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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/26/15

SPONSOR Candelaria LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Invest Public Money in Local Banks, CA SJR 16

ANALYST van Moorsel

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
\$0.0	\$0.0	Indeterminate, Potentially Negative – See “Fiscal Implications”			Recurring	SIC Investment Earnings

(Parenthesis ( ) indicate revenue decreases)

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

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>			\$15.2	\$15.2	Nonrecurring	General Fund

(Parenthesis ( ) indicate expenditure decreases)

Relates to SB533 – Severance Tax Fund in NM Credit Unions

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public Regulation Commission (PRC)

State Investment Council (SIC) – Analysis of related bill SB 533

### SUMMARY

#### Synopsis of Bill

Senate Joint Resolution 16 proposes an amendment to Article, XIII, Section 4 of the Constitution of New Mexico. If approved by voters, the amendment to the constitution would require at least 5 percent of the cash holdings of the funds the state investment officer is required to invest be deposited in banks, savings and loan associations, and credit unions that are chartered in New Mexico only and are qualified as insured public depositories.

The amendment proposed by this resolution shall be submitted to the people for their approval or

rejection at the next general election or at any special election prior to that date that may be called for that purpose.

## **FISCAL IMPLICATIONS**

SIC's analysis of SB 533, a similar bill requiring 5 percent of the value of cash holdings of the Severance Tax Permanent Fund (STPF) be invested in New Mexico financial institutions and credit unions, provides some insight into the fiscal impact of this constitutional amendment. In this analysis, SIC reports the bill could have a negative impact on the investment returns if the council were to pursue these types of investments. The council states the magnitude of the impact is indeterminate. The SIC has a long-term cash target of 0 percent or as close to that position as it can achieve. SIC states it currently holds all cash in a US Treasuries-only cash management account at Custodian Bank JPMorgan, with conservative duration guidelines. SIC adds the council made the strategic decision that cash reserves are not assets with which to take risk for return. SIC explains it is only interested in the liquidity aspects of this allocation and is not seeking significant returns regarding these assets, citing previous negative experience in securities lending and corporate credit risk taking in cash management accounts.

The SIC also cautions that CD investments in New Mexico banks could hamper the council's ability to properly administer other investments of the funds it invests by tying up the cash holdings and limiting liquidity.

To the extent that the potentially negative effects on overall investment returns would reduce the corpus of the fund, the bill could have a negative impact on annual distributions from the funds it invests to the general fund.

## **SIGNIFICANT ISSUES**

SIC's analysis of SB 355 notes, based on the council's current view on investments of this nature with New Mexico banks (none have been made since 2006), and the longer-term track record surrounding previous investments of that kind during the 1990s, it is highly questionable whether the council would be inclined to pursue such investments at this time.

The Public Regulation Commission (PRC) notes the amount of chartered banks in New Mexico may be limited and the total amount that can be held under FDIC rules of \$250,000 could create problems in ensuring that 5 percent could be deposited in state chartered banks.

## **PERFORMANCE IMPLICATIONS**

SIC highlights the inability of the severance tax permanent fund (STPF) to grow due to limited in-flows, adding the council is seeking statutory changes to restore a consistent revenue source to the fund. SIC is concerned that requiring the council to act as economic developers could adversely affect the long-term health of the STPF.

The analysis adds that the potentially low returns would further strain the council's ability to achieve its long-term portfolio-wide return target of 7.5 percent, perhaps pressuring the council to take on more risk to offset lower expected returns from investments in New Mexico banks.

## ADMINISTRATIVE IMPLICATIONS

The SIC states there is a significant administrative burden in managing investments such as those required in SJR 16 with many types of qualifications, assessments of new loans, levels of required banking assets, and monitoring duties which would need to be continuously satisfied to properly and efficiently run such an allocation. The joint resolution would require the council to hire additional staff to manage such a program.

Under Section 1-16-13 NMSA 1978 and the NM constitution, the Secretary of State is required to print samples of the text of each constitutional amendment, in both Spanish and English, in an amount equal to ten percent of the registered voters in the state. The SOS is also required to publish them once a week for four weeks preceding the election in newspapers in every county in the state. In 2014, the SOS estimated the cost per constitutional amendment to be \$15,217. However, if the ballot size is greater than one page, front and back, it would increase the cost of conducting the general election. In addition to the cost of the ballot, there will be added time for processing voters to vote and would mean additional ballot printing systems would be required to avoid having lines at voting convenience centers.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate

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