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

SPONSOR: SFC DATE TYPED: 2/24/03 HB

SHORT TITLE: Small Business Investment Corporation SB 10/SFCS

ANALYST: Collard

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	**FY04**	**FY03**	**FY04**		
		See Narrative			

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to House Bill 80

SOURCES OF INFORMATION
Senate Bill 10/SFCS

Responses Received From

THIS FISCAL IMPACT REPORT DOES NOT CONTAIN INFORMATION FROM THE STATE INVESTMENT COUNCIL. THE FISCAL IMPACT REPORT WILL BE REVISED UPON RECEIPT OF THEIR RESPONSE.

SUMMARY

Synopsis of Bill

SB10\SFCS specifies the State Investment Council make a commitment to SBIC to create new job opportunities by making equity investments in New Mexico as defined by the United States Small Business Administration. The bill contains an emergency clause.

The bill also adds members of the board of directors of SBIC to the "public employee" definition and defines "New Mexico small business" to mean, in the case of a corporation or limited liability company, a business with a principal office and a majority of its full-time employees located in New Mexico, or, in the case of a limited partnership, a business with a principal place of business and 80 percent of its assets located in New Mexico and that, in each case, satisfies the size eligibility requirements for financial assistance.

The bill adds that SBIC shall make equity investments in New Mexico small businesses that have either a loan guaranteed by the department of agriculture or by the farm service agency, a loan guaranteed by the United States small business administration, or by the small business administration under its development company loan program. The bill also ensures these equity investments be in the preferred form redeemable within periods determined by SBIC and the investments to not exceed more than 10 percent of the SBIC fund in any one business.

The bill deletes the president of the New Mexico bankers association and the president of the New Mexico independent community bankers association from the board of directors, and adds the state small business development center director to the board of directors. Additionally, the bill adds the state executive director of the United States department of agriculture farm service agency to the board as a non-voting member, and increases the members appointed to the board from four members to six members. The bill states the board shall serve at the pleasure of the governor rather than being appointed for terms.

Finally, the bill enacts a new Section of the Small Business Investment Act to instruct SBIC to return an amount equal to the net excess, as defined in Section 7, of fund held by SBIC to the severance tax permanent fund no later than 30 days after the annual report has been given to the governor and the legislative finance committee.

<u>Significant Issues</u>

The FY02 returns for the Severance Tax Permanent Fund (STPF) were –7.9 percent and –8.7 percent, respectively. The STPF under performed its policy target by 60 basis points. United States equities missed the policy target by 50 basis points due in part to the internally managed large capitalization active portfolio. Private equity for the STPF returned –24.3 percent versus a policy target of –33.3 percent.

FISCAL IMPACT

It should be noted that the private equity asset class of the STPF has the lowest returns in the STPF's portfolio.

OTHER SUBSTANTIVE ISSUES

A portion of STPF is allocated to economically targeted investments. For example, STPF may purchase certificates of deposit in New Mexico financial institutions and may purchase participations of up to 80 percent of real-estate-related bank loans. Legislation enacted in 2000 authorized State Investment Council to invest in film ventures; currently, one movie is in production. Furthermore, pursuant to the statutes creating the New Mexico venture capital program, the state investment officer and the council are required to give consideration to investments in venture capital funds whose investments enhance the economic development objectives of the state, provided such investments offer a rate of return and safety comparable to other venture capital investments currently available. As of June 2002, STPF held $73 million, or roughly 2.1 percent of the fund, in these non-market rate investments.

Implicit in these statutes is the notion of some sort of subsidy; without legislative imperatives, investments would be made in some other (presumably more profitable) asset class. At this point, the opportunity cost of these investments is unknown. In addition, the benefits that these subsidies generate from increased economic activity is also unmeasured.

KBC/njw