

LFC Requester:	Rodriguez
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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 **Amendment**
Correction **Substitute**

Date 1/24/24
Bill No: SB 170

Sponsor: Ortiz y Pino
Short Title: Rural Libraries Endowment Fund

Agency Name and Code SIC 337
Number: _____
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		
	\$30,000.0	Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		
	\$30,000.0		Nonrecurring	Rural Libraries Endowment Fund
		\$1,500.0	Recurring	Rural Libraries Program Fund
		\$78.0	Recurring	Cultural Affairs Department

(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:

Senate Bill 170 appropriates \$30 million from the general fund to the Rural Libraries Endowment Fund (RLEF) in FY25.

FISCAL IMPLICATIONS

Currently, the RLEF is valued at \$29.2 million (as of 12/31/23). The fund is invested by the State Investment Council, with 95 percent of RLEF “earnings” – as established by statutory formula – being distributed to qualifying rural libraries in New Mexico annually. The remaining 5 percent of the distribution goes to the Cultural Affairs Department (CAD) for the state’s delivery of specialized services to rural libraries.

The table below provides an example of how the additional monies into the RLEF could increase distributions to rural libraries and CAD.

Rural Libraries Endowment Fund (\$MM)							Total Projected Distribution				SB170 Additional Distribution to Program Fund and CAD	
CY	Beginning		Distributions	Gains & Losses		Ending Balance	Fiscal Year	Current Law	SB170	Diff. w/ SB170	95%	5%
	Balance	Contributions										
2019	\$ -	\$ 1.0	\$ 1.0	\$ -	\$ 0.011	\$ 1.0	FY19	n/a	n/a			
2020	\$ 1.0	\$ 2.0	\$ 2.0	\$ -	\$ 0.084	\$ 3.1	FY20	n/a	n/a			
2021	\$ 3.1	\$ -	\$ -	\$ -	\$ 0.207	\$ 3.3	FY21	n/a	n/a			
2022	\$ 3.3	\$ 10.0	\$ (0.084)	\$ 0.178	\$ 13.4		FY22	\$ 0.084	\$ 0.084			
2023	\$ 13.4	\$ 15.0	\$ (0.165)	\$ 0.937	\$ 29.2		FY23	\$ 0.165	\$ 0.165			
2024	\$ 29.2	\$ 30.0	\$ (0.094)	\$ 3.344	\$ 62.4		FY24	\$ 0.094	\$ 0.094	\$ -	\$ -	\$ -
2025	\$ 62.4	\$ -	\$ (0.772)	\$ 4.702	\$ 66.3		FY25	\$ 0.772	\$ 0.772	\$ -	\$ -	\$ -
2026	\$ 66.3	\$ -	\$ (3.121)	\$ 4.911	\$ 68.1		FY26	\$ 1.564	\$ 3.121	\$ 1.557	\$ 1.479	\$ 0.078
2027	\$ 68.1	\$ -	\$ (3.317)	\$ 5.039	\$ 69.9		FY27	\$ 1.570	\$ 3.317	\$ 1.747	\$ 1.660	\$ 0.087
2028	\$ 69.9	\$ -	\$ (1.790)	\$ 5.227	\$ 73.3		FY28	\$ 0.867	\$ 1.790	\$ 0.923	\$ 0.877	\$ 0.046
2029	\$ 73.3	\$ -	\$ (1.722)	\$ 5.491	\$ 77.1		FY29	\$ 0.926	\$ 1.722	\$ 0.795	\$ 0.756	\$ 0.040
2030	\$ 77.1	\$ -	\$ (3.437)	\$ 5.711	\$ 79.3		FY30	\$ 1.726	\$ 3.437	\$ 1.711	\$ 1.626	\$ 0.086

The analysis above assumes the long-term expected compound annual return for the RLEF per our most recent asset allocation study conducted in conjunction with general consultant RVK, which was 7.6 percent as of April 2023.

Under these assumptions, this bill could result in an additional \$1.5 million annual distribution to the rural libraries program fund and an additional \$78 thousand annual distribution to CAD. Any increase in the RLEF’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. This is particularly the case with RLEF, which has a distribution formula uncommon to other permanent/trust fund's under the Council's management. For fiscal years 2022-2027, the RLEF distributes the difference between investment earnings and fund distributions in the prior calendar year. While intended to protect the corpus of the fund, this mechanism ties the distribution directly to the prior year's fund performance, making the amount more volatile and potentially falling to \$0 in a year of market declines.

PERFORMANCE IMPLICATIONS

Fund Valuations (\$Millions)	12/31/2020	12/31/2021	12/31/2022	12/31/2023
Rural Libraries Endowment Fund	\$3.1	\$3.3	\$13.4	\$29.2

As of 11/30/23	QTD	1 year	3 years	5 years	7 years	10 years
Rural Libraries Endowment – Net returns	1.94	2.27	3.45	n/a	n/a	n/a

Returns are annualized for periods longer than one year and are reported net of fees. Most of the growth of the RLEF over the last few years is attributable to additional appropriations into the fund – \$10 million FY22 and \$15 million in FY23.

With the additional appropriations, the Council made significant changes to the asset allocation in April 2023, moving the portfolio from one primarily focused on capital preservation to one more focused on growth and inflation protection. These changes significantly improved the expected long-term average investment return moving forward.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to a \$10 million special appropriation from the general fund to the RLEF in the Executive Budget Recommendation.