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FISCAL IMPACT REPORT

ORIGINAL DATE 02/03/06

SPONSOR Harden LAST UPDATED _____ HB _____

SHORT TITLE Aerospace Investments Without Agreements SB 742

ANALYST Geisler

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	Unknown			

(Parenthesis () Indicate Expenditure Decreases)

Duplicates: HB 835

SOURCES OF INFORMATION

LFC Files

Responses Received From
State Investment Council (SIC)

SUMMARY

Synopsis of Bill

Senate Bill 742 adds language to 7-27-5.15 regarding New Mexico private equity funds and business investments. The language would allow the State Investment Council (SIC) to make investments from the Severance Tax Permanent Fund (STPF) in an aerospace business that has received a government award of at least \$100 million. The award must be at least ten times the investment of the SIC, and must be “for the purpose of stimulating commercial enterprises.”

Under current statute, the SIC cannot make investments in NM businesses or private equity funds without a qualified co-investor. SB 742 expands the statute to allow NM aerospace companies that have received a large federal contract award to also qualify for SIC investment without SIC having an investment partner.

FISCAL IMPLICATIONS

The fiscal impact on the SIC is difficult to quantify, as it depends on the size and number of po-

tential investments. The economic impact of even one such investment and its related funding could be very significant to New Mexico.

As a baseline however, due diligence & vetting of potential investments will cost approximately \$25 to \$60 thousand per company.

SIGNIFICANT ISSUES

SIC notes that the reason the current statute requires the state to have a qualified and experienced co-investor when making direct or private equity investments in New Mexico companies or funds, is to ensure the viability of the investment is recognized by other experts who have a stake in the investment's success.

While SB 742 would allow investments without that stipulation, it supplants the requirement with a very sizeable government commitment to an aerospace business. A government award of \$100 million+ is simply not awarded without a substantial amount of due diligence, notably on the technical side, where the government's expertise often exceeds that of typical investors. In addition, the government award money would not be expected to be returned, and would be subordinate to any equity investments made by the State or other investors, in both terms of profit share and cash flow, and in the alternative, recovery of assets should the business be forced to liquidate.

SIC notes that while SB 742 would expand the possible investments allowed under 7-27-5.15, it would not remove additional requirements currently in place, including extensive due diligence of the SIC's private equity advisors, the recommendation of the SIC's Private Equity Committee, a vote of approval from the members of the State Investment Council, and negotiation of final terms and conditions.

PERFORMANCE IMPLICATIONS

The SIC's New Mexico Private Equity Program is statutorily approved to invest 6% of the STPF, which is currently about \$235 million. To date, commitments the SIC has made to NM funds and direct investments through the NM Co-investment fund are also \$235 million, however, only \$141 million has been drawn down to investments in the program.

Because of the several year period typically taken by private equity funds to invest, the SIC applies a 1.6x multiplier when estimating funds available for investment in this program. The SIC anticipates being able to commit \$20-\$30 million per year to direct and private equity investments for the next three to four years without running out of capacity.

ADMINISTRATIVE IMPLICATIONS

The SIC's NM direct and private equity investment program is very active and growing, as deal flow and investment environment in NM has improved significantly over the past few years. Additional investment prospects & deals could potentially require reworking of existing contracts with the SIC's NM Private Equity Advisors.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House version of this bill is HB 835.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

SIC states that in trying to attract new industry to New Mexico, the State is certainly in a better position to bargain if it has a full complement of tools and incentives to negotiate with companies. Not passing this bill leaves the state with one less instrument to be competitive with in this area.

GG/mt