

LFC Requester:	Gray
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AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

AgencyAnalysis.nmlegis.gov and email to billanalysis@dfa.nm.gov

(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: Feb 21, 2025 *Check all that apply:*
Bill Number: SB413 Original Correction
 Amendment Substitute

Sponsor: Sen. Pinto **Agency Name and Code** 337 State Investment Council
Short Title: Investment in New Mexico Private Equity **Number:** _____
Person Writing Wollmann
Phone: 5052313334 **Email** charlesw@state.nm.us

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
NFI	NFI	NFI	Recurring	STPF

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

SB413 seeks to increase the statutory cap on differential rate investments from the Severance Tax Permanent Fund (STPF) into New Mexico private equity funds & businesses from the current 11% statutory restriction to a limit of 14% of the ~\$10.6 billion STPF.

FISCAL IMPLICATIONS

The proposal is unlikely to have any fiscal impact for the foreseeable future.

Currently the SIC makes investments in New Mexico-focused private equity/venture capital funds, with the intent of delivering financial returns as well as economic development benefits to the state. The enabling statute for this differential rate program is Section 7-27-5.15 NMSA 1978, and its intent is clearly defined in law as an effort to promote technology transfer and commercialization from our national laboratories and research universities. This program was created in the early 1990s, and has evolved over time from direct-investing, to fund co-investing to its current mix of locally-based, regional and national venture capital funds focusing on making start-up investments across seed, early and later-stage NM companies.

While the SIC's current investments in NM private equity are substantial at \$495.0 million as of 1/31/25, that amount is 0.82% of the total assets managed by SIC, and just 4.67% of the Severance Tax Permanent Fund's investments. By policy, the SIC via policy currently targets 9%, or 2% below the existing legislative cap of 11% of the STPF. Current valuations do not reflect strategy and structural shifts the Council has embarked upon over the past several years, and in particular over the past 27 months, in which the Council has committed ~\$774 million across more than 20 different venture funds, many with a national footprint. These newer commitments are intended to increase the portfolio's diversification, ramp company creation, focus on hard-science start-ups and boost levels of domain expertise among experienced and proven investment firms, all of which should result in improved financial results. These commitments will be drawn down to fund dozens of company investments over the next five or more years, with successful companies being harvested in the subsequent years following that – these are multi-year commitments that could take 10 years or more to be realized, such is the nature of private equity and venture investing.

Along those lines, current negative investment returns to the program are reflective of a different co-investment strategy a decade or more ago which was highly concentrated, leading to losses when larger investments in the portfolio underperform.

The anticipated future growth of the STPF due to growing fund inflows will also organically increase the amount of total dollars that are allowed to be invested in this strategy, if the Council perceives that to be fiducially prudent, without increasing the statutory percentage. On the flip-side of that consideration, a stock market crash could reduce the valuation of the STPF, which could lower the dollar amount at least temporarily through the “denominator effect”, which

makes existing investments a larger percentage of the overall pie. At the current time, it would take a loss of multiple billions from the STPF before the existing cap would be at risk of being breached.

SIGNIFICANT ISSUES

The underlying message of SB413 – that New Mexico should invest its long-term capital back into itself and promote its own scientific and research & development strengths would appear to align with many of the state’s strategic economic goals.

That said, NMSIC’s program has plenty of additional capacity under current law, and it should be noted that NM Finance Authority has a similar \$50mm investment program supporting double-impact investments in New Mexico, as well as an additional ~\$70mm+ 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.

PERFORMANCE IMPLICATIONS

Historically, the NM Private Equity Program has delivered slightly negative (-0.9%) returns since inception as Q3 2024 (latest available), which is below the STPF’s long-term target returns of 6.75%. Though those returns are attributable to the SIC’s previous investment strategies in this space, it would not reflect newer and more substantial investments over the past two years, and the return-profile the SIC is now anticipating going forward. 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.

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB162 seeks to cap the NMPEIP, in conjunction with two other economically-targeted-investment programs of the Small Business Investment Corporation (SBIC) which is allocated 2% of the STPF, as well as the legislatively-created Small Business Recovery Act Loan Program (up to \$500M of the STPF, authorized during the pandemic) to an aggregate amount of \$700 million.

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Other than messaging support for New Mexico’s entrepreneurial efforts, there is no immediate financial benefit to be produced by passing this bill.

AMENDMENTS