FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Pinto	**ORIGINAL DATE**	2/24/2025
SHORT TITLE	Investment in New Mexico Private Equity	**BILL NUMBER**	Senate Bill 413
		ANALYST	Gray

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Interest Earnings	**$0**	**$0**	**$0**	**$0**	**Up to ($500.0)**	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Conflicts with Senate Bill 162

Sources of Information

LFC Files

Agency Analysis Received From
State Investment Council (SIC)
Economic Development Department

SUMMARY

Synopsis of Senate Bill 413

Senate Bill 413 (SB413) increases the amount of the severance tax permanent fund that may be invested in below-market-rate investments. Specifically, the bill changes the amount the State Investment Council (SIC) may allocate from the severance tax permanent fund to the New Mexico Private Equity Investment Program (NMPEIP) from the current allowable allocation of 11 percent to 14 percent.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted.

FISCAL IMPLICATIONS

SIC analysis notes that the amount of funding available for in-state private equity investments will organically increase alongside the projected growth of the severance tax permanent fund. The agency writes:

> SIC's program has plenty of additional capacity under current law, and it should be noted that New Mexico Finance Authority (NMFA) has a similar $50 million investment program supporting double-impact investments in New Mexico, as well as an additional $70 million program NMFA operates in conjunction with the Economic Development Department funded by the federal State Small Business Credit Initiative, which has similar goals of supporting start-up companies through investment and/or loans.

However, by increasing the allowable allocation to the NMPEIP from 11 percent to 14 percent (a 27 percent increase), the Legislature may signal to SIC its desire for the agency to increase the amount of funding to its in-state private equity investments. SIC currently has set a target to increase its private equity investments to be 9 percent of the severance tax permanent fund, about $950 million at the fund's current value.

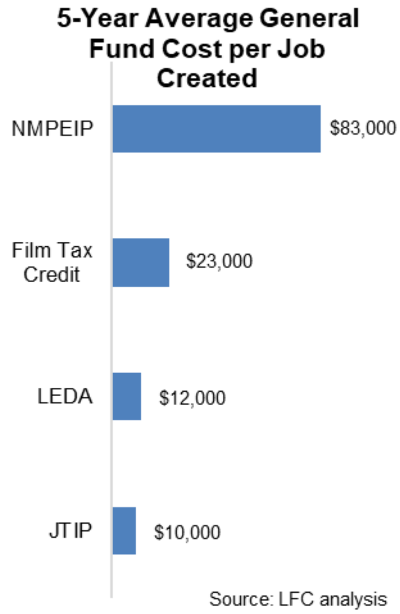
This analysis assumes that SIC would interpret the passage of SB413 as a mandate to increase its allocation by 3 percentage points. Under this assumption, there would be a decrease of general fund revenue because NMPEIP investments perform worse than market-rate investments, dragging down STPF balances, and decreasing general fund disbursements. This would reduce recurring general fund revenues by up to $500 thousand by FY29. This amount could grow substantially as losses compound over time.

SIGNIFICANT ISSUES

NMPEIP supports private equity funds that make investments into New Mexico companies. The program's objective is to promote economic development. In August 2024, the value of the severance tax permanent fund was $9.93 billion, and NMPEIP was valued at $467 million, or approximately 4.7 percent of the overall fund. Over the last 10 years, the return of NMPEIP investments has been negative, with the fund's internal rate of return (IRR) at negative 1.2 percent. Actual returns were negative 0.4 percent over that period, according to agency analysis.

NMPEIP carries a dual mandate of producing general fund investment returns and stimulating economic development. The program has not met the first prong of this mandate.

NMPEIP likely meets the second prong of its mandate to stimulate economic development, but the program accomplishes this mandate at a high cost. SIC measures the economic impact of NMPEIP with estimates of job growth, total payroll, and various other performance measures. Between the first quarter of 2019 and the first quarter of 2024, the program is estimated to have created 1,781 jobs for an average general fund cost per job of about $83 thousand, significantly more expensive than other state economic development programs. Limiting the size of the NMPEIP will ensure that state dollars are better allocated towards programs and investments with higher returns.



Regarding its lagging performance, SIC notes the agency has restructured its investment program, shifting away from a dedicated co-investment strategy to diversify its portfolio and increase the number of managers and total companies. The agency expects a greater return on the program moving forward but asserts that it "will take several years however to fairly assess the impacts of the SIC's strategy pivot and whether historical underperformance will turn around as expected."

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill conflicts with SB162, which would change the allowable allocation of the STPF to in-state private equity investments from 11 percent to $700 million.

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