LFC Requester:	

AGENCY BILL ANALYSIS
2024 REGULAR SESSION

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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 1/26/24
Bill No: HB 191

Sponsor: Lujan, Sanchez J., Borrego

Agency Name and Code Number: SIC 337

Short Title: Animal Welfare Funding Act

Person Writing Iglesias

Phone: 5055007486 **Email** Dawn.iglesias@sic.nm.gov

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		
	$10,000.0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		
	$10,000.0		Nonrecurring	Animal Welfare Trust Fund
		$100.0	Recurring	Animal Welfare Grant Fund

(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)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

House Bill 191 establishes the Animal Welfare Funding Act ("the Act") allowing qualified entities to apply for an animal welfare grant for a project relating to domestic cats, dogs, or equines. Grant funding will be used to:

- construct or renovate animal shelters;
- purchase vehicles or equipment for animal intake and mitigating threats to public safety, investigating and responding to reports of animal cruelty, and providing emergency housing and care for seized animals suspected of being cruelly treated;
- provide necessary supplies to low-income persons to aid in humane animal care;
- develop and distribute animal welfare education and outreach materials; and,
- contract with state or other eligible entities to carry out the business of an animal shelter, equine rescue or retirement facility, or for a project or program as described above.

The Department of Finance and Administration (DFA) will administer the grants and shall only provide grants funding is available and if the application demonstrates a public benefit as defined by rules to be set by DFA.

This bill appropriates $10 million from the general fund in FY25 to a new Animal Welfare Trust Fund ("AWTF" or "Trust Fund") created to provide a recurring funding source for a new Animal Welfare Grant Fund ("Grant Fund").

The new Trust Fund is to be invested by the State Investment Officer as the Land Grant Permanent Funds (LGPF) are invested pursuant to Chapter 6, Article 8 NMSA 1978 (which directs the State Investment Council to manage funds in accordance with the Uniform Prudent Investor Act). Money in the Trust Fund may only be expended to make regular distributions to the Grant Fund. Distributions are set at $100 thousand each fiscal year beginning in FY26 and then increases to 4.7 percent of a rolling 5-year average market value of the fund once that amount exceeds $100 thousand.

The new Grant Fund receives annual distributions from the Trust Fund and is to be administered by the DFA subject to annual appropriation by the legislature. The fund is for DFA to provide grants according to the Act and pay the department's administrative costs for administering the Act.

FISCAL IMPLICATIONS

The new Animal Welfare Trust Fund is seeded with a $10 million general fund appropriation in FY25. Distributions from the AWTF begin in FY26 and are set at $100 thousand until 4.7 percent of the rolling 5-year average of the Trust Fund's market value exceeds that amount, then the formulaic percentage value will be used for the distribution.

The table below provides a simplified example of potential investment returns for the AWTF and subsequent potential distributions to the Grant Fund.

- *Assumed Annual Return:*	*6.00%*
(note, actual return target would be driven by the asset allocation)	

Distrib. Minimum	$	0.1
Distrib. %:		4.7%
Min. Balance for Distribution:		$0

Animal Welfare Trust Fund ($millions)						
Calendar Year	Beginning Balance	Contributions	Distrib	Gains & Losses	Ending Balance	YOY Fund Growth
2024	$0.0	$10.0	$0.0	$0.3	$10.3	
2025	$10.3	$0.0	-$0.1	$0.6	$10.8	5.0%
2026	$10.8	$0.0	-$0.2	$0.6	$11.3	4.1%
2027	$11.3	$0.0	-$0.3	$0.7	$11.6	3.2%
2028	$11.6	$0.0	-$0.4	$0.7	$11.9	2.3%
2029	$11.9	$0.0	-$0.5	$0.7	$12.1	1.5%
2030	$12.1	$0.0	-$0.5	$0.7	$12.2	1.4%
2031	$12.2	$0.0	-$0.6	$0.7	$12.4	1.3%
2032	$12.4	$0.0	-$0.6	$0.7	$12.6	1.3%
2033	$12.6	$0.0	-$0.6	$0.7	$12.7	1.3%
2034	$12.7	$0.0	-$0.6	$0.7	$12.9	1.3%
2035	$12.9	$0.0	-$0.6	$0.8	$13.0	1.3%
2036	$13.0	$0.0	-$0.6	$0.8	$13.2	1.3%
2037	$13.2	$0.0	-$0.6	$0.8	$13.4	1.3%
2038	$13.4	$0.0	-$0.6	$0.8	$13.6	1.3%
2039	$13.6	$0.0	-$0.6	$0.8	$13.7	1.3%
2040	$13.7	$0.0	-$0.6	$0.8	$13.9	1.3%

Distribution to Animal Welfare Grant Fund		
Fiscal Year	Distrib Date	Amount ($MM)
FY24	Jul-23	$0.000
FY25	Jul-24	$0.000
FY26	Jul-25	$0.100
FY27	Jul-26	$0.198
FY28	Jul-27	$0.304
FY29	Jul-28	$0.414
FY30	Jul-29	$0.525
FY31	Jul-30	$0.542
FY32	Jul-31	$0.555
FY33	Jul-32	$0.566
FY34	Jul-33	$0.575
FY35	Jul-34	$0.582
FY36	Jul-35	$0.590
FY37	Jul-36	$0.598
FY38	Jul-37	$0.605
FY39	Jul-38	$0.613
FY40	Jul-39	$0.621

Return expectations for funds the Council manages range from 5.1 percent (Tax Stabilization Reserve) to 7 percent (the long-term return target for the Land Grant Permanent Fund. For the purpose of this sample analysis, staff assume a 6 percent average annual return for the new Trust Fund created in this bill; however, actual return expectations would ultimately depend on the fund's asset allocation.

Under these assumptions, the AWTF would likely distribute $100 thousand to the Grant Fund in FY26, and depending on the returns earned on the AWTF's investments (and any additional appropriations in subsequent years) the distribution may be expected to increase. Any increase in the Trust Fund's market value (and subsequent distributions), however, would be wholly dependent upon actual returns in the future market environment and cannot be predicted with certainty.

SIGNIFICANT ISSUES

It is important for the Council as manager of the new Trust Fund to properly understand the long-term goals and risk/return appetite of the fund's "client" to appropriately allocate the funds in question. In this case, we would suggest the DFA Secretary be properly consulted in this regard, which could be done in the regular course of business for the State Investment Council given his ex-officio role on the Council.

The SIC supports public policy that encourages maximizing the long-term benefits that endowments can and do provide to the state and its various needs. The endowment model acts not only to stabilize budgets for planning purposes, but also as a revenue engine to benefit current and future generations.

PERFORMANCE IMPLICATIONS

The State Investment Officer, with the approval of the State Investment Council, would manage the new 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

This bill will require additional time from investment and administrative staff at the State Investment Office. However, the additional resources required can be addressed through the SIO's ordinary budgeting process.

TECHNICAL ISSUES

Section 5-B of the bill outlines the Trust Fund's distribution policy, which is set at $100 thousand each year until 4.7 percent of the rolling 5-year average of the Trust Fund's market value exceeds that amount, then the formulaic percentage value will be used for the distribution.

Since this is a new fund, for the first five years of the fund's life it is unclear how to properly calculate a five-year average. For example, in FY26, the calculation could be based on 4.7 percent of an average of $2 million ($10 million for one year and $0 for four years); or, the calculation could be based simply on 4.7 percent of $10 million since the fund was nonexistent for the prior four years.

For the purposes of our bill analysis, we assume the former interpretation, wherein the five-year average is assumed be $2 million, which would align with the bill's inclusion of a $100 thousand "floor" for the distribution. However, if this is not the intent, we would suggest adding clarifying language to the bill.