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AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

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(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: 02/28/25 *Check all that apply:*
Bill Number: HB 475 Original Correction
 Amendment Substitute

Sponsor: Brown, Lundstrom, de la Cruz, Jones, Hochman-Vigil **Agency Name and Code** 337 – State Investment Office
Short Title: Transportation Trust Fund **Number:** _____
Person Writing Iglesias
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
	\$400,000.0	Nonrecurring	General Fund

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Source	Estimated Revenue				R/NR	Fund Affected
	FY25	FY26	FY27	FY28		
Electricity TGR	--	(\$25,900.0)	(\$27,000.0)	(\$28,080.0)	R	General Fund
Electricity TGR	--	\$25,900.0	\$27,000.0	\$28,080.0	R	Transportation Trust Fund
Motor Vehicle Excise Tax	--	\$ (87,887.9)	\$ (89,867.3)	\$ (184,400.0)	R	General Fund
Motor Vehicle Excise Tax	--	\$ 39,293.9	\$ 40,178.8	\$ 87,371.9	R	State Road Fund
Motor Vehicle Excise Tax	--	\$ (11,214.0)	\$ (11,466.6)	\$ 3,881.1	R	Transportation Project Fund
Motor Vehicle Excise Tax	--	\$ 59,808.0	\$ 61,155.0	\$ 93,147.0	R	Transportation Trust Fund
Capital Outlay Reversions	(tens to hundreds of millions)				R	General Fund
Capital Outlay Reversions	Tens to hundreds of millions				R	Transportation Trust Fund
Trust Fund Distributions	Begins FY29 – est. (\$29,000.0)					Transportation Trust Fund
Trust Fund Distributions	Begins FY29 – est. \$29,000.0					State Road Fund

(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	This bill will require additional time from investment, accounting, and administrative staff (see administrative implications)				Recurring	SIC (LGPF/STPF)

(Parenthesis () Indicate Expenditure Decreases)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

House Bill 475 creates a new Transportation Trust Fund (the “trust fund”) to be invested by the State Investment Officer in accordance with the Uniform Prudent Investor Act.

Beginning July 1, 2028 (FY29) the trust fund will distribute 5 percent of the prior 3 calendar-year average market value to the State Road Fund. Distributions may be expended only to provide state matching funds for federal grants for transportation infrastructure projects.

Trust fund balances may be also appropriated by the legislature to address budgetary shortfalls only after exhausting other funding sources including the general fund operating reserve, the tax stabilization reserve and the appropriation contingency fund.

The bill creates three primary funding sources for revenues into the trust fund:

- A distribution of 1 to 2 percent of the taxable gross receipts attributable to the sale of electricity;
- A distribution of 20 to 30 percent of the motor vehicle excise tax (or 15 percent in certain cases of gross receipts tax revenue shortfalls);
- Reversions of unexpended balances general fund capital outlay appropriations made in the 2021, 2022, 2023, and 2024 legislative sessions.

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

The bill makes a \$400 million appropriation from the general fund to the trust fund in FY26.

The bill also provides several sources of revenue into the trust fund:

1. *Distribution of Taxable Gross Receipts (TGR) Attributable to the Sale of Electricity.* The bill directs the following percentages of TGR from electricity sales to the trust fund:
 - FY26 to FY31: 1%
 - FY32 to FY36: 1.25%
 - FY37 to FY41: 1.5%
 - FY42 to FY46: 1.75%
 - FY47: 2%

For the purpose of this analysis, SIC staff used estimates provided by the Legislative Finance Committee.

2. *Distribution of Motor Vehicle Excise Tax (MVX)*. Below are estimated changes to the MVX distribution based on the December 2024 consensus revenue estimate:

Current Law	FY26	FY27	FY28	FY29
General Fund	\$ 177,599.9	\$ 181,599.8	\$ 184,400.0	\$ 188,800.2
State Road Fund	\$ 65,370.1	\$ 66,842.4	\$ 67,873.1	\$ 69,492.7
Transportation Project Fund	\$ 56,070.0	\$ 57,332.8	\$ 58,216.9	\$ 59,606.1
Transportation Trust Fund	\$ -	\$ -	\$ -	\$ -

Proposed	FY26	FY27	FY28	FY29
General Fund	\$ 89,712.0	\$ 91,732.5	\$ -	\$ -
State Road Fund	\$ 104,664.0	\$ 107,021.3	\$ 155,245.0	\$ 158,949.5
Transportation Project Fund	\$ 44,856.0	\$ 45,866.3	\$ 62,098.0	\$ 63,579.8
Transportation Trust Fund	\$ 59,808.0	\$ 61,155.0	\$ 93,147.0	\$ 95,369.7

Difference	FY26	FY27	FY28	FY29
General Fund	\$ (87,887.9)	\$ (89,867.3)	\$ (184,400.0)	\$ (188,800.2)
State Road Fund	\$ 39,293.9	\$ 40,178.8	\$ 87,371.9	\$ 89,456.8
Transportation Project Fund	\$ (11,214.0)	\$ (11,466.6)	\$ 3,881.1	\$ 3,973.7
Transportation Trust Fund	\$ 59,808.0	\$ 61,155.0	\$ 93,147.0	\$ 95,369.7

dollars in thousands

3. *Unspent Nonrecurring General Fund Capital Outlay Appropriations*. The bill directs unexpended balances from the capital outlay bills passed between 2021-2024 to revert to the trust fund in accordance with the timeframes outlined in those bills.¹ SIC staff are unable to estimate how much revenue this provision could entail, but it is reasonable to assume it could result in tens to hundreds of millions of dollars to the trust fund.

The table below provides a simplified example of potential investment returns for the Trust Fund assuming revenues from the gross receipts tax distribution and MVX revenues. Because SIC staff are unable to account for potential revenue from general fund capital outlay reversion, the long-term growth of the fund may be understated.

Expected compound returns for funds the Council manages range from 5.2 percent (Tax Stabilization Reserve) to 7 percent (the long-term return target for the Land Grant Permanent Fund). Because the proposed Trust Fund makes consistent annual distributions based on a rolling average market value and has provisions to shore up general fund budgets in the event of a fiscal deficit, staff assume a 6.77 percent annual return (similar to that of the Early Childhood Trust Fund) for the purpose of this analysis; however, actual return expectations would ultimately depend on the fund's asset allocation.

Under these assumptions, both the balance of the Trust Fund and the size of the distributions to the State Road Fund have potential to grow over time.

¹ Chapter 138 in 2021 (HB285), Chapter 53 in 2022 (SB212), Chapter 199 in 2023 (HB505), Chapter 66 in 2024 (SB275)

Transportation Trust Fund (\$millions)							
Calendar Year	Beginning Balance	Approp.	Electricity TGR	Motor Vehicle Excise	Gains & Losses	Distrib	Ending Balance
2025	\$0.0	\$400.0	\$13.0	\$29.9	\$13.5	\$0.0	\$456.4
2026	\$456.4	\$0.0	\$26.5	\$60.5	\$30.9	\$0.0	\$574.2
2027	\$574.2	\$0.0	\$27.5	\$77.2	\$38.9	\$0.0	\$717.8
2028	\$717.8	\$0.0	\$28.5	\$94.3	\$47.6	-\$29.1	\$859.0
2029	\$859.0	\$0.0	\$29.4	\$96.3	\$56.9	-\$35.9	\$1,005.8
2030	\$1,005.8	\$0.0	\$30.2	\$98.2	\$66.6	-\$43.0	\$1,157.9
2031	\$1,157.9	\$0.0	\$33.3	\$100.2	\$76.7	-\$50.4	\$1,317.6
2032	\$1,317.6	\$0.0	\$36.4	\$102.2	\$87.2	-\$58.0	\$1,485.4
2033	\$1,485.4	\$0.0	\$37.5	\$104.3	\$98.3	-\$66.0	\$1,659.5
2034	\$1,659.5	\$0.0	\$38.6	\$106.3	\$109.8	-\$74.4	\$1,839.9
2035	\$1,839.9	\$0.0	\$39.7	\$108.5	\$121.7	-\$83.1	\$2,026.7
2036	\$2,026.7	\$0.0	\$45.1	\$110.6	\$134.1	-\$92.1	\$2,224.5
2037	\$2,224.5	\$0.0	\$50.6	\$112.9	\$147.2	-\$101.5	\$2,433.6
2038	\$2,433.6	\$0.0	\$52.1	\$115.1	\$161.0	-\$111.4	\$2,650.3
2039	\$2,650.3	\$0.0	\$53.7	\$117.4	\$175.3	-\$121.8	\$2,874.9
2040	\$2,874.9	\$0.0	\$55.3	\$119.8	\$190.1	-\$132.6	\$3,107.5

PERFORMANCE IMPLICATIONS

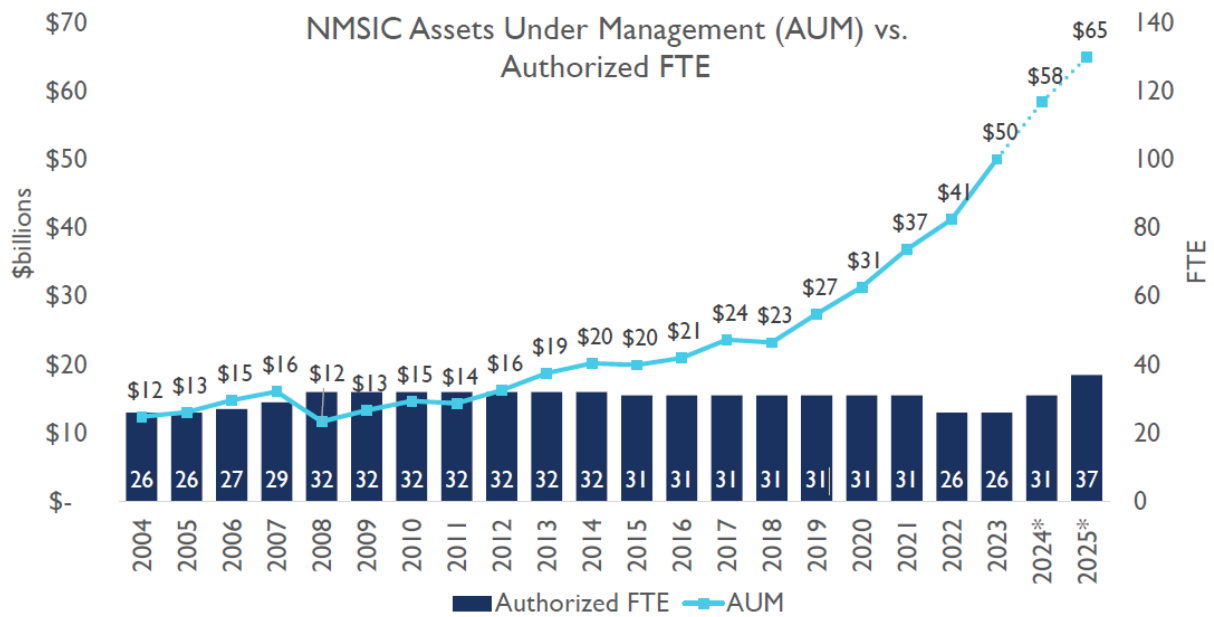
The State Investment Officer, with the approval of the State Investment Council would manage the Trust Fund in accordance with the Uniform Prudent Investor Act and would seek to ethically optimize risk-adjusted returns and grow the fund over time.

The Council does not currently have a “boilerplate” asset allocation for any fund, including the proposed Trust Fund, but it is a fair assumption that the new fund could/would be constructed in a manner similar to other permanent/trust funds managed by the SIC.

ADMINISTRATIVE IMPLICATIONS

The SIC has seen its assets quadruple to more than \$60 billion over the past 15 years, while its staffing levels have remained relatively flat, as seen in the chart below.

The SIC’s budget request for FY26 included full funding for all 37 authorized FTE, and expert opinions discussed at the SIC’s strategic retreat in December 2024 suggested a need to double the number of investment staff and increase the number of legal and accounting staff to facilitate increased workloads, mitigate risk and maintain proper ongoing due diligence of investments.



*Estimated AUM

Note: AUM reflects total assets under management, including all permanent endowment trust funds, reserve funds, and third party client assets. AUM reported as of calendar year end, except 2004-2007 which reflect fiscal year end balances for TSPF, WTF, and third party clients. FTE reported as of fiscal year end.

Source: NMSIC files, RVK, LFC Volume II reports

The following shows current legislative proposals to create new funds to be invested by the SIC:

- House Bill 7 creates a new Children’s Future Fund to be managed by the SIC and created with \$5M initial appropriation from General Fund.
- House Bill 11 creates a new Paid Family Medical Leave Fund to be managed by the SIC (however, SIC noted in its fiscal impact report that this is an expenditure fund that would be best managed by STO).
- House Bill 25 creates a new Land Grant-Merced Infrastructure Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$20 million general fund appropriation.
- House Bill 113 creates a new Animal Welfare Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$10 million general fund appropriation.
- House Bill 330 creates a new Land Grant-Merced & Acequia Infrastructure Trust fund to be managed by SIC. Gets funding from STB capacity.
- House Bill 475 creates a new Transportation Trust Fund to be managed by SIC funded with a \$400 million general fund appropriation.
- House Bill 520 creates a Sustain the Families Trust Fund to be managed by SIC in consult with HCA; to be expended by the legislature; no source funding provided
- House Bill 531 creates a new Osteopath Medicine Escrow Fund to be managed by SIC and funded with a \$40 million transfer from the Tobacco Settlement Permanent Fund
- Senate Bill 1 creates a new Behavioral Health Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$1 billion general fund appropriation.
- Senate Bill 88 creates a new Medicaid Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$300 million general fund appropriation.
- Senate Bill 234 creates a new Tribal Education Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$100 million general fund appropriation.
- Senate Bill 358 creates an Equine Welfare Trust Fund to be managed by SIC and funded with a \$40 million general fund appropriation.

- Senate Bill 374 creates a Land Grant-Merced & Acequia Infrastructure Fund to be managed by SIC; gets funding from STB capacity.
- Senate Bill 380 creates the Physician Graduate Medical Education Trust Fund to be managed by SIC with \$100 million general fund appropriation.
- Senate Bill 397 creates the Next Generation Trust Fund (Baby Bonds) to be funded with \$500,100 general fund appropriation and managed by the SIC in consultation with the Treasurer.