

STATE INVESTMENT IN TECHNOLOGY PROGRAMS: SIC STRATEGIES & IMPACTS

Science, Technology and Telecommunications Committee

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WHAT IS THE NMSIC?

- Council established in 1958 to manage the Land Grant Permanent Fund
- Today oversees investment of NM's ~\$58 billion in permanent, endowment & reserve funds
- Today managing 12 different funds, each with specific beneficiaries, time horizons & goals
- Also investing for 25 state entities with \$2B+ in long-term investments
- Oversight board of Governor, Land Commissioner, Treasurer & eight qualified appointees (4 by Governor, 4 by Legislature)
- Second-largest stand-alone SWF organization in U.S.; top 35 globally

GROWING IMPORTANCE OF INVESTMENT FUNDING FOR PUBLIC SCHOOLS AND EARLY CHILDHOOD

Public School Funding	FY23	FY24	FY25
Public School Support Operating Budget (\$MM)	\$ 3,873	\$ 4,176	\$ 4,427
Early Childhood Funding	FY23	FY24	FY25
ECECD General Fund Budget (\$MM)	\$ 196	\$ 327	\$ 348
Early Childhood Trust Fund Budget (\$MM)	\$ 30	\$ 150	\$ 250
Subtotal Early Childhood GF+ECTF (\$MM)	\$ 226	\$ 477	\$ 598
Other Early Childhood Funding Sources	\$ 237	\$ 168	\$ 112
Total Early Childhood System (all funding sources)	\$ 462	\$ 645	\$ 709

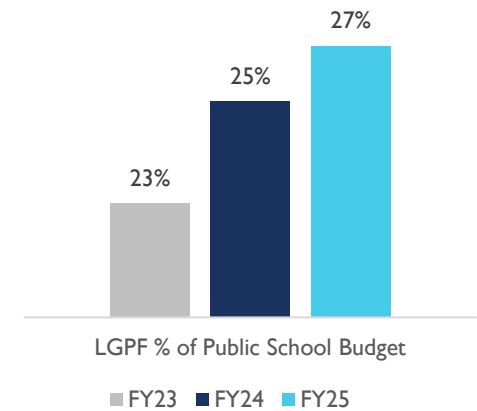
Source: LFC Post-Session Reports

Permanent/Endowment Funds	FY23	FY24	FY25
LGPF 5% Distrib. for Common Schools	\$ 886	\$ 967	\$ 1,082
40% of add'l LGPF 1.25% for Public Schools	\$ -	\$ 97	\$ 108
Total LGPF Distrib. for Public Schools	\$ 886	\$ 1,064	\$ 1,190
ECECF Distrib. to Program Fund	\$ 30	\$ 150	\$ 250
60% of add'l LGPF 1.25% for Early Childhood	\$ -	\$ 145	\$ 162
Total Perm./Endow. Distrib. for Early Childhood	\$ 30	\$ 295	\$ 412

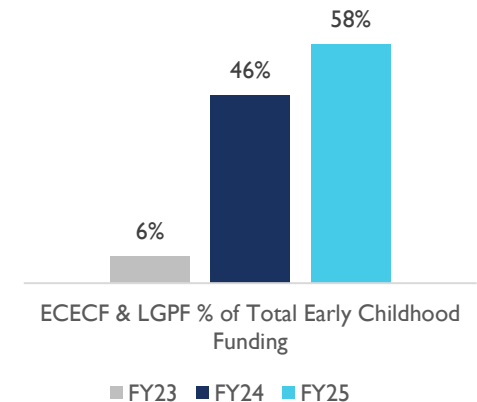
Source: NM State Investment Office

Investment Funds % of Funding	FY23	FY24	FY25
LGPF % of Public School Budget	23%	25%	27%
ECECF & LGPF % of Total Early Childhood Funding	6%	46%	58%

Investment Funding Percentage of Public School Budgets



Investment Funding Percentage of Early Childhood Budgets



PERMANENT/ENDOWMENT FUND OVERVIEW

Land Grant Permanent Fund (LGPF)

- Established in 1912 when New Mexico became a state; made up of 21 different permanent funds, each belonging to a separate beneficiary
- Receives royalties for mineral production on state trust lands - oil and gas revenues make up about 99% of contributions
- Distribution policy set in the NM Constitution - distributes 6.25% of the five-year rolling average from the permanent school fund of the LGPF (5.5% for common schools and .75% for early childhood); all other funds in the LGPF distribute 5% of the five-year rolling average to each beneficiary

Severance Tax Permanent Fund (STPF)

- Established in 1973 as the depository for severance taxes not being used to repay capital outlay projects
- Receives severance tax revenue not otherwise used for bonding capacity for capital outlay projects
- Beginning in FY25: receives excess oil and gas emergency school tax and federal mineral leasing revenues
- One-time legislative appropriation of \$475 million in 2023
- Distribution policy set in the NM constitution - distributes 4.7% of the five-year rolling average to the general fund (unearmarked)

Tax Stabilization Reserve (TSR)

- Transferred to SIC management in 2019 and transformed into a state reserve fund - commonly known as the state's "rainy day" fund
- Receives Oil and Gas Emergency School Tax revenue above the five-year average, if total general fund reserves are *less than* 25% of recurring appropriations
- Money in the TSR may be appropriated to shore up the general fund budget in the event of a revenue downturn, or by a 2/3 vote of the House and Senate

Early Childhood Education and Care Fund (ECECF)

- Created in 2020 to provide recurring revenue to support early childhood education and care services
- Receives Oil and Gas Emergency School Tax revenue above the five-year average, if total general fund reserve balances are *more than* 25% of recurring appropriations; and receives revenue from Federal Mineral Leasing payments above the 5-year average
- Distributes 5% of the rolling 3-year average to the Early Childhood Education and Care Program Fund

Tobacco Settlement Permanent Fund (TSPF)

- Receives annual payments to the state as part of the Master Settlement Agreement between New Mexico, other states, and big tobacco companies
- Historically distributed 50% of tobacco settlement revenue to tobacco program funds; beginning FY25 will distribute 4.7% of the rolling five-year average to tobacco program funds

PERMANENT/ENDOWMENT FUND OVERVIEW

Water Trust Fund (WTF)

- Created in 2001 to conserve and protect the water resources of New Mexico – fund is enshrined in the NM constitution
- Legislative appropriations to the fund: 2006: \$40 million; 2023: \$100 million; 2024: \$50 million (NEW)
- Distributes \$4 million annually to the Water Project Fund – will distribute 4.7% of the rolling five-year average once that amount exceeds \$4 million

Rural Libraries Endowment Fund (RLEF)

- Created in 2019 to support the preservation, development and establishment of rural libraries throughout the state
- Legislative appropriations to the fund: 2019: \$1 million; 2020: \$2 million; 2022: \$10 million; 2023: \$15 million; 2024: \$2.5 million (NEW)
- Distributes investment income to the rural libraries program fund and to the Cultural Affairs Department to administer the program fund

Conservation Legacy Permanent Fund (CLPF)

- Created in 2023 to support conservation programs and initiatives across various state agencies
- Legislative appropriations to the fund: 2023: \$50 million; 2024: \$300 million (NEW)
- Distributes the prior fiscal year's investment earnings in excess of \$5 million to the Land of Enchantment Legacy Fund

Opioid Settlement Restricted Fund (OSRF)

- Created in 2023 to receive opioid settlement revenues paid to the state per New Mexico's opioid allocation agreement
- Distributes 5% of the rolling three-year average to the Opioid Crisis Recovery Fund

Workforce Development and Apprenticeship Trust Fund (WDAF) - NEW

- Created in 2024 with a one-time Legislative appropriation of \$30 million in FY24
- Distributes \$5 million the first two years and \$3 million thereafter to the Public Works Apprenticeship and Training Fund and the Workforce Solutions Department

Higher Education Trust Fund (HETF) - NEW

- Established in 2024 to provide a trust fund to pay for tuition and student financial aid programs
- Seeded with a one-time transfer of \$959 million from the Tax Stabilization Reserve in May 2024
- Distributes 5% of the three-year average to the Higher Education Program Fund

Capital Development and Reserve Fund (CDRF) - NEW

- Created in 2024 with a one-time distribution of up to \$500 million in FY24 of excess cash remaining in the severance tax bonding fund
- Beginning in FY25, receives annual distributions from the severance tax bonding fund consisting of savings generated by limiting long-term bond issuances to median state debt ratios, when such savings exist (HB253-2024)*

*Note, the annual CDRF distributions should not affect STPF revenues from the bonding fund since the statutory allocation of severance tax revenue available for bonding capacity was not changed

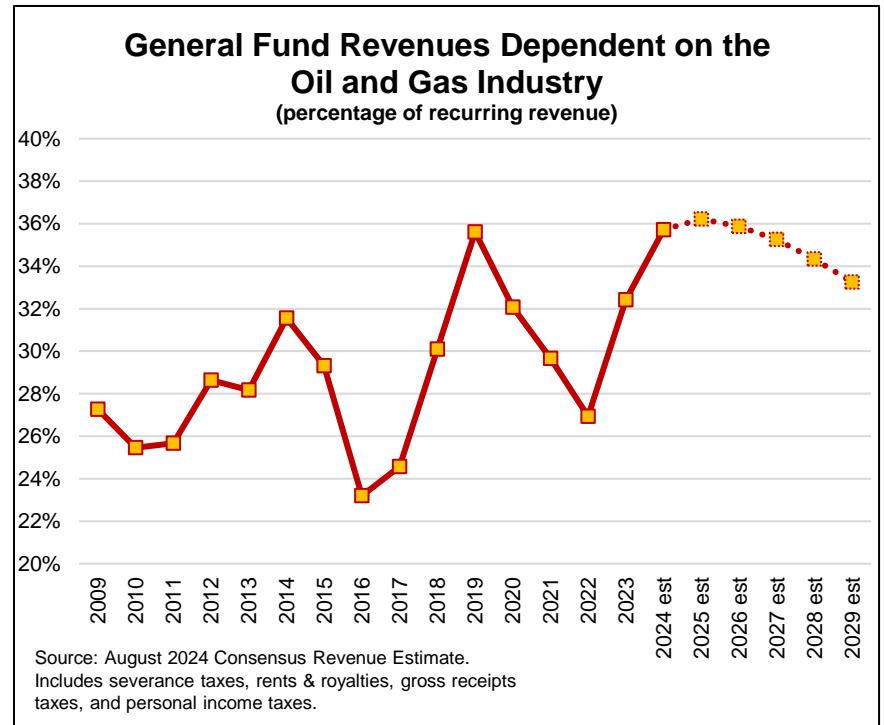
FRAMING THE ISSUE:

REVENUE REPLACEMENT vs. ECONOMIC DIVERSIFICATION

- The mining industry represents less than 3% of total employment in the state and about 10% of New Mexico’s GDP
- However, the oil & gas industry directly accounts for about 24% of general fund revenue (through severance taxes, rents and royalties) and more than 30% of the general fund when including sales taxes and other revenues

New Mexico GDP by Industry (2023)	
Government	23%
Finance, insurance, real estate, rental, and leasing	15%
Professional & business services	12%
Mining, quarrying, oil & gas extraction	10%
Educational services, healthcare, social assistance	8%
Retail trade	6%
Leisure & hospitality	5%
Construction	4%
Manufacturing	3%
Wholesale trade	3%
All other industries	10%

Source: Bureau of Economic Analysis



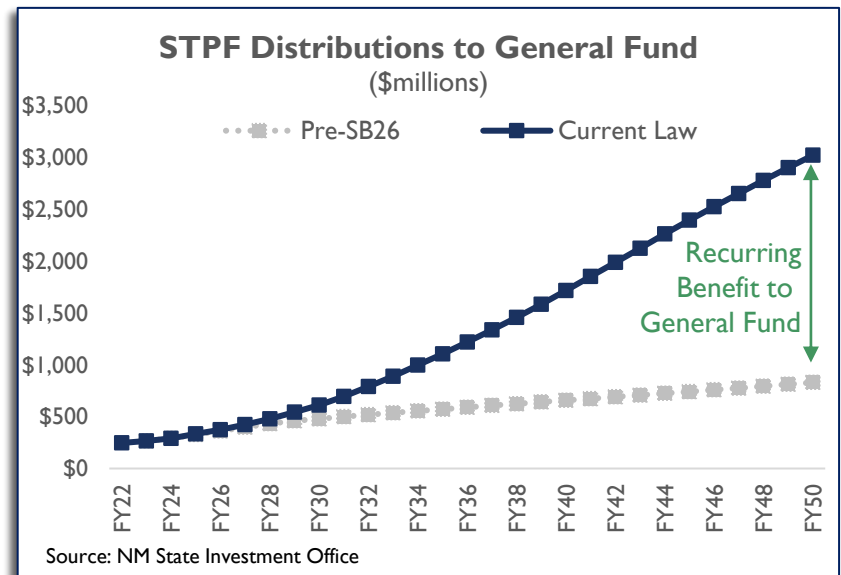
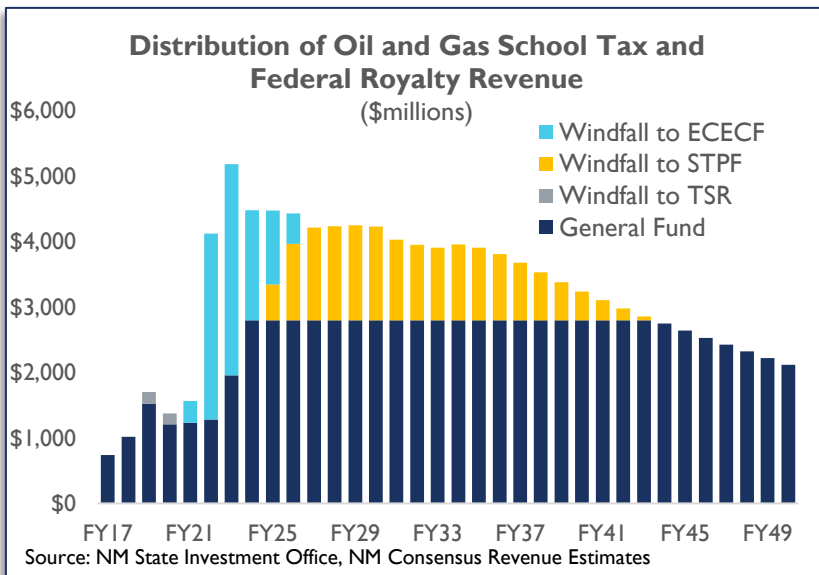
A REVENUE SOLUTION TO A REVENUE PROBLEM

Senate Bill 26 (2023) capped the amount of oil- and gas-related revenues reaching the general fund from the oil and gas emergency school tax and federal mineral leasing payments, the two largest sources of general fund oil and gas revenues.

- Does not affect the five-year average calculation that determines the amount of revenue the ECECF/TSR receives - only the revenues above the cap, but below the moving average, will be distributed to the STPF beginning in FY25

Key Benefits:

- Significantly reduces oil- and gas-related revenue volatility for the general fund
- Simplifies general fund revenue estimating for sources that are historically very difficult to predict
- Reduces general fund dependence on oil and gas revenues
- Improves general fund stability by replacing volatile energy revenue with more stable investment distributions



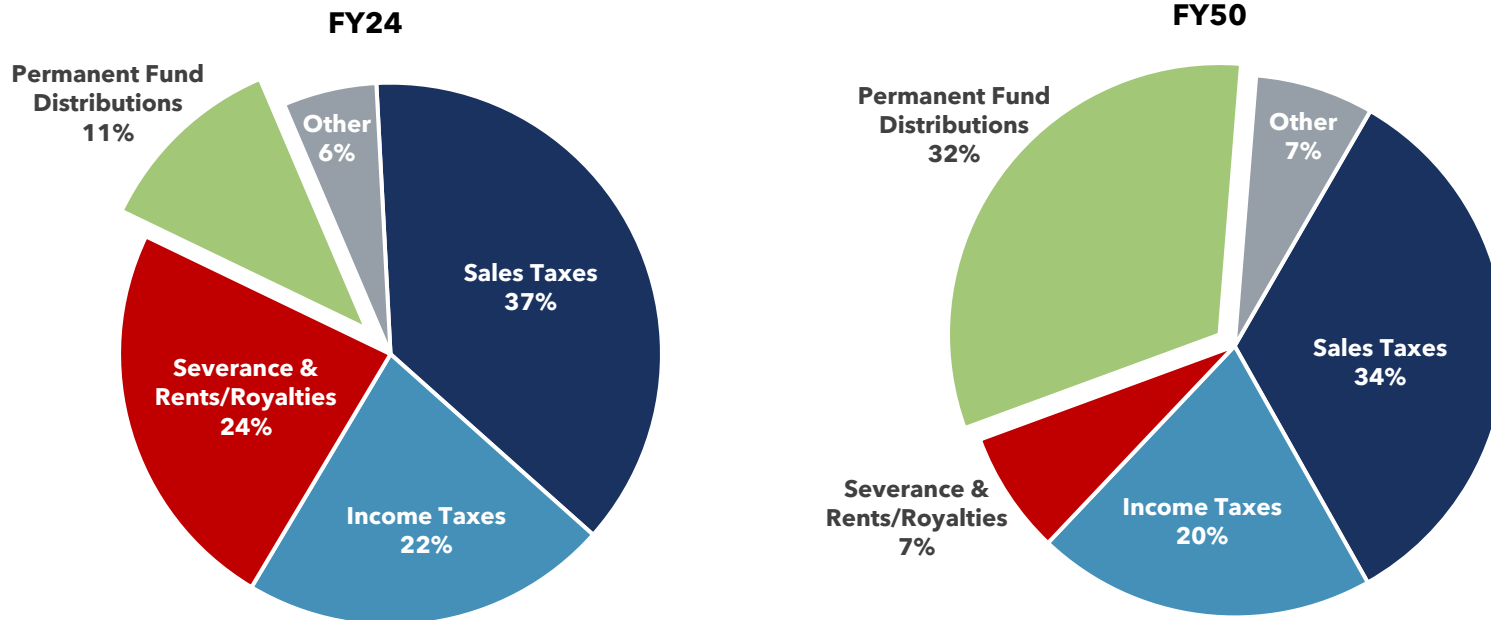
Note: Dollars in millions; estimates based on 2024 capital market assumptions and NMSIC staff analysis of data from Rystad Energy and Oxford Economics. Actual oil and gas revenues and STPF distributions will depend on market performance and fund contributions.

TRANSITIONING FROM VOLATILE OIL & GAS RELIANCE TO MORE STABLE PERMANENT FUND DISTRIBUTIONS

In its September 2024 Long-Term Revenue Outlook, NM’s Consensus Revenue Estimating Group projects general fund revenues from the oil and gas industry will decline over time as the world transitions beyond traditional energy sources.

As energy-related revenues decline, permanent fund distributions will grow significantly as a share of general fund revenue, helping to displace estimated future declines in oil and gas revenues.

Estimated Sources of General Fund Revenue



Source: NM State Investment Office analysis of NM Consensus Revenue Estimating Group Long-Term Revenue Outlook, September 2024, Baseline Scenario

PERMANENT FUNDS HELP SECURE NM'S FUTURE



FOR IMMEDIATE RELEASE

September 17, 2024

Permanent fund investments to surpass oil and gas revenue, securing New Mexico's future by 2039

Albuquerque, NM — The state's Consensus Revenue Estimating Group (CREG) is projecting that permanent fund investments in New Mexico will surpass oil and gas as the state's leading source of revenue by 2039.

CREG's economic experts unveiled the long-term revenue outlook during a meeting of the Legislative Finance Committee on Tuesday.

"Thanks to our strategic investments in the state's permanent funds and endowments, New Mexicans will continue to benefit from strong public programs such as early childhood education and the Opportunity Scholarship," said **Gov. Michelle Lujan Grisham**. "We're securing long-term prosperity and moving toward a more resilient and diversified revenue base that will pay dividends for generations to come."

Record year-over-year revenue growth has enabled historic investments in New Mexico's permanent funds, as well as education, health care, economic development, public safety and the environment, while also reducing taxes for New Mexicans.

"For years, we've talked about the need to diversify the state's revenue stream to ensure that we can continue to deliver the level of services New Mexicans deserve. We've made incredible progress," said Taxation and Revenue **Sec. Stephanie Schardin Clarke**

In 2023, the Legislature allocated \$475 million to the Severance Tax Permanent Fund, with plans to reach \$1 billion by 2033, contributing \$92 million annually. In FY25, the permanent funds will distribute more than \$2 billion to the general fund and other public entities and programs. By the decade's end, the state will deposit an estimated \$4.7 billion into this fund.

"...permanent fund investments in New Mexico will surpass oil and gas as the state's leading source of revenue by 2039."

INVESTMENTS TO DIVERSIFY THE ECONOMY

- The New Mexico State Investment Council is allowed to make investments in private equity firms which then invest directly in top New Mexico start-ups.
- The law's focus on tech transfer & commercialization, lends itself to New Mexico's strengths & existing resources - national labs & research universities
 - The Council has focused on emerging "Frontier Technologies"

Section 7-27-5.14. Findings and purpose.

The legislature finds that the health of the New Mexico economy is heavily dependent on the establishment and expansion of small businesses and that the lack of available private equity is an impediment to the start-up and growth of businesses in the state. The legislature further finds that the commercialization of technology conceived in the universities and the federal scientific and engineering laboratories and test facilities in the state is likely to occur elsewhere unless sources of local private equity are developed. The purpose of Section 7-27-5.15 NMSA 1978 is to provide a mechanism whereby the establishment of private equity funds, whose investment policies are supportive of the economic welfare of New Mexico, will be stimulated.

NM'S MULTI-PRONGED APPROACH

- The SIC's Private Equity Investment Program (NMPEIP) is one of several programs currently assisting with the launch of NM start-up companies
 - NM Small Business Investment Corporation (2% of STPF allocated to traditional small business loans)
 - NM Finance Authority Venture Program (\$50 million)
 - Impact investments, emerging managers
 - NM Economic Development Department & the State Small Business Credit Initiative (Up to \$74 million)
 - Three-tranches of federal funding, combination of equity and debt funding, with focus on economic development over return on capital

FRONTIER TECHNOLOGIES

- Quantum Sciences
- Next Generation Computing
- Artificial Intelligence
- Aerospace
- Advanced Manufacturing
- Synthetic Biology
- Advanced Energy
- 6G/Communications
- Climate Technologies

CAPITALIZING ON NM'S HARD SCIENCE RESOURCES

By law, the SIC can invest up to 11% of the ~\$9.7B Severance Tax Permanent Fund in NM Venture Funds/Start-ups. These investments seek to achieve a “double bottom-line” of financial returns & job/industry creation. This allocation complements similar investment programs overseen by the NM Finance Authority & NM Economic Development Department.

Recent/Pending SIC Commitments to NM-focused Venture Funds

Date	Fund Selected	SIC Commitment of up to (\$) millions
November 2022 / Aug. 2024	America's Frontier Fund / Roadrunner Fund	\$100
November 2022	Crosslink Ventures X/Endeavor	\$35
March 2023	Lux Ventures VIII	\$62.5
March 2023	Playground Ventures II	\$35
August 2023	Antler US II	\$40
August 2023	Thayer Ventures IV	\$10
August 2023	Tramway Ventures III	\$20
September 2023	At One Ventures	\$20
November 2023	Khosla Ventures VIII	\$75
November 2023	Dangerous Ventures I	\$10
January 2024	Next Frontier Ventures IV	\$10
February 2024	Airbus Ventures IV	\$20
February 2024	Upfront Ventures VIII	\$50
March 2024	DCVC Climate	\$50
May 2024	J2 Ventures Argonne Fund	\$15
August 2024	Outlander 3 Magellan	\$30
September 2024	Builders VC Fund III	\$65
September 2024	TK MediaTech Ventures	\$15
October 2024	Pending	TBA
Total Commitment		>\$662.5 million

SHIFT IN STRATEGY: BUILDING ENTREPRENEURS & CAPITAL SUPPLY CHAIN FOR NM START-UPS



Multi-Stage Capital Supply Chain

Venture Studio / Incubator / Accelerator

Seed & Follow-On Fund Investments

- Feedback received about NM entrepreneurial ecosystem:
 - Not enough experienced entrepreneurs
 - Gaps in the capital supply chain for start-ups
- Working with VCs and related groups to address both issues
 - Bringing in experience entrepreneurs and supporting local founders with mentorship & technical expertise, helping build effective teams
 - Working to build capacity across capital supply chain with ability to keep NM companies here