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AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

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(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: 02/14/25 *Check all that apply:*
Bill Number: HB 25 Original Correction
 Amendment Substitute

Sponsor: Garcia, M. **Agency Name and Code** 337 – State Investment Council
Short Title: Land Grant-Merced Infrastructure Act **Number:** _____
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
	\$20,000.0	Nonrecurring	General Fund <i>(to Land Grant-Merced Infrastructure Trust Fund)</i>
	\$50.0	Recurring	Land Grant-Merced Infrastructure Project Fund <i>(to Land Grant Council)</i>

(Parenthesis () indicate expenditure decreases); estimates are rounded to the nearest thousand

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
	(\$18,000.0)	(\$0.0)	Nonrecurring*	Land Grant-Merced Infrastructure Trust Fund
	\$18,000.0	\$0.0	Nonrecurring*	Land Grant-Merced Infrastructure Project Fund <i>(from trust fund)</i>
\$19,700.0	\$19,800.0	\$20,300.0	Recurring	Land Grant-Merced Infrastructure Project Fund <i>(from severance tax bonding fund)</i>

(Parenthesis () indicate revenue decreases); estimates are rounded to the nearest thousand

*bill creates a recurring mechanism that is not sufficiently funded to sustain, see fiscal implications

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	This bill will require additional time from investment, accounting, and administrative staff; see administrative implications				Recurring	LGPF/STPF

(Parenthesis () Indicate Expenditure Decreases)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

House Bill 25 appropriates \$20 million from the general fund to a newly created Land Grant-Merced Infrastructure Trust Fund (the “Trust Fund”) in FY26 to be invested by the State Investment Officer.

If sufficient funds are available, the Trust Fund will make an annual \$18 million distribution on July 1 to a newly created Land Grant-Merced Infrastructure Project Fund (the “Project Fund”). The distribution amount would change to 4.7% of the prior 5-year average market value of the Trust Fund once that amount exceeds \$18 million.

Additionally, the bill allocates 1.1 percent of severance tax bond (STB) capacity for land grant-merced infrastructure projects and appropriates the bond sale proceeds to the Project Fund.

The Land Grant Council, along with DFA, would administer the Project Fund and may create rules and procedures for originating grants for qualified projects. The bill requires an interim legislative committee to review rules proposed by the Land Grant Council and requires the council to brief the legislative committee on grant proposals submitted to the council.

The balance of the Project Fund is appropriated to the Land Grant Council in FY26 and subsequent years for qualified projects. The bill appropriates the lesser of 1 percent or \$50 thousand of the Project Fund balance to the Land Grant Council to administer applications to the fund. Any unexpended/unencumbered funds at the end of a fiscal year would revert to the Project Fund. Project Fund balances do not revert to the Trust Fund or the general fund.

This bill has no effective date; the assumed effective date is 90 days following the end of the session (June 20, 2025).

FISCAL IMPLICATIONS

The new Trust Fund is seeded with a \$20 million appropriation from the general fund, assumed to be deposited in July 2025 (FY26).

Immediately after receiving this initial appropriation, the Trust Fund will distribute \$18 million to the Project Fund. Without additional appropriations into the Trust Fund, the remaining balance of \$2 million will remain in the Trust Fund to grow via investment earnings until it again reaches the \$18 million threshold to make a distribution to the Project Fund (roughly 34 years depending on market performance).

In addition to the Trust Fund distribution, the Project Fund will receive regular inflows from a 1.1 percent earmark of severance tax bonding (STB) capacity, which would provide recurring funding for land grant-merced projects. Since the bill has no effective date (becoming effective on June 20, 2025) the earmark is assumed to apply to the June 30, 2025 bond sale, affecting FY25 STB capacity.

Land Grant-Merced Infrastructure Trust Fund (\$millions)					
Calendar Year	Beginning Balance	Contrib	Investment Gains & Losses	Distrib	Ending Balance
2025	\$0.0	\$20.0	\$0.0	-\$18.0	\$2.0
2026	\$2.0	\$0.0	\$0.1	\$0.0	\$2.1
2027	\$2.1	\$0.0	\$0.1	\$0.0	\$2.3
2028	\$2.3	\$0.0	\$0.2	\$0.0	\$2.5
2029	\$2.5	\$0.0	\$0.2	\$0.0	\$2.6
2030	\$2.6	\$0.0	\$0.2	\$0.0	\$2.8
2031	\$2.8	\$0.0	\$0.2	\$0.0	\$3.0
2032	\$3.0	\$0.0	\$0.2	\$0.0	\$3.2
2033	\$3.2	\$0.0	\$0.2	\$0.0	\$3.4
2034	\$3.4	\$0.0	\$0.2	\$0.0	\$3.7
2035	\$3.7	\$0.0	\$0.3	\$0.0	\$3.9
2036	\$3.9	\$0.0	\$0.3	\$0.0	\$4.2
2037	\$4.2	\$0.0	\$0.3	\$0.0	\$4.5
2038	\$4.5	\$0.0	\$0.3	\$0.0	\$4.8
2039	\$4.8	\$0.0	\$0.3	\$0.0	\$5.2
2040	\$5.2	\$0.0	\$0.4	\$0.0	\$5.5

Land Grant-Merced Project Fund (\$millions)						
Fiscal Year	Beginning Balance	Contrib. from Trust Fund (July 1)	Contrib. from 1.1% STBs (June 30)	Admin Expenses	Approp. to Land Grant Council for Projects	Ending Balance
FY25	\$0.00	\$0.00	\$19.70	\$0.00	\$0.00	\$19.70
FY26	\$19.70	\$18.00	\$19.82	-\$0.05	-\$37.65	\$19.82
FY27	\$19.82	\$0.00	\$20.26	-\$0.05	-\$19.77	\$20.26
FY28	\$20.26	\$0.00	\$20.78	-\$0.05	-\$20.21	\$20.78
FY29	\$20.78	\$0.00	\$20.89	-\$0.05	-\$20.73	\$20.89
FY30	\$20.89	\$0.00	\$20.62	-\$0.05	-\$20.84	\$20.62
FY31	\$20.62	\$0.00	\$20.08	-\$0.05	-\$20.57	\$20.08
FY32	\$20.08	\$0.00	\$19.63	-\$0.05	-\$20.03	\$19.63
FY33	\$19.63	\$0.00	\$19.40	-\$0.05	-\$19.58	\$19.40
FY34	\$19.40	\$0.00	\$19.67	-\$0.05	-\$19.35	\$19.67
FY35	\$19.67	\$0.00	\$19.00	-\$0.05	-\$19.62	\$19.00
FY36	\$19.00	\$0.00	\$19.00	-\$0.05	-\$18.95	\$19.00
FY37	\$19.00	\$0.00	\$19.00	-\$0.05	-\$18.95	\$19.00
FY38	\$19.00	\$0.00	\$19.00	-\$0.05	-\$18.95	\$19.00
FY39	\$19.00	\$0.00	\$19.00	-\$0.05	-\$18.95	\$19.00
FY40	\$19.00	\$0.00	\$19.00	-\$0.05	-\$18.95	\$19.00

The table above provides a simplified example of potential investment returns for the Trust Fund and revenues/expenditures to and from the Project Fund.

The Trust Fund is required to distribute \$18 million until 4.7 percent of the five-year average value of the fund exceeds that amount. To distribute more than \$18 million, the Trust Fund would need a five-year average of at least \$383 million.

Because the initial appropriation to the Trust Fund is \$20 million, and there are no additional revenues into the fund, it would only be able to make one distribution in FY26, with the balance of \$2 million remaining in the fund. The table above assumes a long-term annual average investment return of 7 percent for the purpose of this analysis.

For the Project Fund, approximately \$37.6 million would be available for land grant-merced projects in FY26 (this includes \$19.7 million from the FY25 bond sale and \$18 million from the Trust Fund distribution). The table above assumes the entire appropriated amount would be spent that year; however, in practice, any remaining unspent funds would revert to the Project Fund and would be available for use in subsequent years.

Bond sales generally occur on December 31st and June 30th. For this analysis, we assume the proceeds from the STB earmark are part of the June 30 bond sale each year, making those funds available for projects the following fiscal year.

Under this assumption, approximately \$19.77 million would be available in FY27 for land grant-merced projects, and the Project Fund would receive an inflow of \$20.3 million in STB proceeds at the end of that fiscal year, which would be available for expenditure in FY28 (less a \$50 thousand appropriation to the Land Grant Council for administrative costs).

PERFORMANCE IMPLICATIONS

The State Investment Officer, with the approval of the State Investment Council would manage the Fund in accordance with the Uniform Prudent Investor Act and would seek to ethically optimize risk-adjusted returns and grow the fund over time. The Council does not currently have a “boilerplate” asset allocation for any fund, including the proposed Fund, but it is a fair assumption that the new fund could/would be constructed in a manner similar to other permanent/trust funds managed by the SIC.

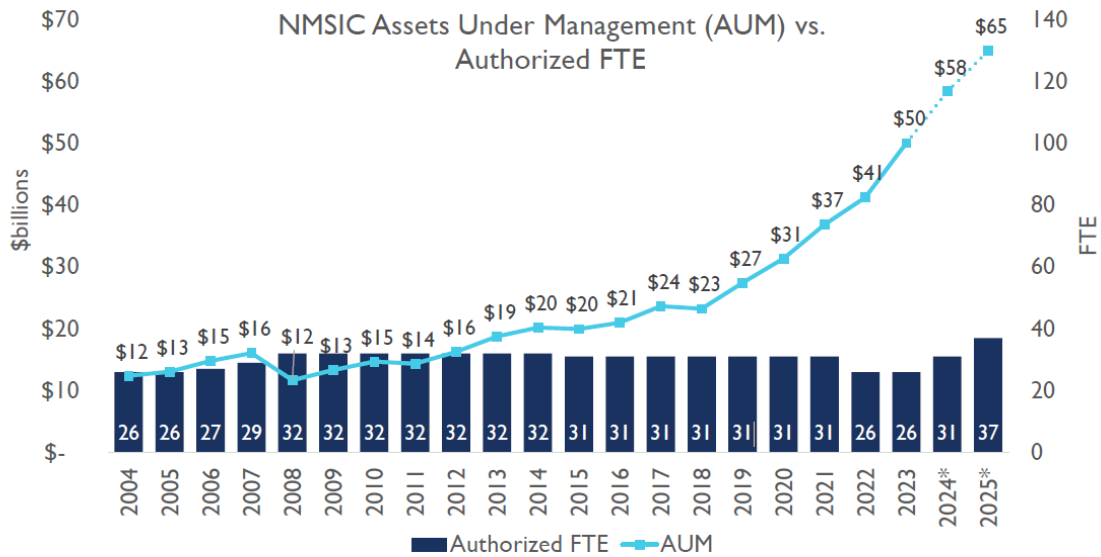
ADMINISTRATIVE IMPLICATIONS

This bill will require additional time from investment, accounting, and administrative staff at the SIC. The SIC’s budget is funded out of the land grant and severance tax permanent funds and does not receive general fund support.

Historically, the SIC managed 4 permanent funds (the land grant permanent fund, severance tax permanent fund, water trust fund, and tobacco settlement permanent fund). Since 2019, the Legislature placed 8 additional funds under SIC management, bringing total funds under SIC management to 12 and growing total assets under management (AUM) to over \$58 billion as of December 2024 (more than double the \$27.4 billion total AUM at the end of December 2019).

Growth in AUM requires increasing staff time to implement the funds’ asset allocation strategies, which rely heavily on private market investments (e.g. private equity, private credit, real estate, etc.) in addition to traditional stock and bond exposures. About 30 percent of total AUM is invested in private market strategies, which seek to enhance returns and diversify exposures, and the Council’s strategic asset allocations target over 50 percent private assets. More assets allocated to these strategies requires staff to source and diligence a growing number of new private fund commitments each year, which is a time-intensive and rigorous process.

Despite rapid growth in AUM, authorized FTE for the State Investment Office has not kept pace, as shown in the chart below. The SIC’s budget request for FY26 included full funding for all 37 authorized FTE, and expert opinions discussed at the SIC’s strategic retreat in December 2024 suggested a need to double the number of investment staff and increase the number of legal and accounting staff to facilitate increased workloads, mitigate risk and maintain proper ongoing due diligence of investments.



*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

This bill is one of several bills introduced so far this session that seek to create new funds to be placed under SIC management:

- House Bill 7 creates a new Children’s Future Fund to be managed by the SIC. The bill seeks to seed the fund with an initial \$5 million general fund appropriation.
- House Bill 11 seeks to create a new Paid Family Medical Leave Fund to be managed by the SIC (however, SIC noted in its fiscal impact report that this is an expenditure fund that would be best managed by the State Treasurer’s Office).
- House Bill 113 creates a new Animal Welfare Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$10 million general fund appropriation.
- Senate Bill 1 creates a new Behavioral Health Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$1 billion general fund appropriation.
- Senate Bill 88 creates a new Medicaid Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$300 million general fund appropriation.
- Senate Bill 234 creates a Tribal Education Trust to be managed by SIC. The bill seeks to seed the trust fund with a \$100 million general fund appropriation.
- Senate Bill 358 creates a new Equine Shelter Rescue Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$20 million general fund appropriation.
- Senate Bill 374 creates a Land Grant-Merced and Acequia Infrastructure Trust Fund to be managed by the SIC.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Language in the bill runs contrary to the clean-up language around Trust/Program fund functions in Senate Bill 202, which creates standardized language requiring investment of funds to be in accordance with the Uniform Prudent Investor Act.