

Investment of Permanent Fund in Renewable Energy

Presentation to Revenue Stabilization & Tax Policy Committee Representative Sheryl Williams Stapleton October 24, 2019

Summary

The Severance Tax Permanent Fund exists for the benefit of the people of New Mexico. It comprises diversified investments (such as US and foreign stocks and bonds) totaling about \$5 billion, recently earning about 8% per year in dividends and other returns.

This bill will require that 1% of the Severance Tax Permanent Fund, about \$50 million, shall be invested in renewable energy and energy efficiency projects and businesses within New Mexico, with the expectation of the same financial return as other investments.

Benefits

- Maintain the Permanent Fund's high return on investment.
- Stimulate and diversify the New Mexico economy, creating jobs and businesses, and boosting general revenue.
- Move New Mexico toward 21st-century energy, where we have natural strength.
- Satisfy the Energy Transition Act with in-state energy.
- Maintain New Mexico as an electricity-exporting state.
- Attract private investment to New Mexico from outside the state and around the world.

Costs

- Wise selection of these investments by the State Investment Office and its subcontractors.
- Annually assessment of the status of these investments by the State Investment Office, and reporting that status to the State Investment Council.

How the bill would work

By June 30, 2020, the State Investment Officer will inform the State Investment Council how much investment satisfying the requirements of this bill are already held by the Fund. (This is tiny today.) The Council must establish a long-term target of at least 1%. They might choose 1.2%, to ensure that the 1% requirement is maintained long-term while formal valuations of investments fluctuate from year to year.

The State Investment Office will then begin seeking prudent investments that satisfy this bill. There is no deadline for reaching the 1% or the slightly higher target that the Council will establish. It might take two or three years to reach it. Each year, by June 30, the State Investment Office must report back to the State Investment Council again.

Targeted investments by state fund managers typically leverage additional private investment with about a 6-to-1 ratio, so this activity by the State Investment Office should help attract about \$300 million of additional private investment to New Mexico from around the world.

These investments will accelerate the growth of New Mexico's renewable-energy industry.

Examples

A newly formed company might plan to build a power-transmission line in New Mexico, to connect wind turbines to the grid. That company might offer stock in the venture. The Permanent Fund could buy such stock. The Permanent Fund would receive the same rate of return as any other investor. This would be based on the company's expected profits, which in turn are based on the tariff charged by the company when power flows through its transmission line. Jobs would be created during the construction of the transmission line. Energy infrastructure that will last for a century would be built in New Mexico. The existence of the transmission line would help stimulate more private investment in nearby photovoltaic or wind generation facilities in New Mexico.



An existing solar facility: Macho Springs Solar in Luna County. Photo courtesy of Solar Builder Magazine.

As a more concrete example, the Macho Springs solar project is owned by Macho Springs Solar, LLC, which in turn is owned by Southern Power and Turner Renewable Energy. Southern Power is a subsidiary of Southern Company, which is a huge publicly traded company. Turner R.E. is owned by Ted Turner. The Permanent Fund could have invested in Macho Springs Solar, alongside Turner and Southern, if that had looked like a prudent investment. That's a 50 MW facility, so it was roughly a \$75 million dollar investment. The Permanent Fund could have taken a 10% stake in Macho Springs, contracting for the same rate of return as Turner and Southern.

History of the bill

- 2010, passed both houses of the legislature; pocket-vetoed by the Governor
- 2011, tabled in a House committee
- 2015, tabled in a House committee
- 2019, passed the House and one committee in the Senate. Ran out of time.

Through these years, the bill has been improved by suggestions by the State Investment Office and by committee members.

Precedents

Small percentages of the Severance Tax Permanent Fund are already legally required to be invested in the NM Private Equity Investment Program and the NM Small Business Investment Corporation. Earlier, there was also a requirement for investment in the NM film industry.