

INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

Senator Roberto “Bobby” Gonzales, Chairman
Representative Patricia Roybal Caballero, Vice Chair

General Updates on New Mexico’s Permanent Funds and Other
Investments Managed by the State Investment Council

Jon Clark, NM State Investment Officer
Monday, July 1, 2024

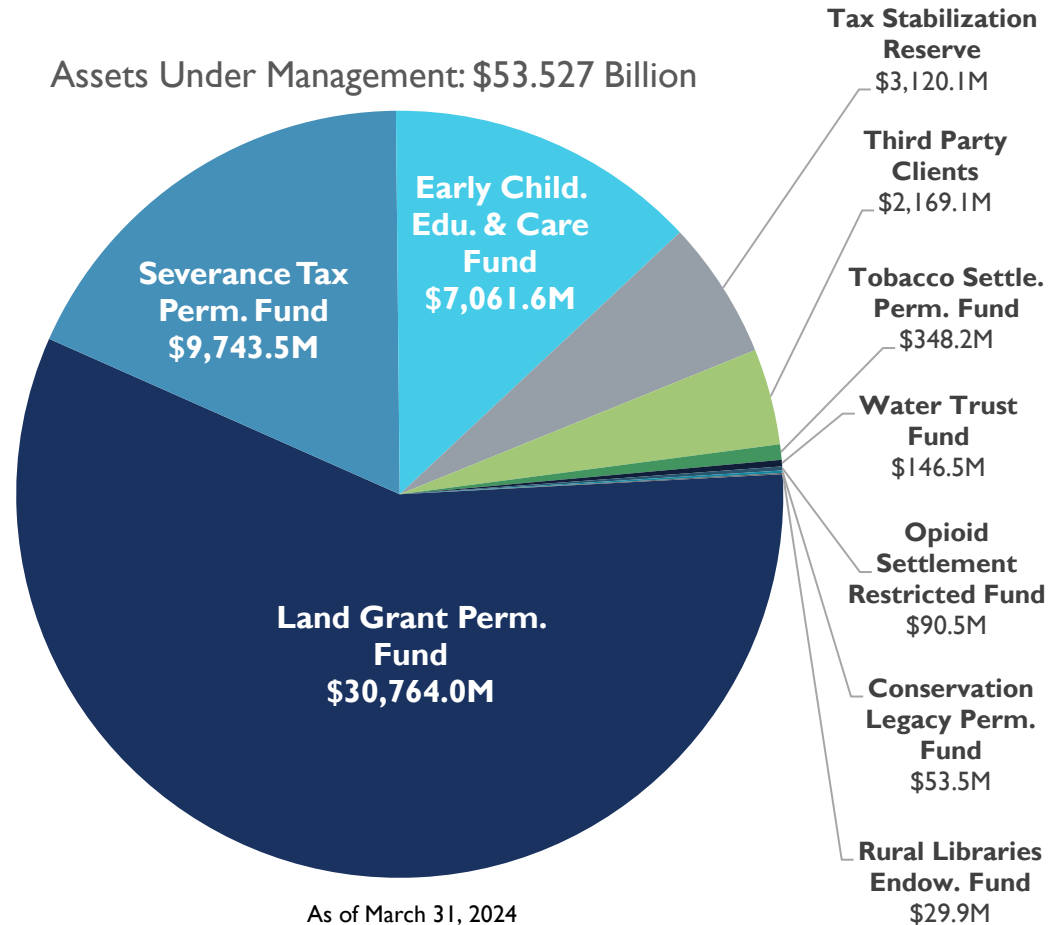


CURRENT SIC MATTERS

- Council appointed new State Investment Officer in January
- Legislature appointed two new Council members: Kelly O'Donnell & Allen Sánchez
- 2024 Legislature created three new endowment funds to be managed by SIC in FY25:
 - Higher Education Trust Fund
 - Workforce Development & Apprenticeship Trust Fund
 - Capital Development & Reserve Fund
- Twelve permanent, endowment and reserve funds now under management
- Also 25 Governmental Clients with \$2.17 billion
- Fund distributions to top \$2B for first time in FY25
- Total asset growth +\$8.75 billion in CY23, now ~\$54 billion AUM

SIC ASSETS UNDER MANAGEMENT (AUM)

- AUM reached \$53.5 billion as of March 31, 2024
- Currently managing 9 permanent/endowment funds (with 3 additional funds added in the 2024 legislative session)
- Also managing 50 separate funds for 25 third-party clients



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
- Receives excess revenue from the general fund operating reserve, if the operating reserve balance exceeds 8% of prior fiscal year recurring appropriations ([Provision removed in House Bill 196-2024](#))
- 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 5% of the rolling three-year average 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 (WDATF) - 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

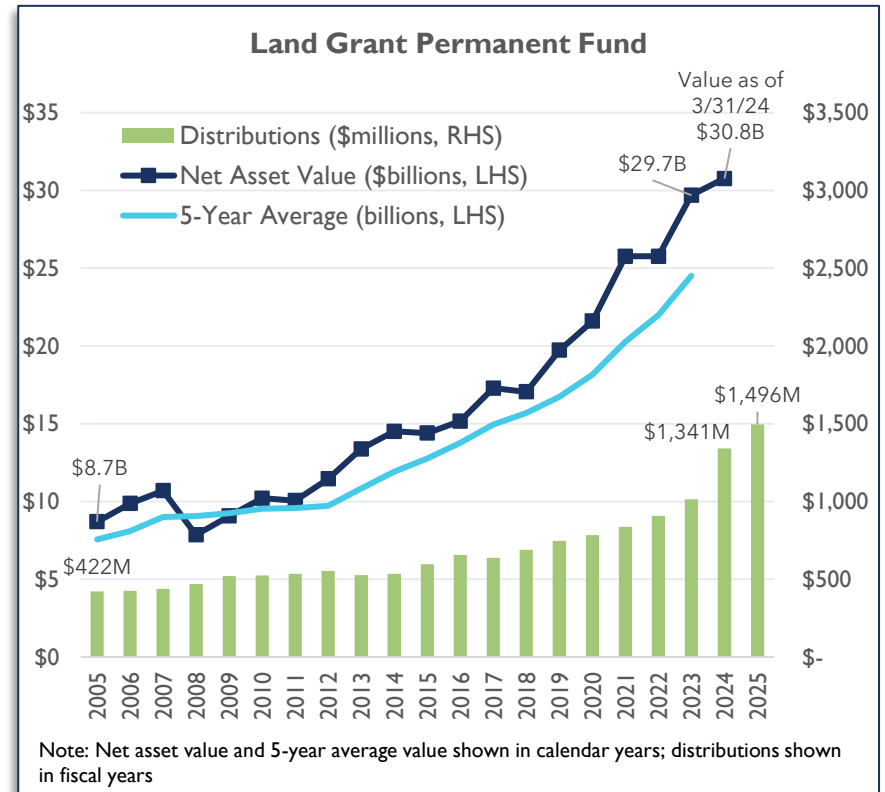
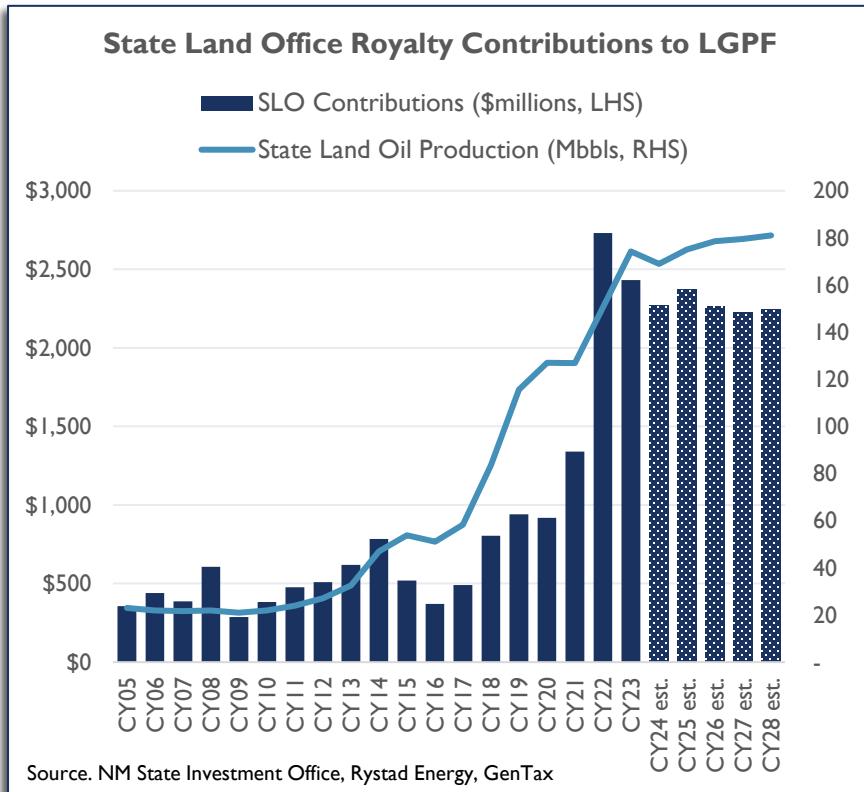
INVESTMENT PERFORMANCE

- The LGPF has a long-term return target of 7%, and the STPF has a long-term return target of 6.75%

Investment Return (net of fees, as of 3/31/2024)	1 Year	3 Year	5 Year	7 Year	10 Year
Land Grant Permanent Fund (LGPF)	9.47	5.76	7.73	7.61	6.95
Severance Tax Permanent Fund (STPF)	8.18	4.10	5.97	6.35	6.07
Water Trust Fund (WTF)	7.66	9.67	9.35	9.12	8.15
Tobacco Settlement Permanent Fund (TSPF)	6.80	7.41	7.08	6.90	6.78
Tax Stabilization Reserve (TSR)	2.76	2.99	n/a	n/a	n/a
Rural Libraries Endowment Fund (RLEF)	5.56	4.66	n/a	n/a	n/a
Early Childhood Education and Care Fund (ECECF)	8.45	6.30	n/a	n/a	n/a
Conservation Legacy Permanent Fund (CLPF)	n/a	n/a	n/a	n/a	n/a
Opioid Settlement Restricted Fund (OSRF)	n/a	n/a	n/a	n/a	n/a

LAND GRANT PERMANENT FUND GROWTH

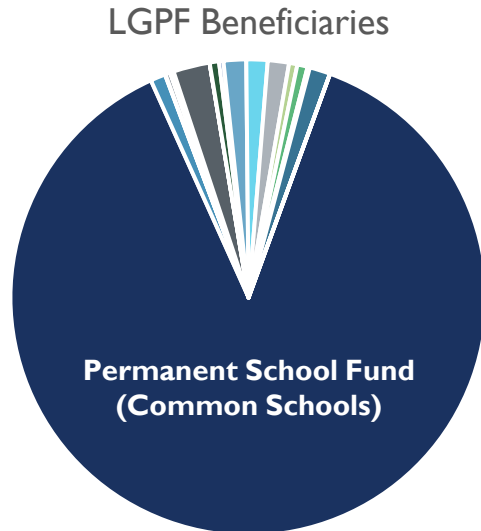
- The LGPF ended CY23 with a market value of \$29.7 billion, up 122% from CY13, due largely to strong inflows from the State Land Office
- The LGPF will distribute \$1.34 billion to beneficiaries in FY24 and nearly \$1.5 billion in FY25
 - Distributions are set in the NM Constitution as a percentage of the rolling 5-year average market value, which helps insulate beneficiaries from annual market volatility and ensures greater budget stability - for example, during the Great Financial Crisis, the value of the LGPF fell 27% in CY2008; however, distributions from the LGPF increased 7% in FY08 and increased 11% in FY09.



LGPF BENEFICIARIES

The LGPF is made up of 21 different permanent funds, each belonging to a separate beneficiary

- Beneficiaries receive royalties for non-renewable production on state land tracts - tied to the federal Ferguson Act of 1898 and the federal Enabling Act of 1910
- The permanent school fund makes up the largest portion of the LGPF (~87.7%), of which common schools (i.e. public schools) are the beneficiary
- Remaining beneficiaries of the LGPF include higher education, special schools, and other state institutions
- The permanent school fund distributes 6.25% of the five-year average fund value; all other beneficiaries receive 5% of the five-year average value. All beneficiary distributions are based on their percentage ownership of the fund, which changes over time based on production levels from beneficiary-specific land tracts.

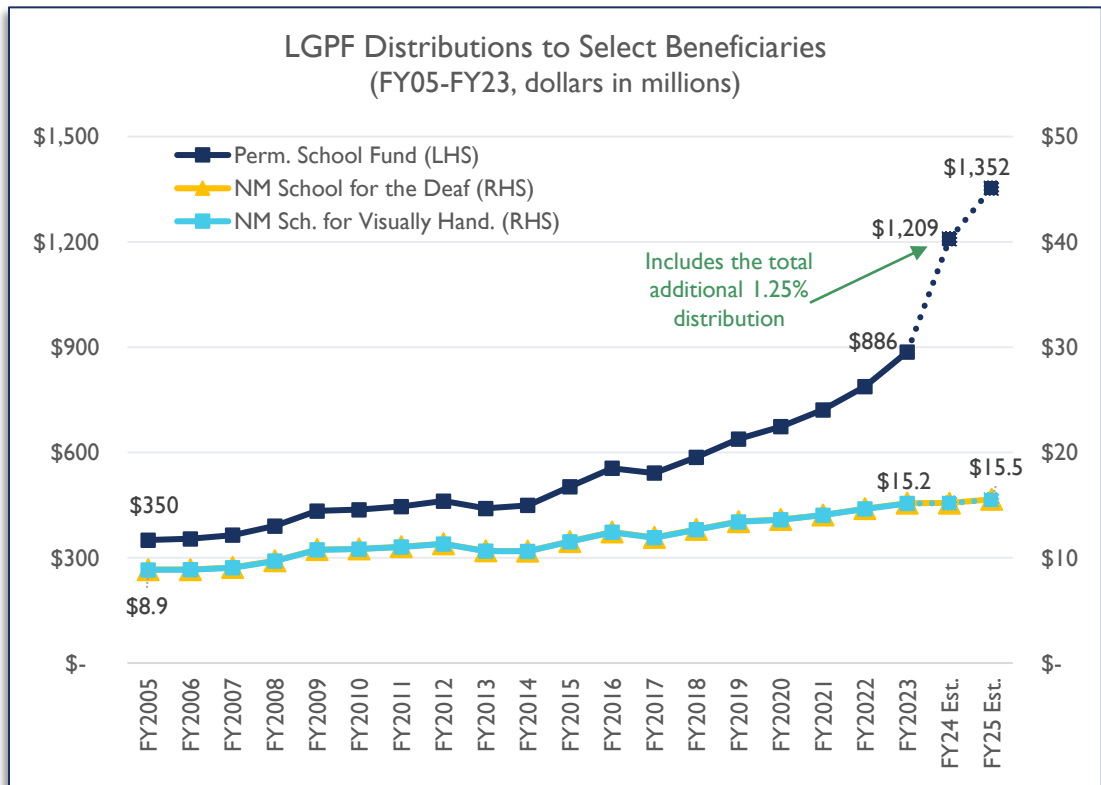
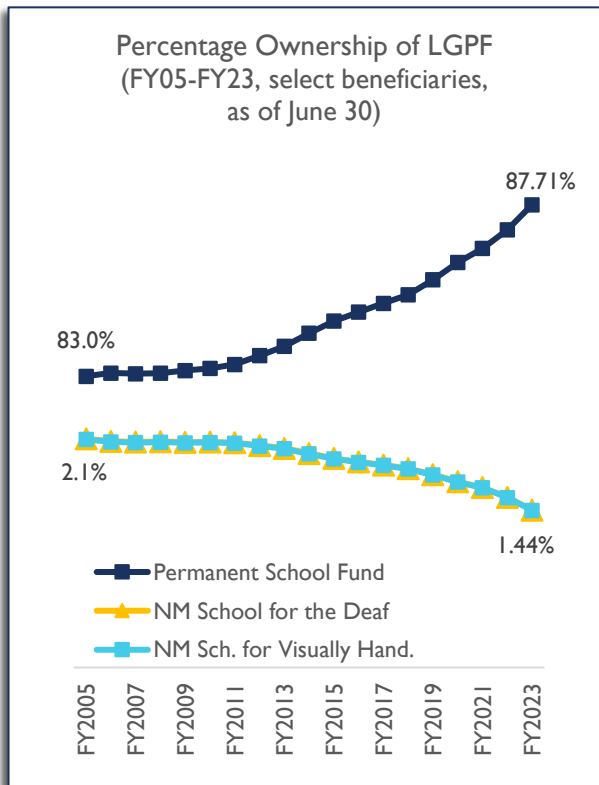


Beneficiary	Percent Ownership
Common Schools	87.71%
University of N.M.	1.02%
UNM Saline Lands	0.03%
NM State University	0.33%
Western NM Univ	0.02%
NM Highlands Univ	0.02%
Northern NM College	0.01%
Eastern NM University	0.05%
NM Inst. Mining & Tech	0.14%
NM Military Institute	2.48%
NM Boys School	0.001%
DHI Miners Hospital	0.63%
NM State Hospital	0.30%
NM State Penitentiary	1.54%
NM School for the Deaf	1.44%
NM Sch. for Visually Hand.	1.44%
Char. Penal & Reform	0.56%
Water Reservoir	0.70%
Improve Rio Grande	0.16%
Public Bldgs. Cap. Inc.	1.41%
Carrie Tingley Hospital	0.001%

Note: as of June 30, 2023

CHANGE IN LGPF DISTRIBUTIONS OVER TIME

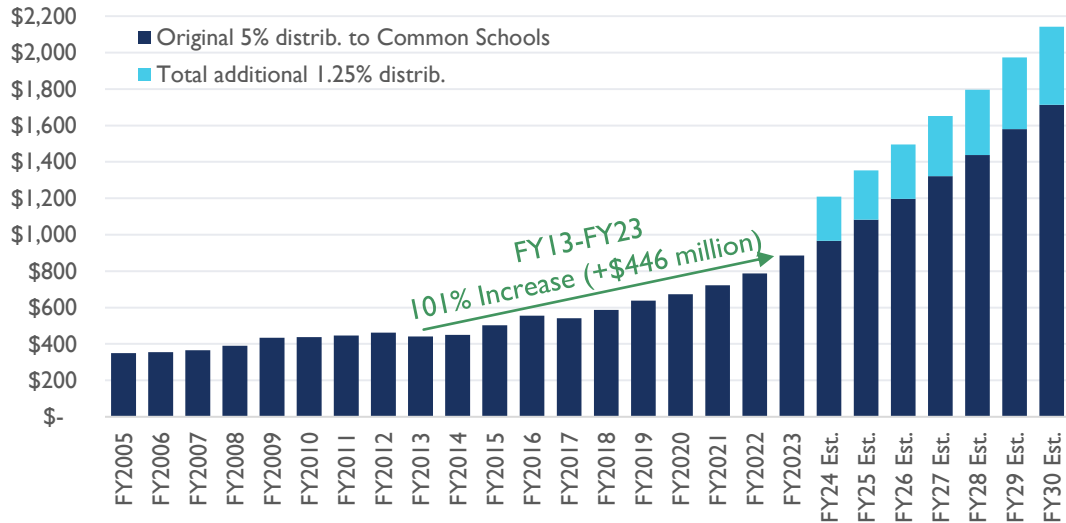
- Common schools' percentage share of the LGPF has grown over time due to increased oil and gas production on common schools' tracks of land
 - Consequently, other LGPF beneficiaries have experienced a proportional decline in their percentage share of the overall fund - however, the dollar amount of distributions have continued to increase over time as the size of the LGPF grows



PERMANENT SCHOOL FUND DISTRIBUTIONS

- Distributions to common schools more than doubled between FY13 and FY23
- Permanent School Fund distributions will total about \$1.2 billion in FY24, increasing to about \$1.35 billion in FY25
- Historically, 5% of the five-year average permanent school fund value is distributed for common schools
- Beginning in FY24, distributions from the permanent school fund include an additional 1.25%
 - 40% of the additional distribution goes to common schools for enhanced instruction, extending the school year, and public school teacher compensation
 - 60% of the additional distribution is for the provision of early childhood education

Permanent School Fund Distributions
(dollars in millions)



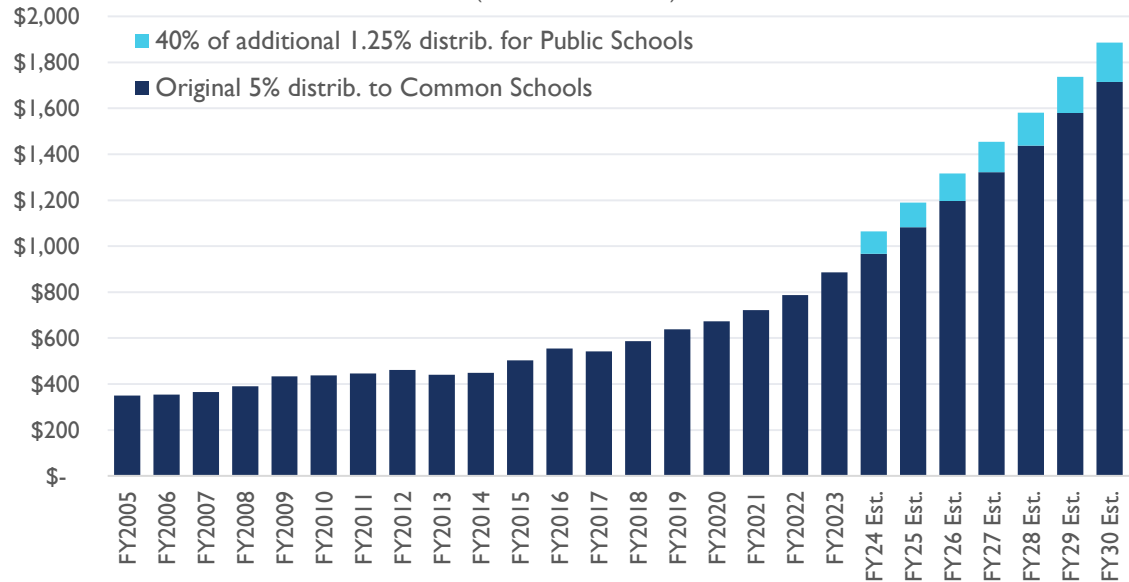
Fiscal Year	Original 5% Distrib.	Addt'l 1.25% Distrib.	40% of Addt'l Distrib. to Public Schools	60% of Addt'l Distrib. to Early Childhood	Total Perm. School. Fund Distrib.
FY23	\$886	n/a	n/a	n/a	\$886
FY24 Est.	\$967	\$242	\$97	\$145	\$1,209
FY25 Est.	\$1,082	\$270	\$108	\$162	\$1,352
FY26 Est.	\$1,196	\$299	\$120	\$179	\$1,495
FY27 Est.	\$1,322	\$330	\$132	\$198	\$1,652
FY28 Est.	\$1,437	\$359	\$144	\$216	\$1,796
FY29 Est.	\$1,579	\$395	\$158	\$237	\$1,974
FY30 Est.	\$1,714	\$429	\$171	\$257	\$2,143

Source: NM State Investment Office. Dollars in millions; estimates based on 2024 capital market assumptions and NMSIC staff inflow estimates. Actual distributions will depend on market performance and fund contributions.

LGPF DISTRIBUTIONS – PUBLIC SCHOOLS

- The charts illustrate the combined original 5% distribution from the permanent school fund and 40% of the additional 1.25% distribution that will go to public schools
- Public schools will receive a combined distribution of about \$1.06 billion from the LGPF in FY24, and nearly \$1.2 billion in FY25

Permanent School Fund Distributions for Public Schools
(dollars in millions)

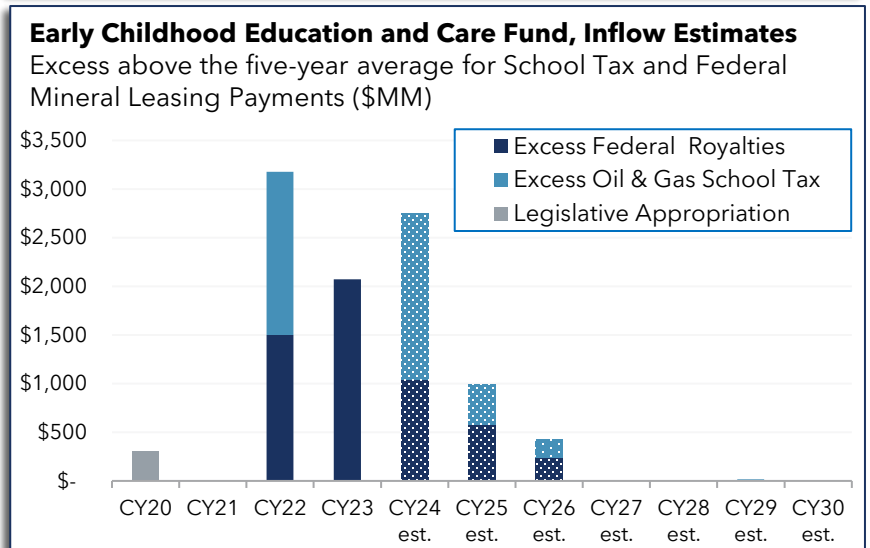
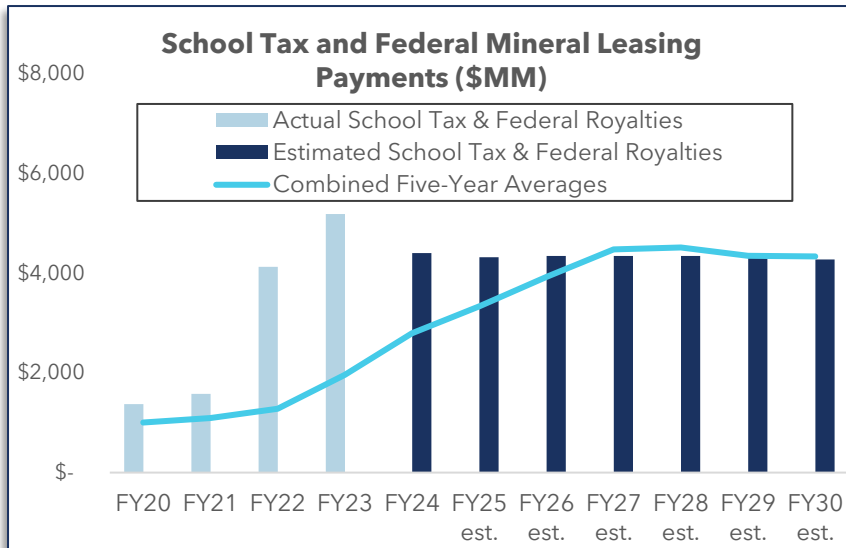
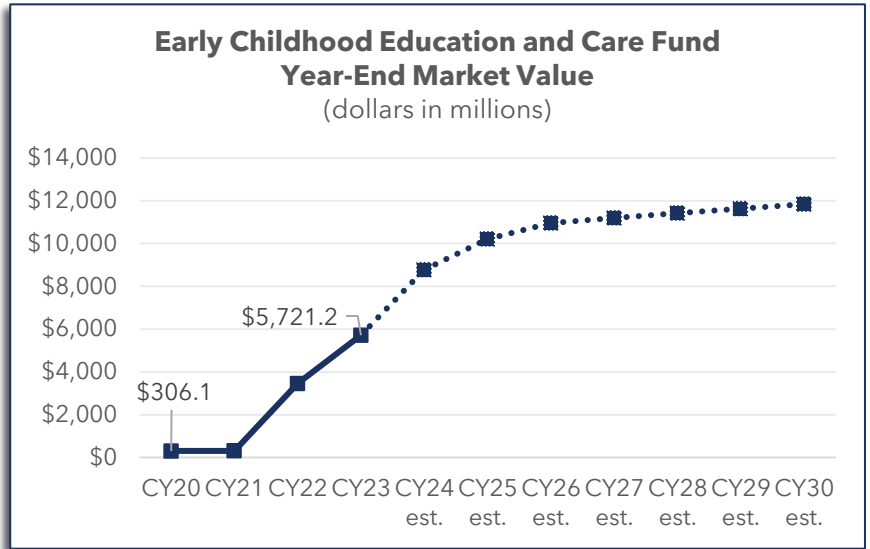


Fiscal Year	Original 5% Distrib.	40% of Addt'l 1.25% Distrib.	Total for Public Schools	YOY Amount Increase	Percent Increase
FY2023	\$886	n/a	\$886	\$99	12.5%
FY24 Est.	\$967	\$97	\$1,064	\$177	20.0%
FY25 Est.	\$1,082	\$108	\$1,190	\$126	11.9%
FY26 Est.	\$1,196	\$120	\$1,316	\$126	10.6%
FY27 Est.	\$1,322	\$132	\$1,454	\$138	10.5%
FY28 Est.	\$1,437	\$144	\$1,581	\$127	8.7%
FY29 Est.	\$1,579	\$158	\$1,737	\$157	9.9%
FY30 Est.	\$1,714	\$171	\$1,886	\$148	8.5%

Source: NM State Investment Office. Dollars in millions; estimates based on 2024 capital market assumptions and NMSIC staff inflow estimates. Actual distributions will depend on market performance and fund contributions.

EARLY CHILDHOOD EDUCATION AND CARE FUND

- Grown from an original appropriation of \$300 million in 2020, the ECECF reached \$5.7 billion by the end of 2023
 - The fund received over \$5 billion in oil and gas revenue in CY22 and CY23
- The ECECF receives inflows of windfall oil and gas school tax and federal royalty payments (excess above the 5-year average)
 - Current estimates for school tax collections and federal royalties show revenues exceeding their 5-year averages for the next few years

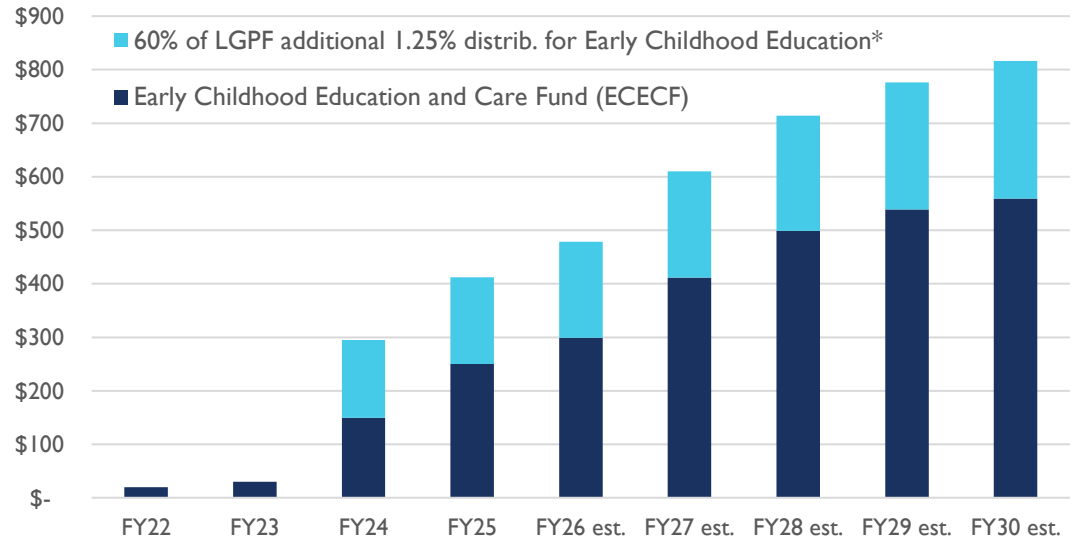


Source: NM State Investment Office. Dollars in millions; estimates based on 2024 capital market assumptions and NMSIC staff analysis of data from Oxford Economics, Rystad Energy, U.S. Energy Information Administration, CME Group, and the NM Consensus Revenue Estimating Group. NMSIC estimates as of February 2024.

EARLY CHILDHOOD DISTRIBUTIONS

- The ECECF distributed \$150 million to the early childhood program fund in FY24 and will distribute \$250 million in FY25
 - The ECECF distributes 5% of the rolling 3-year average fund value
- Early childhood’s portion of the additional 1.25% distribution from the LGPF totals about \$145 million in FY24, growing to about \$162 million in FY25
- Total distributions for early childhood from SIC-managed funds reached \$295 million in FY24, growing to about \$412 million in FY25

Distributions for Early Childhood
(dollars in millions)



*LGPF early childhood distribution is from the permanent school fund

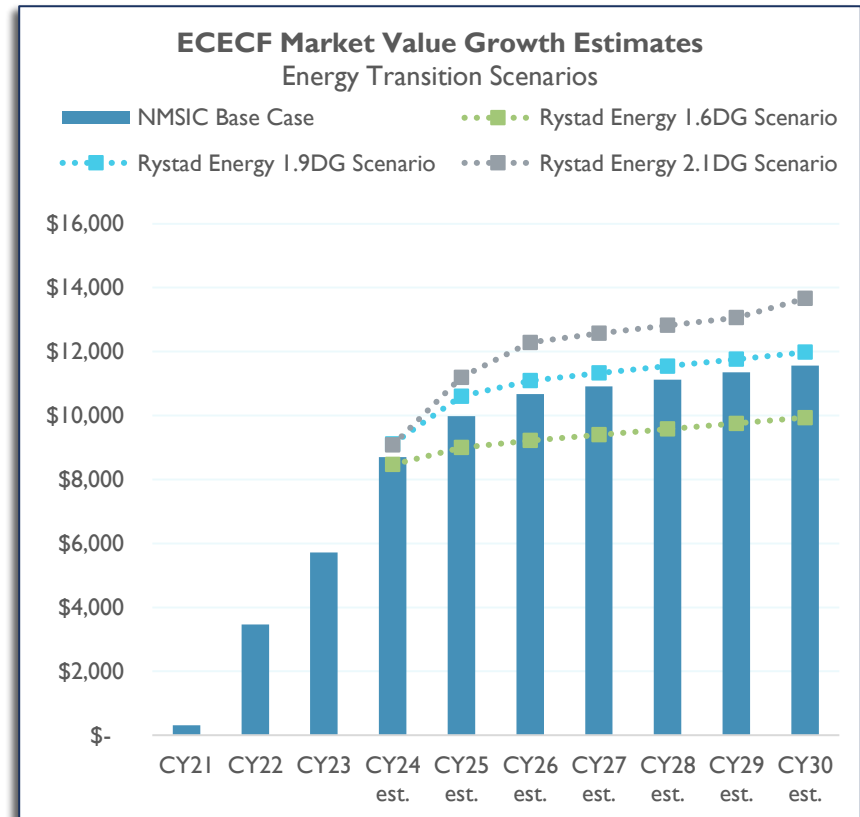
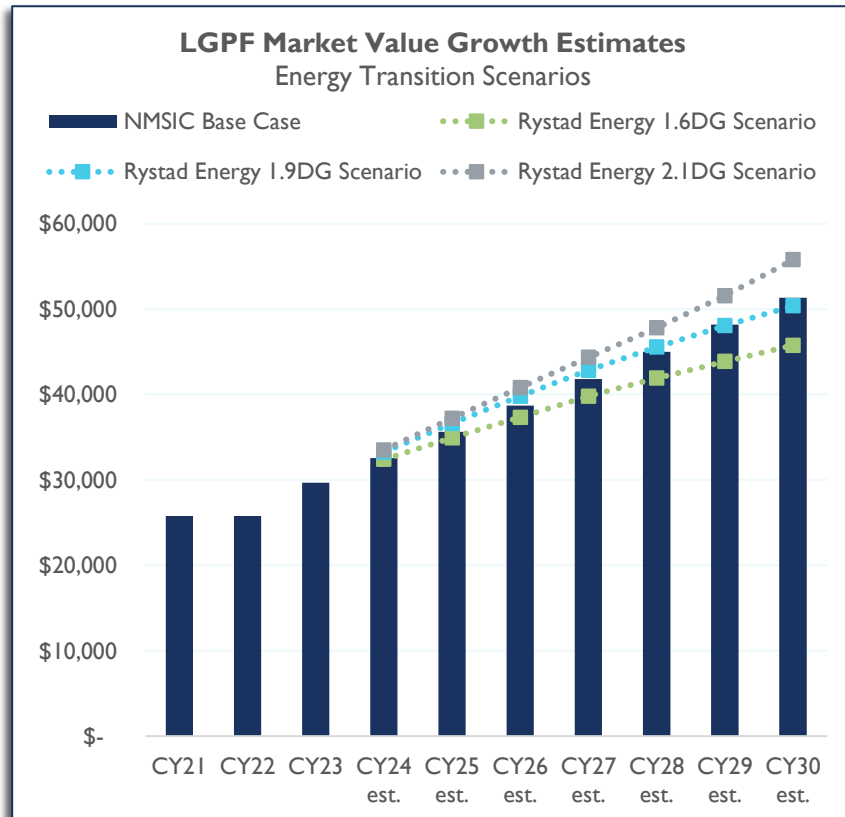
Fiscal Year	ECECF Distrib.	60% of LGPF 1.25% Distrib.	Total for Early Childhood	YOY Amount Increase	Percent Increase
FY2023	\$30	n/a	\$30	\$10	50%
FY2024	\$150	\$145	\$295	\$265	883.5%
FY2025	\$250	\$162	\$412	\$117	39.7%
FY26 Est.	\$299	\$179	\$479	\$66	16.1%
FY27 Est.	\$412	\$198	\$610	\$131	27.4%
FY28 Est.	\$499	\$216	\$714	\$104	17.1%
FY29 Est.	\$539	\$237	\$776	\$62	8.6%
FY30 Est.	\$559	\$257	\$816	\$40	5.2%

Source: NM State Investment Office. Dollars in millions; estimates based on 2024 capital market assumptions and NMSIC staff inflow estimates. Actual distributions will depend on market performance and fund contributions.

ENERGY TRANSITION & FUND GROWTH OUTLOOK

The charts below show NMSIC staff fund growth estimates compared to various energy transition scenarios

- Rystad Energy's energy transition scenarios are built around the concept of risk associated with different scenarios that limit global emissions such that the global mean temperature does not rise beyond a certain degree.



Source: NM State Investment Office. Dollars in millions; estimates based on 2024 capital market assumptions and NMSIC staff analysis of data from Rystad Energy's E&P Energy Transition Risk Dashboard. Actual fund values will depend on market performance and fund contributions.

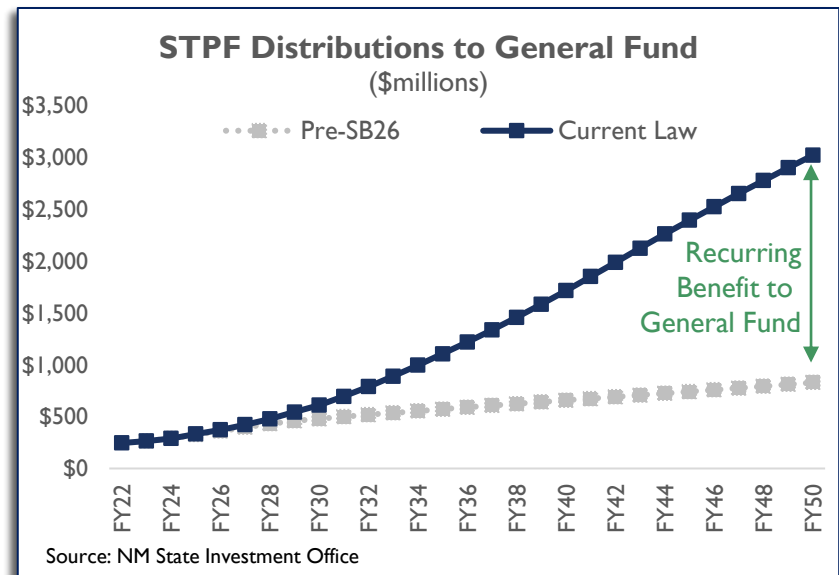
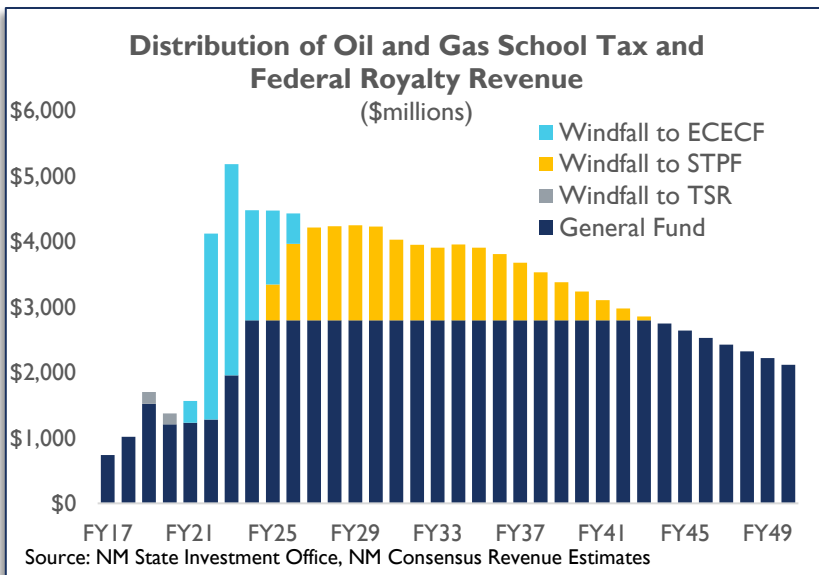
WINDFALL OIL & GAS CONTRIBUTIONS TO STPF

Senate Bill 26 (2023) restructured how oil- and gas-related revenues reach the general fund and STPF 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 to the GF, 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



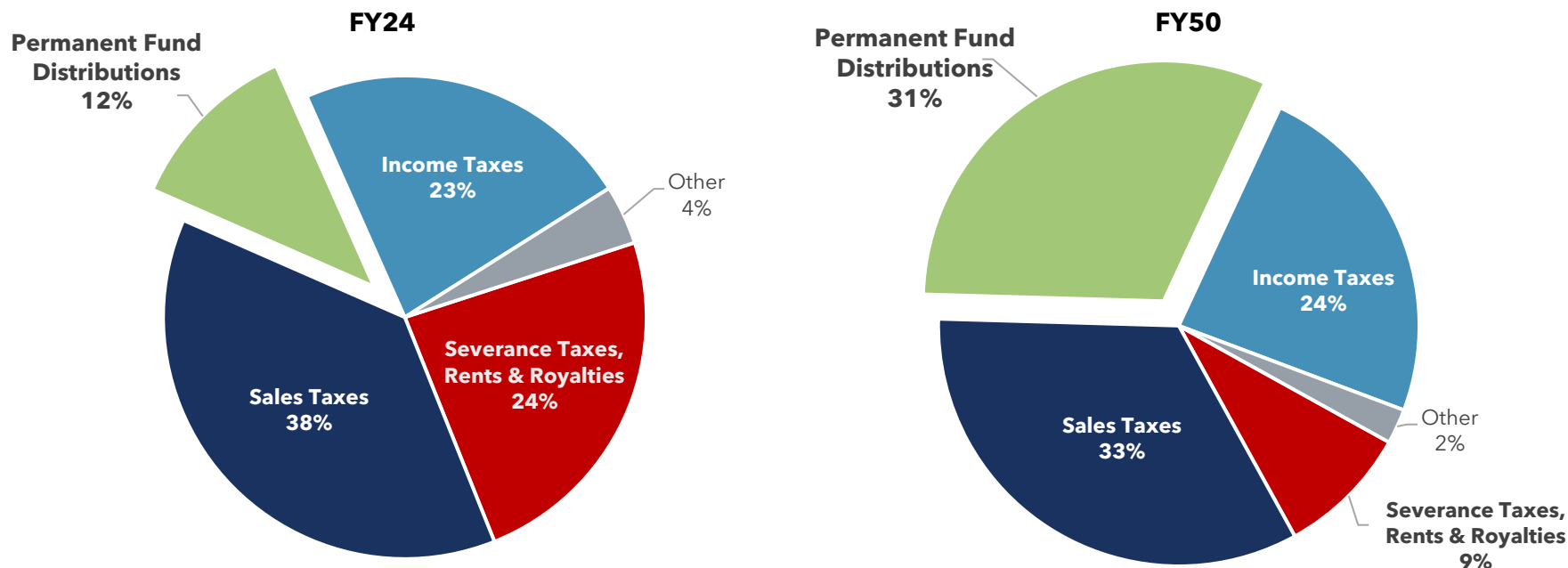
Note: Dollars in millions; estimates based on 2024 capital market assumptions and NMSIC staff analysis of data from Rystad Energy and Oxford Economics. Actual oil and gas revenues and STPF distributions will depend on market performance and fund contributions.

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

In its July 2023 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



Source: NM State Investment Office analysis of NM Consensus Revenue Estimating Group Long-Term Revenue Outlook, July 2023, Baseline Scenario

CLOSING TOPICS, Q&A

The SIC has seen its assets more than triple over the last dozen years, and double in the last five, without any expansion of staff.

- This concern can be addressed by increasing staff resources, including improved compensation for recruitment & retention OR through much more expensive outsourcing for expertise.

The SIC is taking steps to improve outreach and collaboration with sister agencies when appropriate:

- Staff working with NMFA, EDD & others on NM venture investments
- Staff assisting Legislative Council Service with fund drafting guide
- Staff providing input & analysis to the CREG re: transition scenarios

The Council is aiming to hold a strategic retreat near-term to address longer-term priorities and goals.