FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Thornton	**ORIGINAL DATE**	2/14/2025
SHORT TITLE	Strategic Bitcoin Reserve	**BILL NUMBER**	Senate Bill 275
		ANALYST	Gray

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Interest	**See fiscal implications**	**See fiscal implications**	**See fiscal implications**	**See fiscal implications**	**See fiscal implications**	Recurring	**General Fund**

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Investment Agencies	**See fiscal implications**	**See fiscal implications**	**See fiscal implications**	**See fiscal implications**	Recurring	**General Fund**

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From
State Investment Council (SIC)
Educational Retirement Board (ERB)
State Treasurer's Office (STO)
Public Employee's Retirement Association (PERA)

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Senate Bill 275

Senate Bill 275 (SB275) would create the Strategic Bitcoin Reserve Act, establishing definitions, mechanisms of acquiring digital assets, and permitting state investment agencies to invest in bitcoin. The bill caps bitcoin investments at five percent of overall assets.

The bill also allows digital assets to be loaned if it can be done for profit "without increasing the financial risk of the state," pursuant to rules promulgated by the state treasurer. The bill provides that taxes or fees paid to the state in digital assets are transferred to the general fund and that the general fund shall reimburse those funds with United States currency.

Lastly, the bill allows the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB) to invest in bitcoin, as long as those investments have been registered with the U.S. Commodity Futures Trading Commission or the Securities Division of the Regulation and Licensing Department (RLD).

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

As contemplated, SB275 could have fiscal implications for state general fund revenues. The bill provides that "all taxes or fees paid to the state" in bitcoin or other digital assets "shall be transferred to the general fund" within 60 days and that the general fund "shall reimburse with United States currency whatever fund from which the qualifying digital asset was transferred."

This may imply that an individual or business may elect to pay tax liability or pay a fee using bitcoin or other digital assets. It is unclear how this would be operable. An individual could feasibly provide "payment" of a liability at one point of asset valuation, after which the value of the asset could change. This could satisfy the individual's liability but leave the state with less than the value of that liability. Assuming strategic decision making and profit maximization of individuals and businesses, this would likely represent a loss to the general fund. This assumption could be updated upon analysis from the Taxation and Revenue Department (TRD).

As analysis from the State Treasurer's Office notes, if the general fund received bitcoin it would need to be sold in exchange for U.S. currency, "potentially losing value in the process," because during the 60-day period between receipt and sale the value of the digital asset could fluctuate dramatically. This would represent a loss to the state general fund. The asset could also gain in value over that period, representing a gain to the state general fund. The fiscal implications are not able to be estimated but could introduce significant volatility into the general fund, depending on how the agency promulgates rules.

Already, interest earnings that accrue to the general fund from the state general fund investment pool (SGFIP) have become a major source of volatility. Over the last two five-year periods, earnings on general fund balances managed by the State Treasurer's Office (STO) have become the most volatile source of revenue in the general fund. As balances in that pool have risen to exceed $10 billion, interest rates have fluctuated dramatically, and investor expectations for interest rates have been more volatile, the market-valued holdings in the SGFIP have varied wildly. The value of the SGFIP holdings has grown or shrunk by over 1,000 percent on average, year-over-year, in the last five years. This has led to inaccurate forecasts of this revenue and introduced extreme volatility to budget development. While the impacts of SB275 cannot be estimated, it would introduce additional volatility that would exacerbate this issue, making state budgeting more challenging.

As discussed below, investment agencies are already likely permitted to invest in bitcoin and other digital currencies if they determine that they represent an opportunity to meet their investment targets. Accordingly, there would be no anticipated changes to the state's interest revenue.

There would be administrative costs associated with SB275. Agency analysis did not provide an estimate but could involve high management fees and IT updates.

SIGNIFICANT ISSUES

Analysis from the State Investment Council (SIC) notes that the state's investment funds may "already have the ability to invest in bitcoin and other digital currencies," under the Uniform Prudent Investor Act (UPIA), which governs how SIC, PERA, and ERB must manage its assets. The agency writes of UPIA:

> Uniform Prudent Investor Act (UPIA), Section 45-7-601 to 45-7-612 NMSA 1978, which stipulates that trustees must manage trust assets as a prudent investor would, taking into consideration the purpose and goals of the trust when investing with "reasonable care, skill and caution". Unlike the older "prudent man" rule, UPIA allows individual investments to be evaluated for prudency not in isolation, but in the context of the individual investment and its role as part of a full portfolio and its overall longterm goals in supporting trust beneficiaries.

UPIA does not ban any type or class of investment. SIC notes that, accordingly, this legislation may have the unintended effect of limiting investments at the five percent allocation, rather than providing investment agencies with a legislative mandate regarding these types of investments.

SIC provides a detailed analysis of the utility of this asset class in state investment portfolios:

> A similar argument could be made that the asset class is too new and lacks a sufficient track record of returns across multiple market cycles for it to be invested in prudently. Investors still debate whether bitcoin is better defined as a currency or an asset, or potentially neither. Bitcoin, and other cryptocurrencies, do not have cash flows to support its valuation like a stock, bond or real asset, with its primary attributes being its role as an alternative payments mechanism outside the existing fiat currency system, and as a vehicle for speculative trading. Supporters argue that it acts as both a store of value like metals and other commodities, though finite commodities like gold and oil usually have underlying uses (i.e. jewelry, energy respectively) that would prevent their value from ever going to zero, whereas bitcoins themselves as digital tokens have less intrinsic value or alternative uses. The underlying technology of Bitcoin – a blockchain distributed ledger – may be developed into additional applications around trading, and certainly it seeks to bypass traditional financial middlemen (like banks) and creating efficiencies. Bitcoin itself however, may be too volatile in its pricing to serve as an alternative currency during times of financial stress, and as an investment, digital currencies and their investment returns are definitely highly correlated with stocks and other risk market performance. Bitcoin's market capitalization is today approaching $2 trillion, while the second largest crypto-asset Ethereum has a current market cap of $317 billion.

PERA analysis points out that, if the legislation is intended to mandate investment decisions of the PERA board, it could overstep the Legislature's constitutional authority. Article XX, Section 22 of the New Mexico Constitution provides that the PERA board is empowered with the "…sole and exclusive fiduciary duty and responsibility for the administration and investment of the trust fund…"

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