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FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Serrato/Dixon	**ORIGINAL DATE**	2/7/2024
SHORT TITLE	State Investment in Climate Technology	**BILL NUMBER**	House Bill 259
		ANALYST	Gray

APPROPRIATION*
(dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
	$190,905.0	Recurring	Severance Tax Permanent Fund

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

REVENUE*
(dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
Investment Earnings		($10,807.0)	($11,571.0)	($12,379.9)	($13,246.5)	Recurring	Severance Tax Permanent Fund

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

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
State Investment Council (SIC)
Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of House Bill 259

House Bill 259 (HB259) requires 2 percent of the severance tax permanent fund (STPF), or about $190.9 million, to be invested in private equity funds that support climate technology. While the bill does not directly make an appropriation, the bill does earmark 2 percent of the STPF value, which has a similar effect as if that money had been appropriated.

The effective date of this bill is July 1, 2024.

FISCAL IMPLICATIONS

The appropriation of $190.9 million contained in this bill is a recurring expense to the STPF. The bill does not include a recurring appropriation, but diverts or "earmarks" revenue, representing a recurring loss from the general fund. LFC has concerns with including continuing distribution language in the statutory provisions for funds because earmarking reduces the ability of the Legislature to establish spending priorities.

This analysis uses estimates from the State Investment Council (SIC) to estimate the loss in revenue in the STPF. The agency writes:

> The estimated loss in revenue is calculated using the difference in the historic rate of returns generated by the entire STPF and the returns generated by the New Mexico private equity program operating pursuant to NMSA § 7-27-5.15. The rates used for this calculation are the annualized rates for the 10-year period ending June 30, 2023, (those rates are 6.61% and 1.30%, respectively, for the STPF as a whole and the NM private equity program).

The agency goes on, noting historical returns suggest HB259 will result in lower returns and reduced revenue, but it is not guaranteed. The agency writes:

> HB259 calls for investing in climate tech funds that, given current market circumstances, may reasonably be expected to outperform the STPF as a whole. For example, SIC recently invested in two private equity funds that will be investing in climate tech that had previously provided returns significantly higher than the overall returns STPF earned over the last decade. Past performance, however, is no guarantee of future performance.

Should these investments outperform the STPF, revenue impact in the table above would be positive. This analysis presents SIC estimates.

The agency concludes by writing the HB259 mandate to invest in climate technology private equity carries investment risk and that investments in climate technology industries have been particularly volatile "making the uncertainty of investment results even more pronounced. The ultimate cost or benefit of HB259, therefore, cannot be set out with certainty."

SIGNIFICANT ISSUES

SIC points out, by requiring a fixed mandate, the agency may be required to change its investment levels "in a way that is completely detached from a rational analysis of investment opportunities" in climate technology.

The agency also notes that private equity may not be the best means of deploying capital as the industry matures.

> Private equity as an asset class generally has a high fee structure that can only be justified for investments in companies expected to grow quickly and exponentially. As technology matures, there is likely to be less need for private equity investments, with its high return expectations, and more demand for other types of capital structures. At present, however, the expectation is that there will be ample opportunity for investments in climate tech.

Section 7-27-5.15 NMSA 1978 limits targeted private equity investments to 11 percent of the value of the STPF.

BG/ss/hg/ss