FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Hickey/Muñoz	**ORIGINAL DATE**	1/31/2024
SHORT TITLE	Bioscience Company Investments	**BILL NUMBER**	Senate Bill 247
		ANALYST	Rodriguez

APPROPRIATION*
(dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
	$25,000.0	Nonrecurring	General Fund

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

Sources of Information

LFC Files

Because of the short timeframe between the introduction of this bill and its first hearing, LFC has yet to receive analysis from state, education, or judicial agencies. This analysis could be updated if that analysis is received.

SUMMARY

Synopsis of Senate Bill 247

Senate Bill 247 appropriates $25 million from the general fund to the New Mexico Bioscience Authority for expenditure in fiscal year 2025 and subsequent fiscal years for the purpose of co-investment in New Mexico-based bioscience businesses and projects.

This bill amends the Bioscience Development Act (Chapter 9, Article 15E) to allow the authority to invest in New Mexico businesses that agree to either maintain or relocate in New Mexico with a minimum of five employees for at least five years after the investment.

The authority would assess each business prior to making an investment. The assessment would include the market opportunity, financial stability, expertise and experience, business plan, competitive assets, projected economic benefits, and projected social benefits of the bioscience business.

Investments would be made with co-investing organizations chosen by the authority in consultation with the University of New Mexico's purchasing office through a competitive process. The co-investing organization must have at least five years of experience of investing in bioscience companies or at least 10 years of experience of investing in start-up companies. The authority's investment could not be more than one-third of the combined investment of the authority and a co-investor in that business—essentially a 2-1 private match.

Investment contracts would include language on what happens if a company fails to meet its contractual obligations, is acquired by a different entity, or goes bankrupt. The bill specifies that a business may accept stock if the business must compensate the authority due to an acquisition or relocation outside of the state.

This bill adds two definitions for "portfolio business" and "New Mexico business." The definition for "portfolio business" is a bioscience business in which the authority has made an investment. The definition for "New Mexico business" is a business with a principal office and majority of fully-time employees or assets in New Mexico.

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

FISCAL IMPLICATIONS

The appropriation of $25 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY25 shall not revert to the general fund.

SIGNIFICANT ISSUES

Laws 2017, Chapter 134, created the Bioscience Development Act, Bioscience Authority, and bioscience development fund. The authority is administratively attached to the University of New Mexico (UNM) Health Sciences Center. The authority is a public-private partnership, pursuant to the Nonprofit Corporation Act, and represents a collaborative among state government, research institutions, national laboratories, and private industry in New Mexico. The purpose of the authority is to create avenues of communication, promote legislative to promote the development of bioscience industries, act as a clearinghouse for bioscience enterprise issues and information, and actively recruit bioscience industries to New Mexico.

The authority was created after a report showed the strength of the growing bioscience industry, its presence in New Mexico, and examples of how New Mexico could encourage and capture this burgeoning industry. UNM reports the bioscience industry's impact on the U.S. economy totaled $2.6 trillion in 2018, and its employment base has grown more than twice as much as the overall private sector since 2016, with wages nearly two times the overall U.S. average.

Prior Legislation. During the 2023 legislative session, a similar bill was introduced that appropriated funding to the bioscience authority for co-investment in New Mexico-based bioscience businesses. UNM analysis for that bill stated New Mexico has the "foundational elements to grow, attract, support, and foster bioscience businesses, yet it lags behind compared to other states." UNM and the State Investment Council (SIC) both noted, while New Mexico may initially attract bioscience startups, the lack of access to capital in the state leads to companies leaving to seek larger, out-of-state investors. Exagen, for example, which SIC first invested in more than 15 years ago, moved operations from New Mexico to California for strategic business purposes and later had an initial public offering. It remains a publicly traded company, headquartered in Vista, California. SIC notes, though there "are hopes the investment will ultimately be financially profitable, the company's relative success did not lead to substantial job creation in New Mexico." UNM explained a direct investment fund may help New Mexico compete and establish a vibrant bioscience industry. For last year's bioscience co-investment bill, the Economic Development Department noted:

> This bill may result in additional economic development opportunity throughout the state by providing significant funding to drive the development, scaling, and implementation of advanced technologies and innovations related to the biosciences. The co-investment fund may enable the continued collaboration of the universities, national laboratories, public and private sector to increase the pipeline of high-growth potential companies by providing material support and much needed capital to bioscience startups in New Mexico. The size of the fund may enable investment in the full continuum of bioscience business stages including growth stage businesses. Investments from the co-investment fund may facilitate follow-on investment considering the stipulation to leverage investment at a minimum of 2:1 ratio for public to private capital. Investment in [bioscience] companies may support the growth and expansion of new businesses, job creation, innovation, and workforce development opportunities. The growth of businesses related to commercializing bioscience technologies may increase the tax base. This appropriation could make launching a bioscience startup and doing business in New Mexico more attractive for companies with an innovative technology.

Existing Programs. Currently, the Economic Development Department (EDD) offers a range of support for bioscience, one of the agency's target industries, including the Office of Science and Technology, which provides small businesses and interested parties with resources and expertise on intelligent manufacturing, cybersecurity, bioscience, sustainable and green energy, and aerospace. EDD is also working to award approximately $73 million in federal State Small Business Credit Initiative (SSBCI) grants, approximately $64 million of which is for venture capital investments. The program's objectives include promoting equity through investments with socially and economically disadvantaged individuals, leveraging private investment, and fueling economic and industry growth.

TSIC also has an existing statutory authorization of up to 11 percent of the $7.64 billion severance tax permanent fund to be used for New Mexico start-up company investments. The council reports that, by policy, it has targeted 9 percent of this allocation (approximately $690 million) to tech-transfer, which bioscience entities would qualify under. In November 2022, SIC committed $100 million to America's frontier fund (AFF), a venture capital fund focused on "frontier technology."

Risk. For last year's bioscience co-investment bill, SIC noted potential risks associated with bioscience investment as a job development tool:

> While bioscience-focused intellectual property can be developed anywhere, the major U.S. biotech hubs are in Boston, San Diego, San Francisco, New York, Houston, Seattle, and North Carolina's Research Triangle Park. Typically, research developed outside of those cities will be built with a hybrid workforce and eventually sold to pharmaceutical companies on the coasts, rather than setting up new employment or manufacturing centers from the origin point of research. As such, long-term industry and substantial job creation in this strategy can be challenging.

Last year's bill did not contain any recourse for firms that fail to meet requirements. This year's bill includes language that, if a business fails to meet its contractual obligations, it will fully reimburse the authority for the fund's cost basis or document how it has provided economic benefits to the state that exceed the authority's cost basis in the business.

JR/hg/ss