NOTE: As provided in LFC policy, this report is intended only for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used for other purposes.

The most recent FIR version (in HTML & Adobe PDF formats) is available on the Legislative Website. The Adobe PDF version includes all attachments, whereas the HTML version does not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

### FISCAL IMPACT REPORT

SPONSOR:	Ro	binson	DATE TYPED:	2/19/03	НВ	
SHORT TITL	E:	Investment of Severa	ance Tax Permanen	t Fund	SB	661
ANALYST:				YST:	Neel	

#### REVENUE

Estimate	d Revenue	Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
		See Narrative		

(Parenthesis ( ) Indicate Revenue Decreases)

#### SOURCES OF INFORMATION

LFC files

Responses Received From

State Investment Council (SIC)

## **SUMMARY**

# Synopsis of Bill

Senate Bill 661 adds a new section of statute to those governing available investment vehicles for the Severance Tax Permanent Fund to allow direct investment in New Mexico owned and operated fine art and fine music private equity fund. SB 661 places a three percent ceiling on the proposed fine arts and music investments with no single investment exceeding \$50.0 million. The bill provides criteria that the SIC must follow in determining funding selections and reporting requirements.

SB 661 defines the "New Mexico Fine Art Private Equity Fund" and the "New Mexico Fine Musical Instrument Fund" as a limited liability company, limited partnership or corporation that acquire fine art or musical instruments that have a value of between \$150.0 and \$8,000.0. Further requirements are made as the origin of the musical instruments.

The bill contains and emergency clause.

#### Senate Bill 661 -- Page 2

# Significant Issues

The FY02 returns for the Land Grant Permanent Fund (LGPF) and Severance Tax Fund (STPF) were –7.9 percent and –8.7 percent, respectively. The LGPF outpaced its policy target by 20 basis points while the STPF under performed its policy target by 60 basis points. US equities missed the policy target by 50 basis points due in part to the internally managed large capitalization active portfolio. Private equity for the LGPF and STPF returned –21.3 percent and –24.3 percent respectively versus a policy target of –33.3 percent.

### **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 SIC 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.

SS/sb/njw