FISCAL IMPACT REPORT

SPONSOR	Sanchez/Roybal Caballero/Barrone/ Romero, A.	**ORIGINAL DATE** **LAST UPDATED**	1/29/2020	**HB**	99
SHORT TITLE	Renewable Energy Investment Policy Funding			**SB**	
				ANALYST	Iglesias

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
$50.0		Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Moderate	Moderate		Moderate	Nonrecurring	SIC Operating Budgets

Parenthesis ( ) indicate expenditure decreases

Companion to HM 9

SOURCES OF INFORMATION
LFC Files

Responses Received From
State Investment Council (SIC)
State Land Office (SLO)

SUMMARY

Synopsis of Bill

House Bill 99 appropriates $50 thousand to the state investment office to spend in fiscal years 2020 and 2021 to create a strategic plan for growing the state's renewable energy industry.

FISCAL IMPLICATIONS

According to SIC staff, the potential fiscal impact beyond the appropriation is highly speculative, but there are reasons to believe the impact could be significant. SIC staff provide the following discussion regarding the fiscal implications of this appropriation:

> "As the alternative energy market grows, having the guidance of an expert review may assist the council in making investments in New Mexico that are most likely to take advantage of this positive trend.
>
> Further, in the past the SIC's investments in New Mexico's alternative energy industry, because of their highly speculative nature, have been made primarily through differential rate investment authorized only for the Severance Tax Permanent Fund (STPF, valued at $5.6 billion as of December 31, 2019). With recent changes in the alternative energy industry, it is possible that investments in New Mexico's alternative energy may reasonably be expected to produce market rate returns suitable for investments from the Land Grant Permanent Fund (LGPF). In this regard, Larry Fink, the Chairman and Chief Executive Officer of BlackRock, one of the world's largest asset managers, wrote in his most recent annual CEO letter:
>
>> As a fiduciary, our responsibility is to help clients navigate this transition [to alternative energy]. Our investment conviction is that sustainability- and climate-integrated portfolios can provide better risk-adjusted returns to investors. And with the impact of sustainability on investment returns increasing, we believe that sustainable investing is the strongest foundation for client portfolios going forward.
>>
>> The Annual CEO Letter is available at https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter). Accordingly, there is at least the possibility that a consultant may conclude that market rate investments can be made in New Mexico's alternative energy industry. If this conclusion were reached, the SIC could prudently make more such investments using a portion of the much larger LGPF (valued at $19.7 billion as of December 31, 2019)."

The State Land Office (SLO) state this bill has no direct fiscal impact to SLO; however, agency resources would be allocated to assist with the strategic plan. SLO indicates that to the extent this plan leads to renewable energy projects occurring on state trust lands, there would be a positive but undetermined impact with respect to SLO revenue generation.

SIGNIFICANT ISSUES

The following discussion was provided by SIC staff:

> "At this point, the SIC is unaware of any specific firm that is doing this sort of analysis, so it is difficult to say with certainty whether $50,000 would be sufficient to produce the type of report and plan that would be most useful. Based upon experience with similar types of work, however, it appears that $50,000 would be sufficient to at least obtain a high-level plan with further details to be developed over time. Further, the expertise of the Investment Office is in investing, not in economic development. So, while making strategic investments can play an important role, an investment strategy alone cannot be expected to provide a comprehensive plan for growing New Mexico's alternative energy businesses."

The State Land Office provides the following discussion regarding this bill:

"The State Land office supports efforts to foster the development of renewable energy projects. Renewable energy projects are important in generating the State's clean energy needs, but also provide the State Land Office with an important revenue stream to the extent they occur on state trust lands.

Creation of a State Investment Council strategy for renewable energy development will provide New Mexico additional tools to make sound decisions in stewarding our clean energy resources. Recognizing and leveraging New Mexico's superior position with respect to renewable energy potential, Commissioner Garcia Richard established the State Land Office's first ever Office of Renewable Energy, which is a distinct division focusing on expediting solar and wind projects on state trust lands.

This new office presently manages 15 active long-term leases for renewable energy projects; nine of which are for wind farms, while six leases are for solar power facilities. There are 46 applications currently being processed to lease state trust land for the development of wind and solar power facilities.

These and other renewable energy projects could benefit from targeted and focused investment.
The creation of such a strategic investment plan could also encourage the creation of specific uniform and consistent criteria for eligibility for state investment in renewable energy before 2021."

ADMINISTRATIVE IMPLICATIONS

According to the State Land Office, there would be a modest impact on the State Land Office's renewable energy office in collaborating with the SIC on the strategic plan contemplated by this bill's companion HM 9.

COMPANIONSHIP

The companion to this bill, House Memorial 9, requests that the State Investment Office develop a strategic plan, with the consultation of the State Land Office, for state investment in New Mexico's renewable energy, storage and transmission projects. The State Investment Office recommendations would be reported to the State Investment Council (SIC) and appropriate interim legislative committees by 2021.

HM9 notes the desirability of:
- quantifying the impact of renewable investments to supplement oil and gas investments;
- identifying those investments' vehicles;
- identifying state funding sources;
- strategies for financing;
- focusing on renewable projects on tribal and state lands;
- identifying potential partners to develop renewable projects and investments;
- identifying quantifiable metrics for measuring increases resulting from the investments; and
- other relevant information.

New Mexico renewable energy projects include energy generated from wind, solar and other renewable sources and storage and transmission resources that are predominantly used to store or transmit renewable energy generated with New Mexico or New Mexico-based renewable energy equipment manufacturing facilities.

ALTERNATIVES

SIC staff note the SIC is self-funded by the assets they manage (e.g. the land grant permanent fund and severance tax permanent fund), and typically does not receive general fund dollars. The SIC could fund such a study at the direction of the legislature, assuming the 11-member council does not object.

DI/al