
STATE INVESTMENT COUNCIL: FY26 BUDGET REQUEST AND AGENCY UPDATE

Legislative Finance Committee
October 23, 2024

Jon Clark, State Investment Officer
Vince Smith, Chief Investment Officer, Deputy State Investment Officer
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WHAT IS THE NMSIC?

- Council established in 1958 to manage the Land Grant Permanent Fund
 - 13M+ trust land acres granted to NM w/statehood
- Goal is to turn volatile, non-renewable natural resources into permanent asset & revenue generator for NM
- Today oversees investment of NM's ~\$58 billion in permanent, endowment & reserve funds
- Income generator, revenue engine for state: \$2B+ in FY2025
- Today managing 12 different funds, each with specific beneficiaries, time horizons & goals
- Also investing for 25 state entities with \$2B+ in long-term investments
- Oversight board of Governor, Land Commissioner, Treasurer & eight qualified appointees (4 by Governor, 4 by Legislature)
- Second-largest stand-alone SWF organization in U.S.; top 35 globally

PERMANENT/ENDOWMENT FUND OVERVIEW

Land Grant Permanent Fund (LGPF)

- Established in 1912 when New Mexico became a state; made up of 21 different permanent funds, each belonging to a separate beneficiary
- Receives royalties for mineral production on state trust lands - oil and gas revenues make up about 99% of contributions
- Distribution policy set in the NM Constitution - distributes 6.25% of the five-year rolling average from the permanent school fund of the LGPF (5.5% for common schools and .75% for early childhood); all other funds in the LGPF distribute 5% of the five-year rolling average to each beneficiary

Severance Tax Permanent Fund (STPF)

- Established in 1973 as the depository for severance taxes not being used to repay capital outlay projects
- Receives severance tax revenue not otherwise used for bonding capacity for capital outlay projects
- Beginning in FY25: receives excess oil and gas emergency school tax and federal mineral leasing revenues
- One-time legislative appropriation of \$475 million in 2023
- Distribution policy set in the NM constitution - distributes 4.7% of the five-year rolling average to the general fund (unearmarked)

Tax Stabilization Reserve (TSR)

- Transferred to SIC management in 2019 and transformed into a state reserve fund - commonly known as the state's "rainy day" fund
- Receives Oil and Gas Emergency School Tax revenue above the five-year average, if total general fund reserves are *less than* 25% of recurring appropriations
- Money in the TSR may be appropriated to shore up the general fund budget in the event of a revenue downturn, or by a 2/3 vote of the House and Senate

Early Childhood Education and Care Fund (ECECF)

- Created in 2020 to provide recurring revenue to support early childhood education and care services
- Receives Oil and Gas Emergency School Tax revenue above the five-year average, if total general fund reserve balances are *more than* 25% of recurring appropriations; and receives revenue from Federal Mineral Leasing payments above the 5-year average
- Distributes 5% of the rolling 3-year average to the Early Childhood Education and Care Program Fund

Tobacco Settlement Permanent Fund (TSPF)

- Receives annual payments to the state as part of the Master Settlement Agreement between New Mexico, other states, and big tobacco companies
- Historically distributed 50% of tobacco settlement revenue to tobacco program funds; beginning FY25 will distribute 4.7% of the rolling five-year average to tobacco program funds

PERMANENT/ENDOWMENT FUND OVERVIEW

Water Trust Fund (WTF)

- Created in 2001 to conserve and protect the water resources of New Mexico - fund is enshrined in the NM constitution
- Legislative appropriations to the fund: 2006: \$40 million; 2023: \$100 million; 2024: \$50 million (NEW)
- Distributes \$4 million annually to the Water Project Fund - will distribute 4.7% of the rolling five-year average once that amount exceeds \$4 million

Rural Libraries Endowment Fund (RLEF)

- Created in 2019 to support the preservation, development and establishment of rural libraries throughout the state
- Legislative appropriations to the fund: 2019: \$1 million; 2020: \$2 million; 2022: \$10 million; 2023: \$15 million; 2024: \$2.5 million (NEW)
- Distributes investment income to the rural libraries program fund and to the Cultural Affairs Department to administer the program fund

Conservation Legacy Permanent Fund (CLPF)

- Created in 2023 to support conservation programs and initiatives across various state agencies
- Legislative appropriations to the fund: 2023: \$50 million; 2024: \$300 million (NEW)
- Distributes the prior fiscal year's investment earnings in excess of \$5 million to the Land of Enchantment Legacy Fund

Opioid Settlement Restricted Fund (OSRF)

- Created in 2023 to receive opioid settlement revenues paid to the state per New Mexico's opioid allocation agreement
- Distributes 5% of the rolling three-year average to the Opioid Crisis Recovery Fund

Workforce Development and Apprenticeship Trust Fund (WDAF) - NEW

- Created in 2024 with a one-time Legislative appropriation of \$30 million in FY24
- Distributes \$5 million the first two years and \$3 million thereafter to the Public Works Apprenticeship and Training Fund and the Workforce Solutions Department

Higher Education Trust Fund (HETF) - NEW

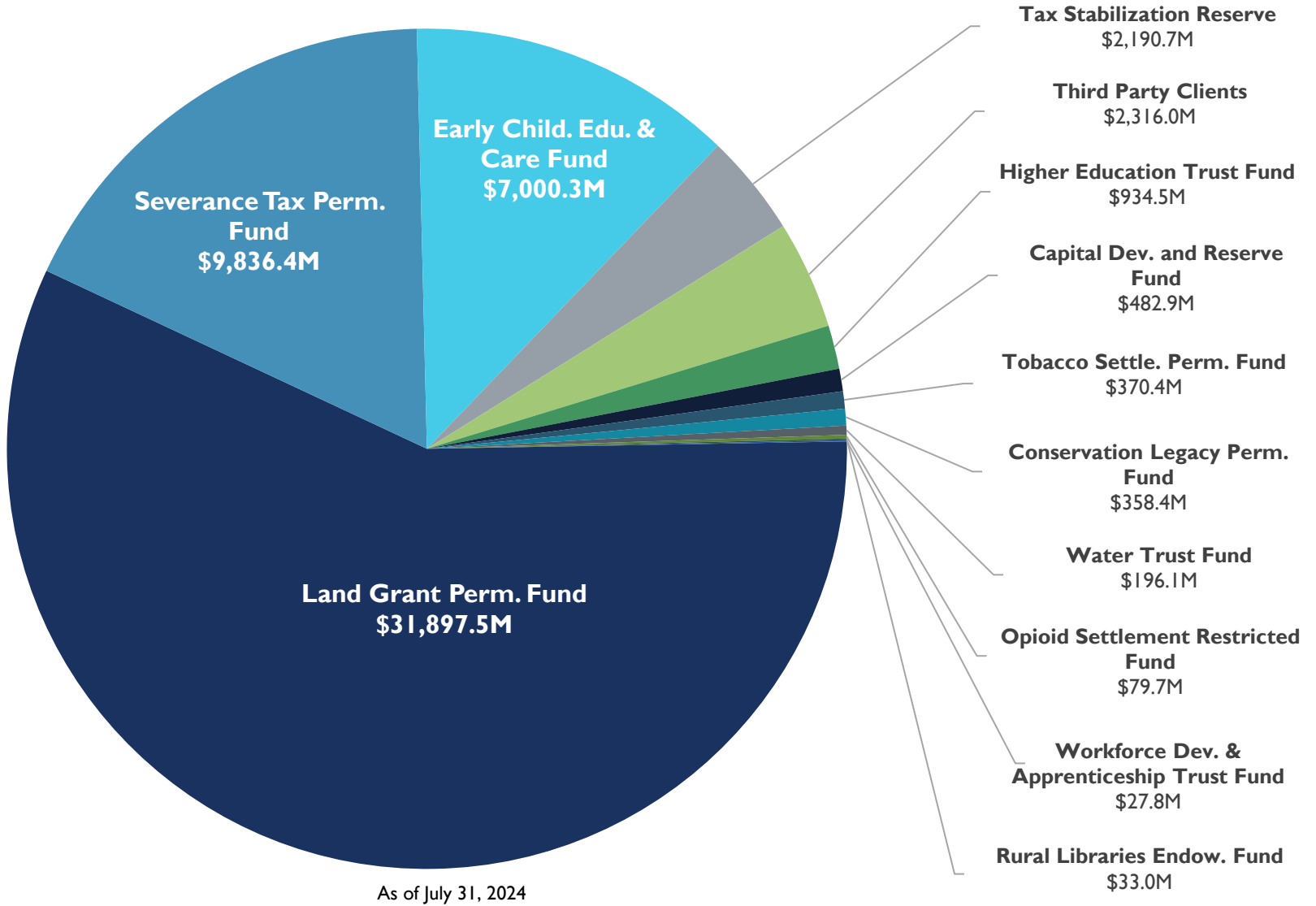
- Established in 2024 to provide a trust fund to pay for tuition and student financial aid programs
- Seeded with a one-time transfer of \$959 million from the Tax Stabilization Reserve in May 2024
- Distributes 5% of the three-year average to the Higher Education Program Fund

Capital Development and Reserve Fund (CDRF) - NEW

- Created in 2024 with a one-time distribution of up to \$500 million in FY24 of excess cash remaining in the severance tax bonding fund
- Beginning in FY25, receives annual distributions from the severance tax bonding fund consisting of savings generated by limiting long-term bond issuances to median state debt ratios, when such savings exist (HB253-2024)*

*Note, the annual CDRF distributions should not affect STPF revenues from the bonding fund since the statutory allocation of severance tax revenue available for bonding capacity was not changed

SIC ASSETS UNDER MANAGEMENT (AUM)



As of July 31, 2024

GROWING IMPORTANCE OF INVESTMENT FUNDING FOR PUBLIC SCHOOLS AND EARLY CHILDHOOD

Public School Funding	FY23	FY24	FY25
Public School Support Operating Budget (\$MM)	\$ 3,873	\$ 4,176	\$ 4,427
Early Childhood Funding	FY23	FY24	FY25
ECECD General Fund Budget (\$MM)	\$ 196	\$ 327	\$ 348
Early Childhood Trust Fund Budget (\$MM)	\$ 30	\$ 150	\$ 250
Subtotal Early Childhood GF+ECTF (\$MM)	\$ 226	\$ 477	\$ 598
Other Early Childhood Funding Sources	\$ 237	\$ 168	\$ 112
Total Early Childhood System (all funding sources)	\$ 462	\$ 645	\$ 709

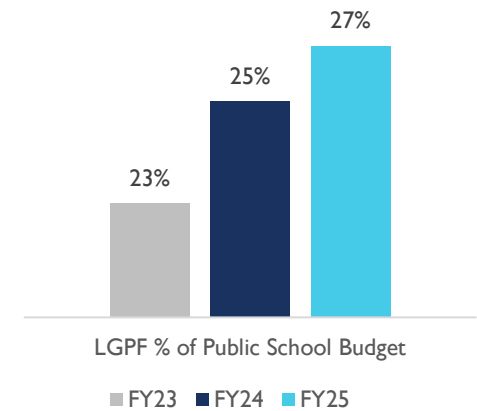
Source: LFC Post-Session Reports

Permanent/Endowment Funds	FY23	FY24	FY25
LGPF 5% Distrib. for Common Schools	\$ 886	\$ 967	\$ 1,082
40% of add'l LGPF 1.25% for Public Schools	\$ -	\$ 97	\$ 108
Total LGPF Distrib. for Public Schools	\$ 886	\$ 1,064	\$ 1,190
ECECF Distrib. to Program Fund	\$ 30	\$ 150	\$ 250
60% of add'l LGPF 1.25% for Early Childhood	\$ -	\$ 145	\$ 162
Total Perm./Endow. Distrib. for Early Childhood	\$ 30	\$ 295	\$ 412

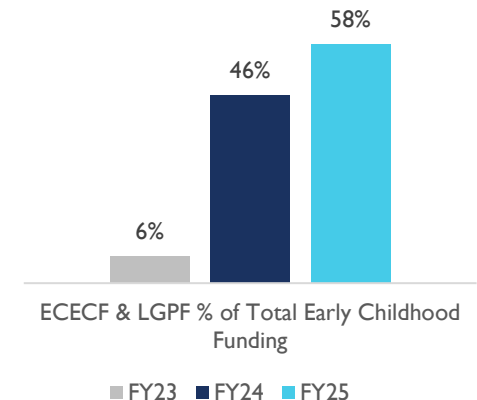
Source: NM State Investment Office

Investment Funds % of Funding	FY23	FY24	FY25
LGPF % of Public School Budget	23%	25%	27%
ECECF & LGPF % of Total Early Childhood Funding	6%	46%	58%

Investment Funding Percentage of Public School Budgets



Investment Funding Percentage of Early Childhood Budgets



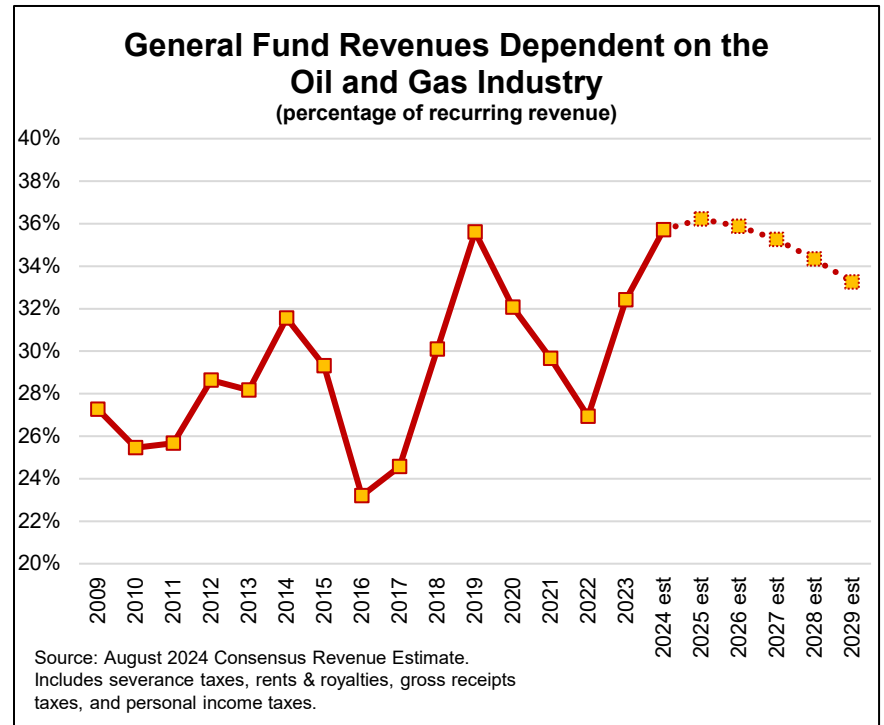
FRAMING THE ISSUE:

REVENUE REPLACEMENT vs. ECONOMIC DIVERSIFICATION

- The mining industry represents less than 3% of total employment in the state and about 10% of New Mexico’s GDP
- However, the oil & gas industry directly accounts for about 24% of general fund revenue (through severance taxes, rents and royalties) and more than 30% of the general fund when including sales taxes and other revenues

New Mexico GDP by Industry (2023)	
Government	23%
Finance, insurance, real estate, rental, and leasing	15%
Professional & business services	12%
Mining, quarrying, oil & gas extraction	10%
Educational services, healthcare, social assistance	8%
Retail trade	6%
Leisure & hospitality	5%
Construction	4%
Manufacturing	3%
Wholesale trade	3%
All other industries	10%

Source: Bureau of Economic Analysis



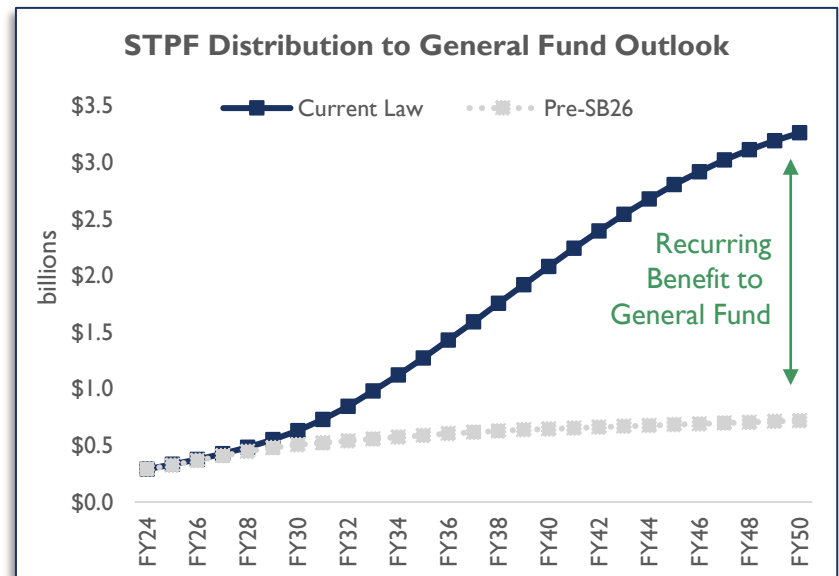
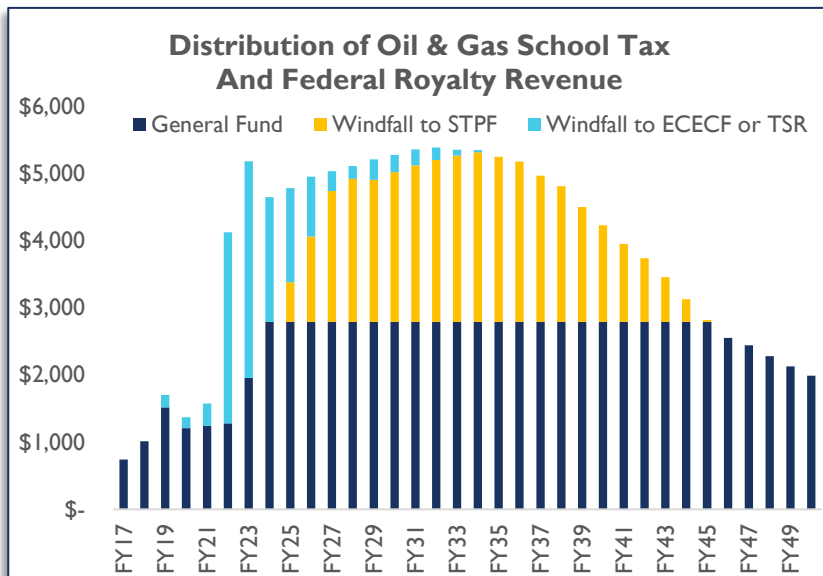
A REVENUE SOLUTION TO A REVENUE PROBLEM

Senate Bill 26 (2023) capped the amount of oil- and gas-related revenues reaching the general fund from the oil and gas emergency school tax and federal mineral leasing payments, the two largest sources of general fund oil and gas revenues.

- Does not affect the five-year average calculation that determines the amount of revenue the ECECF/TSR receives - only the revenues above the cap, but below the moving average, will be distributed to the STPF beginning in FY25

Key Benefits:

- Significantly reduces oil- and gas-related revenue volatility for the general fund
- Simplifies general fund revenue estimating for sources that are historically very difficult to predict
- Reduces general fund dependence on oil and gas revenues
- Improves general fund stability by replacing volatile energy revenue with more stable investment distributions



Source: Estimates from the NM Consensus Revenue Estimating Group September 2024 Long-Term Revenue Outlook. Actual future oil and gas revenues and STPF distributions will depend on market performance and fund contributions.

PERMANENT FUNDS HELP SECURE NM'S FUTURE



FOR IMMEDIATE RELEASE

September 17, 2024

Permanent fund investments to surpass oil and gas revenue, securing New Mexico's future by 2039

Albuquerque, NM — The state's Consensus Revenue Estimating Group (CREG) is projecting that permanent fund investments in New Mexico will surpass oil and gas as the state's leading source of revenue by 2039.

CREG's economic experts unveiled the long-term revenue outlook during a meeting of the Legislative Finance Committee on Tuesday.

"Thanks to our strategic investments in the state's permanent funds and endowments, New Mexicans will continue to benefit from strong public programs such as early childhood education and the Opportunity Scholarship," said **Gov. Michelle Lujan Grisham**. "We're securing long-term prosperity and moving toward a more resilient and diversified revenue base that will pay dividends for generations to come."

Record year-over-year revenue growth has enabled historic investments in New Mexico's permanent funds, as well as education, health care, economic development, public safety and the environment, while also reducing taxes for New Mexicans.

"For years, we've talked about the need to diversify the state's revenue stream to ensure that we can continue to deliver the level of services New Mexicans deserve. We've made incredible progress," said Taxation and Revenue **Sec. Stephanie Schardin Clarke**

In 2023, the Legislature allocated \$475 million to the Severance Tax Permanent Fund, with plans to reach \$1 billion by 2033, contributing \$92 million annually. In FY25, the permanent funds will distribute more than \$2 billion to the general fund and other public entities and programs. By the decade's end, the state will deposit an estimated \$4.7 billion into this fund.

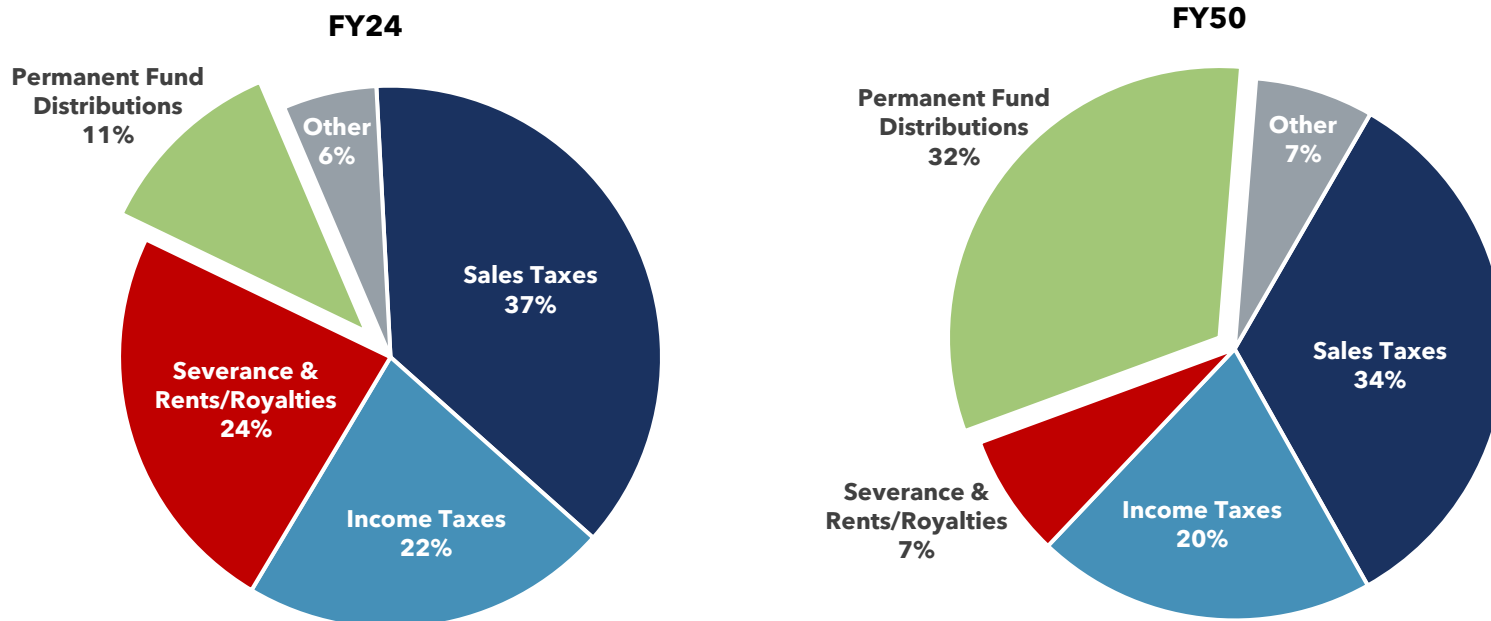
"...permanent fund investments in New Mexico will surpass oil and gas as the state's leading source of revenue by 2039."

TRANSITIONING FROM VOLATILE OIL & GAS RELIANCE TO MORE STABLE PERMANENT FUND DISTRIBUTIONS

In its September 2024 Long-Term Revenue Outlook, NM's Consensus Revenue Estimating Group projects general fund revenues from the oil and gas industry will decline over time as the world transitions beyond traditional energy sources.

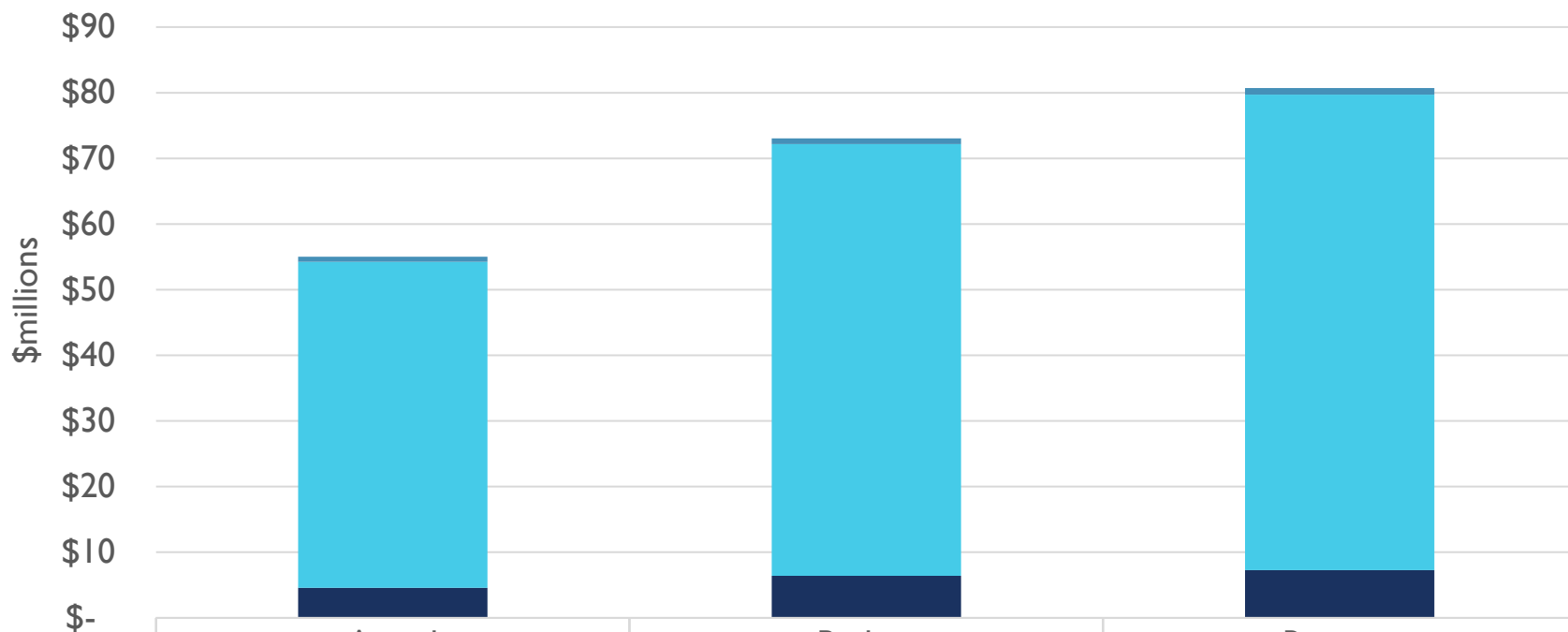
As energy-related revenues decline, permanent fund distributions will grow significantly as a share of general fund revenue, helping to displace estimated future declines in oil and gas revenues.

Estimated Sources of General Fund Revenue



FY26 BUDGET REQUEST

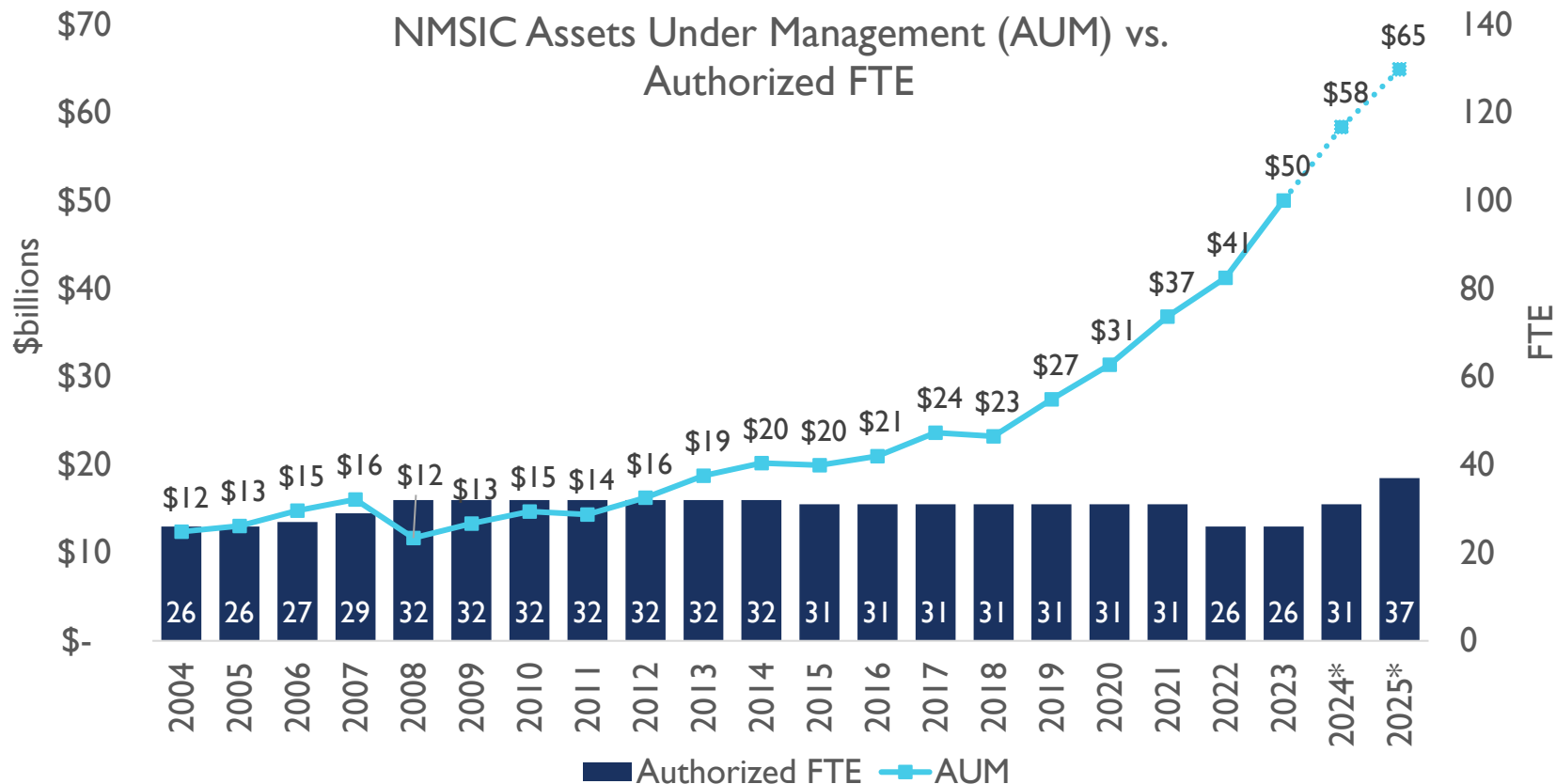
NMSIC Operating Budget



	Actual FY24	Budget FY25	Request FY26
■ 400s	\$751,872	\$886,700	\$1,048,000
■ 300s	\$49,658,863	\$65,771,600	\$72,400,600
■ 200s	\$4,602,464	\$6,399,200	\$7,284,300

■ 200s ■ 300s ■ 400s

AUM GROWTH HAS SIGNIFICANTLY OUTPACED AUTHORIZED STAFFING LEVELS



*Estimated AUM

Note: AUM reflects total assets under management, including all permanent endowment trust funds, reserve funds, and third party client assets. AUM reported as of calendar year end, except 2004-2007 which reflect fiscal year end balances for TSPF, WTF, and third party clients. FTE reported as of fiscal year end.

Source: NMSIC files, RVK, LFC Volume II reports

AUM GROWTH REQUIRES INCREASING STAFF TIME TO IMPLEMENT FUND ASSET ALLOCATIONS

- About 30% of total assets invested in private market strategies (as of 8/31/24)
- Council's strategic asset allocations target over 50% private assets
- Requires staff to source and diligence a growing number of new private fund commitments each year, which is a time-intensive and rigorous process
- More private fund commitments = more complexity to manage, such as:
 - Monitoring manager performance and private portfolio exposures
 - Reviewing and approving capital calls and distributions
 - Ensuring compliance with complex legal agreements
 - Maintaining appropriate accounting of capital movements

