%	8.24%	5.73%	7.02%	7.07%

While the Land Grant Permanent Fund has outperformed the Tobacco fund's returns for a majority of time periods, that TSPF relative underperformance is not uniform, and the TSPF has not lagged significantly in its results due to its investment allocation.

**ADMINISTRATIVE IMPLICATIONS**

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

**TECHNICAL ISSUES**

**OTHER SUBSTANTIVE ISSUES**

**ALTERNATIVES**

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

**AMENDMENTS**