| LFC Requester: | Gray |
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**AGENCY BILL ANALYSIS**
**2024 REGULAR SESSION**

**WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:**

**Analysis.nmlegis.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}***

*Check all that apply:*

**Original** x **Amendment** ____
**Correction** ____ **Substitute** ____

**Date** 1/30/2024
**Bill No**: HB 259

**Sponsor:** Linda Serrato and Meredith A. Dixon

**Short Title:** State Investment in Climate Technology

**Agency Name and Code Number**: State Investment Council 337

**Person Writing** Bruce Brown

**Phone:** 5054769517 **Email** Bruce.Brown@sic.nm.gov

## SECTION II: FISCAL IMPACT

### APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|
| FY24 | FY25 | | |
| $190,905 | (2% of annual growth in STPF) | recurring | STPF |
| | | | |

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|---|
| FY24 | FY25 | FY26 | | |
| **($10,137)** | **($10,807)** | **($11,571)** | recurring | STPF |
| | | | | |

(Parenthesis ( ) Indicate Expenditure Decreases)

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

| | FY24 | FY25 | FY26 | 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

HB259 requires the State Investment Officer (SIO) to invest at least 2% of the Severance Tax Permanent Fund (STPF) in private equity funds investing in climate technology (Climate Tech PE Funds). In choosing investments, the SIO is directed to give priority to funds that prioritize investing amounts at least as great as the SIO's investment into portfolio companies that bring a permanent office presence or personnel to New Mexico and are expected to positively impact New Mexico's economy. HB259 would not require the SIO to invest in Climate Tech PE if such an investment would cause the SIO to have invested more in economically targeted private equity investments than authorized by section 7-27-5.15 NMSA 1978 (which limits such investments to 11% of the value of the STPF). HB259 also requires that investments be made only if the risk of loss from such investments is commensurate with the expected returns.

HB259 defines climate technology as research and development in technology directed at reducing greenhouse gas emissions or mitigating the effects of climate change. HB259 defines Climate Tech PE Funds to be private equity funds organized and operating in the United States that invest in climate technology.

## FISCAL IMPLICATIONS

As of December 31, 2023, 2% of the STPF equals roughly $190.1 million. Although this is the number used to identify the baseline fiscal impact of HB259, the STPF is expected to grow over time. Accordingly, the amount of money the SIO is required to invest under HB259 will likely continue to grow.

The estimated loss in revenue is calculated using the difference in the historic rate of returns generated by the entire STPF and the returns generated by the New Mexico private equity program operating pursuant to NMSA § 7-27-5.15. The rates used for this calculation are the annualized rates for the ten-year period ending June 30, 2023 (those rates are 6.61% and 1.30% respectively for the STPF as a whole and the NM private equity program).

Although historical returns of the NM private equity program suggests that HB259 will result in lower returns, and therefore reduced revenue for the STPF, there is no guarantee that HB259 will cost the STPF money. To the contrary, HB259 calls for investing in climate tech funds that, given current market circumstances, may reasonably be expected to outperform the STPF as a whole. For example, the SIC recently invested in two private equity funds that will be investing in climate tech that had previously provided returns significantly higher than the overall returns STPF earned over the last decade. Past performance, however, is no guarantee of future performance.

Ultimately, HB259 is a mandate to invest in Climate Tech PE Funds which necessarily carries investment risk. In recent years, investments in climate tech industries have been particularly volatile making the uncertainty of investment results even more pronounced. The ultimate cost or benefit of HB259, therefore, cannot be set out with certainty.

**SIGNIFICANT ISSUES**

HB259 creates a permanent investment mandate that may need to be amended later should the size of the STPF or economic circumstances change.

HB259 mandates that the SIO invest 2% of the STPF, but the actual dollars that this percentage represents may change significantly over time. On an absolute basis, the STPF has roughly tripled in size from 2009. Further, inflows to the STPF significantly vary year to year, from a low of $38 in 2017 to over $1 billion in 2022. With a fixed mandate of 2% of the STPF, HB259 may cause the SIO to change investment levels in a way that is completely detached from a rational analysis of investment opportunities in climate tech.

Further, as the industries that constitute climate tech mature, private equity may not be the best means of deploying capital. Private equity as an asset class generally has a high fee structure that can only be justified for investments in companies expected to grow quickly and exponentially. As technology matures, there is likely to be less need for private equity investments, with its high return expectations, and more demand for other types of capital structures.

At present, however, the expectation is that there will be ample opportunity for investments in climate tech.[1]

**PERFORMANCE IMPLICATIONS**

**ADMINISTRATIVE IMPLICATIONS**

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

**TECHNICAL ISSUES**

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[1] In the U.S. there were $225 billion in new investments made in the manufacture and deployment of clean energy, clean vehicle, building electrification and carbon management technology made in the year ending Q3 2023. *See* https://www.cleaninvestmentmonitor.org/ This level of investment is expected to grow further over the next decade. While annual climate related investments doubled between 2011 and 2020, it is estimated that investments will need to grow 6.5x by 2030 to meet a 1.5 C global warming scenario. *See* Climate Finance Needs assessment: A Decade of Data 2011-2020 (Climate Policy Initiative, 2022) available at https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-a-decade-of-data/

**OTHER SUBSTANTIVE ISSUES**

**ALTERNATIVES**

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

In September of 2023, the State Investment Council (SIC) made its first investment in its new climate tech sub strategy for private equity, which now encompasses $105 million in commitments. Accordingly, even if HB259 is not enacted, there is a fair possibility that the SIC's investment in climate tech would meet HB259's mandated target. Even so, HB259's mandate may provide more certainty for New Mexico's nascent climate tech industry and may also provide a useful signal of support for entrepreneurs choosing between states in which to build their businesses.[2]

**AMENDMENTS**

[2] By contrast, some state legislatures have taken action apparently intended to discourage the growth of climate tech. *See, e.g.,*