LFC Requester:	Hilla

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: *02/17/25*
Bill Number: *SB 397*

Check all that apply:
Original _x_ Correction __
Amendment __ Substitute __

Sponsor: Maestas, Jaramillo

Short Title: New Mexico Next Generation Act

Agency Name and Code: 337 – State Investment Office

Person Writing Iglesias/Wollmann

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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	**FY26**		
	$500,000.0	Nonrecurring	General Fund
	$100.0	Nonrecurring	General Fund

(Parenthesis ( ) indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25-FY43	**FY44**	**FY45**		
n/a	(Distribution to Baby Bonds Fund TBD) *		Recurring	Next Generation Trust Fund
n/a	Revenue from Next Generation Trust Fund TBD *		Recurring	Baby Bonds Fund

(Parenthesis ( ) indicate revenue decreases) *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)

Duplicates/Conflicts with/Companion to/Relates to: HB7

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Senate Bill 397 seeks to create the New Mexico Next Generation Act (the “Act”), along with a new Next Generation Trust Fund (the “Trust Fund”) and a new Baby Bonds Fund, to invest in New Mexico-born children upon birth to create financial resources those beneficiaries can use later in life in pursuit of education and housing, under rules to be developed by the Department of Finance and Administration (DFA).

Beneficiaries are defined as a person born in New Mexico on or after July 1, 2025 and who has a parent that lived in the state for at least 5 consecutive years prior to that person’s birth, or who was custodied with the Children Youth and Families Department (CYFD) or placed with a licensed child placement agency.

The bill appropriates $500 million from the general fund to the Trust Fund in FY26.

The Trust Fund is to be managed by the State Investment Officer (SIO) pursuant to the Uniform Prudent Investor Act. The stated purpose of the fund is to establish and grow a source of funding to distribute to the Baby Bonds Fund.

Beginning in 2043, DFA – along with the Department of Health (DOH) and CYFD – will provide a projection by May 1st to the SIO on the amount of eligible expenditures required for the upcoming fiscal year. The Trust Fund will make a distribution to the Baby Bonds Fund on July 1st in an amount determined by DFA in consultation with the SIO.

Money in the Baby Bonds Fund is appropriated to DFA to make eligible expenditures on behalf of beneficiaries pursuant to the Act.

DFA is tasked with promulgating rules for administering the Baby Bonds Fund, including determining a person’s status as a beneficiary, determining eligible expenditures, accounting for benefits available to individual beneficiaries, and other rules as necessary.

Monies spent on behalf of a beneficiary are to be exempt from state taxation and are not to be considered an asset for the purpose of determining a beneficiary’s eligibility for need-based public assistance programs.

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

FISCAL IMPLICATIONS

This bill appropriates $500 million from the general fund to the Next Generation Trust Fund.

The Act uses SIC’s preferred fund structure of creating two separate and distinct funds – one to serve as a trust fund with a long-term investment horizon for SIC to manage, and a separate expenditure fund to receive distributions from the trust fund that can be used to carry out the purposes of the Act.

Based on a 7 percent long-term annual compound return assumption, a trust fund seeded with $500 million has the potential to grow to almost $1.5 billion by the time it must make its first distribution on July 1, 2043 (FY44).

Because the distribution amount from the Trust Fund to the Baby Bonds Fund will be determined each year, and because the distribution amount depends at least in part upon rules to be established by DFA at a future date, we are unable to model the long-term sustainability of the fund at this time.

SIGNIFICANT ISSUES

The New Mexico Next Generation Act and the trust fund it seeks to create for the benefit of current and future generations of New Mexicans, offers potential solutions or at least mitigating factors to help address New Mexico's long-standing challenges around poverty, access to higher education, and resources for home-ownership. The broad solutions the Act contemplates in these targeted areas could be core to creating lasting opportunities for New Mexico families that can help them escape the cycle of poverty by developing generational wealth that can drastically improve many lives.

There are, however, potential structural, legal and logistical challenges around the proposal, including a permanent funding source, potential conflict with the state's anti-donation clause, and uncertain costs around the long-term administration of such a program.

PERFORMANCE IMPLICATIONS

The State Investment Officer, with the approval of the State Investment Council would manage the Trust 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 Trust 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

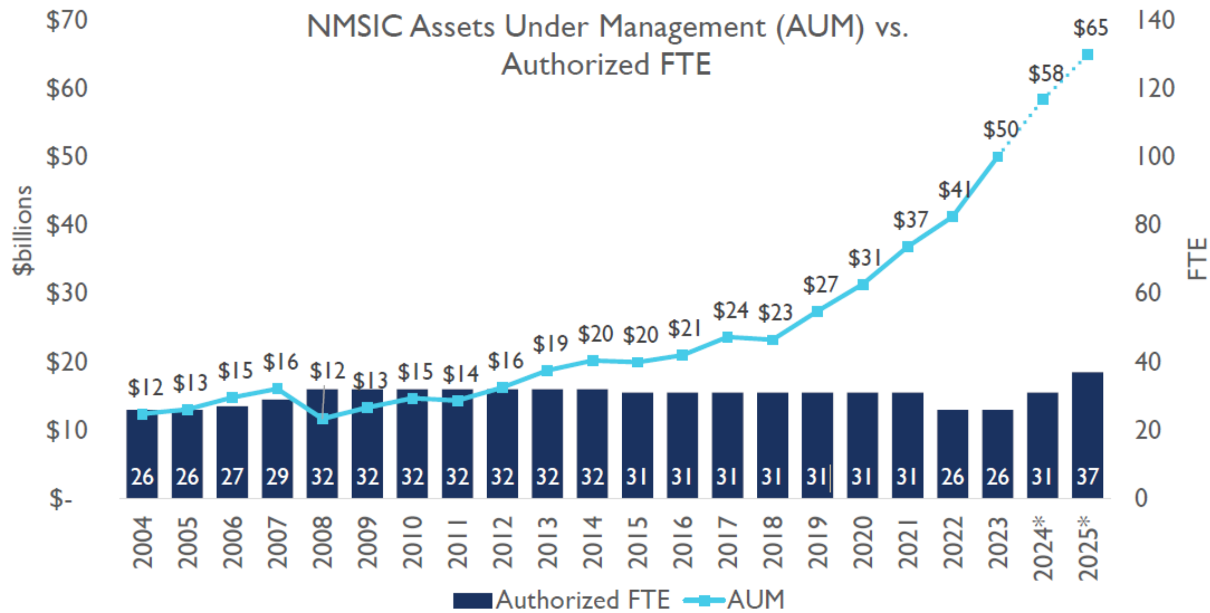
The creation of a new fund for SIC management will require additional time from investment, accounting, and administrative staff at the SIC. The SIC's budget is funded out of the land grant and severance tax permanent funds and does not receive general fund support.

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.

Having 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, external 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 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 25 creates a new Land Grant-Merced Infrastructure Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a $20 million general fund appropriation.
- 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 new Tribal Education Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a $100 million general fund appropriation.

- Senate Bill 358 creates a new Equine Welfare Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a $20 million general fund appropriation.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 7 creates the Children's Future Act and Children's Future Fund, which have a similar purpose to that of SB397 but with several distinct differences. HB7 creates only one fund to carry out the purposes of the Act, splitting investment responsibilities between the State Investment Council and the State Treasurer's Office, which at a minimum creates additional administrative complexity and may not be technically possible given the nature of how funds are created within the treasury system and with our custodian bank. HB7 also has a different definition of the Act's beneficiaries, an expanded set of eligible expenditures, and creates a task force to promulgate rules for the Act over a six-month period between July-December 2025.