

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the New Mexico Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the New Mexico Legislative Website (www.nmlegis.gov).

FISCAL IMPACT REPORT

SPONSOR Ortiz y Pino ORIGINAL DATE _____
 LAST UPDATED _____ HB _____

SHORT TITLE Rural Libraries Endowment Fund SB 149

ANALYST Dick-Peddie

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY22	FY23		
	(\$10,000.0)	Nonrecurring	General fund
	\$10,000.0	Nonrecurring	Rural Libraries Endowment

(Parenthesis () Indicate Expenditure Decreases)

Duplicates Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Cultural Affairs (DCA)

State Investment Council (SIC)

SUMMARY

Synopsis of Bill

Senate Bill 149 appropriates \$10 million from the general fund to invest in the rural libraries endowment fund (RLEF), managed by the State Investment Council. The funding would be invested, with earnings – as determined by statutory formula - being distributed to qualifying rural libraries in New Mexico annually. The unexpended balance would remain in the endowment and would not revert to the general fund.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

The rural libraries endowment fund, created to distribute grants to libraries in communities with populations less than 3,000, is managed by the State Investment Council (SIC) and then

distributed to the Department of Cultural Affairs (DCA) to award grants to individual libraries. The distribution is set by formula until FY28: the smallest of either 5 percent of the endowment fund value for the preceding year or the income earned by the fund. The FY22 distribution from rural libraries endowment fund will be its first, and is expected to be about \$83,677.

The LFC budget recommendation, adopted by the House Appropriations and Finance Committee, included approximately \$124 thousand in other state funds in the DCA FY23 operating budget to account for this distribution. The LFC nonrecurring framework, also adopted by the House Appropriations and Finance Committee, included \$10 million for the rural libraries endowment fund.

DCA and SIC both estimate the additional endowment disbursement from the proposed appropriation to be about \$500 thousand annually. DCA reports the allotment of funding would be as follows:

- \$475,000 (95 percent) for grants through the rural libraries grant program. Grants will provide supplemental funds for existing libraries, and grants to support the development of new libraries. This equates to almost \$9,000 per established library per year. Funding for new library development will be available, with the total dollar amount determined by the New Mexico State Library.
- \$25,000 (5 percent) for the administration of rural library services by the State Library as required by statute.

The State Investment Council (SIC) reports the endowment currently has a value of around \$3.301 (12/31/21). Quarterly, calendar year to date (CYTD) and annual investment returns are shown below.

Returns as of Sept. 30, 2021	Q	CYTD	1 year	FY21	FY20
Rural Libraries Endowment - net	1.83	4.25	6.29	6.35	1.72
Rural Libraries Endowment - gross	1.83	4.33	6.39	6.45	1.79

SIC reports the following analysis on the effects of an additional \$10 million to the endowment:

The RLEF’s returns are largely derived on the assets in which it is invested. The RLEF portfolio is currently in a low-growth, capital preservation mode, to avoid the volatility and potential losses that would be at risk with a portfolio geared for growth.

The current asset allocation targets are as follows:

- 52 percent core fixed Income (mostly highly rated corporate securities & US treasuries)
- 28 percent non-core fixed income (a riskier mix including higher yielding bonds & credit)
- 20 percent Real Estate (Institutional Real Estate, with an overweight to higher-stability core properties)

Long term, the Council expects the current asset allocation to produce low-single digit returns for the fund. We would expect to maintain this conservative approach until directed otherwise by the client (DCA), or until the fund itself achieves a more substantial valuation that could better withstand the risks and potential losses that

exposure to public equity (stocks) might deliver.

Additional dollars in the endowment could reasonably result in the Council developing a higher-growth portfolio mix for the RLEF, which might include both stocks for growth, and less-liquid investments like private equity and real assets for greater diversification.

During the initial years of the RLEF's distributions, which are based in part on income generation until the formula changes to a straight 5 percent of the rolling fund value in FY28, a conservative approach has been deemed most prudent. However, the larger the fund grows, the more it can sustain increasing risk/reward metrics for a more aggressive long-term strategy to increase the RLEF's corpus via organic growth through investment returns.

Given that until FY28 the RLEF will distribute by formula - the littlest of either 5 percent of the endowment fund value for the preceding year or the income earned by the fund - the immediate impact on distributions of an additional \$10,000,000 could be substantial – up to \$500,000 in additional distribution assuming the fund's returns are positive during calendar year 2022.

However, a year where returns are not positive, impacts would be delayed and distributions could be \$0 due to the formula under which RLEF distributions are structured. This formula switches over to a 5 percent of the fund's 5-year average in FY28, which will also help stabilize the distributions.

Neither SIC or DCA anticipate additional administrative burdens due to the distribution.

ADP/SIRCAF/acv