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FISCAL IMPACT REPORT

SPONSOR Ortiz y Pino/Herrera LAST UPDATED _____
ORIGINAL DATE 2/1/23
SHORT TITLE Rural Libraries Endowment Fund BILL NUMBER Senate Bill 214
ANALYST Dick-Peddie

APPROPRIATION* (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY23	FY24		
\$0.00	\$37,000.0	Nonrecurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Relates to an appropriation in the General Appropriation Act

Sources of Information

LFC Files

Responses Received From
Department of Cultural Affairs
State Investment Council
New Mexico Attorney General

SUMMARY

Synopsis of 214

Senate Bill 214 appropriates \$37 million from the general fund to the rural libraries endowment fund at the State Investment Council for the purpose of increasing the endowment corpus to award grants to rural libraries.

Rural libraries are defined as a library serving a population of 3,000 or fewer, or a nonprofit library in an unincorporated area of the state. Currently 12 tribal libraries and 40 public libraries are eligible. The fund also provides grant funds for communities wishing to establish a library.

This bill does not contain an effective date and, as a result, would go into effect June 16, 2023, (90 days after the Legislature adjourns) if signed into law.

FISCAL IMPLICATIONS

The appropriation of \$37 million contained in this bill is a nonrecurring expense to the general

fund. Any unexpended or unencumbered balance remaining at the end of FY24 shall not revert to the general fund.

The rural libraries endowment fund, created to distribute grants to libraries in communities with populations of or 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 lesser of either 5 percent of the endowment fund value for the preceding year or the income earned by the fund.

Currently, the rural libraries endowment fund has a balance of just over \$13 million. Of that balance, \$10 million was appropriated from federal American Rescue Plan Act (ARPA) funds during the 2022 regular legislative session. The Department of Finance and Administration determined the \$10 million appropriated from ARPA funds could not be used for the endowment fund and is working with the Legislature to “swap” those funds with general fund revenue. Anticipating a correction of the appropriation, this analysis assumes \$13 million as the current balance for the fund.

The Department of Cultural Affairs did not distribute any funds from the endowment in FY23, because the fund allocations would only equal approximately \$1,300 per library. The agency will instead make the first fund distributions in FY24, when the fund balance, and therefore distributions to eligible libraries, is higher.

For FY24, the Department of Cultural Affairs requested a one-time appropriation of \$15 million for the rural libraries endowment fund, \$22 million less than the appropriation contained in this legislation. The Legislative Finance Committee budget recommendation, as well as the governor’s proposed budget, fully supports the \$15 million request. An additional \$15 million to the fund would increase the distribution to approximately \$25 thousand per library beginning in FY24. The appropriation of \$37 million contained in this bill would increase the distribution to approximately \$42 thousand per library.

SIGNIFICANT ISSUES

The State Investment Council provided the following evaluation of the fund status in its agency analysis:

The Rural Librar[ies] Endowment Fund (RLEF) is currently allocated in a conservative portfolio designed primarily for capital preservation and slow growth. This is in part due to the relatively small size of the RLEF and its initial distribution formula, which is highly dependent on income generation as the fund grows toward a more standard 5 percent distribution rate. During initial stages of growing an endowment, the RLEF is invested to avoid potential losses if possible.

Despite a historically terrible year for investors in CY 2022, the RLEF was positioned appropriately, and produced positive investment gains of +2.75 percent for the one-year period through November 30, 2022 – the latest available. For the same one-year period, global stocks lost approximately -15 percent, while fixed income securities fell -12 percent, one of the worst years on record, and the first year both stocks and bonds fell together in tandem over the last 65 years.

Net Returns	1 Year	3 years	CY2021	CY2020
Rural Libraries				
Endowment	2.75%	4.03%	6.69%	4.57%

The RLEF’s returns are largely derived on the assets in which it is invested.

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)

On a typical year, this investment mix will return between 4 percent to 5 percent.

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 (Dept. Cultural Affairs), or until the fund itself achieves a more substantial valuation that could better withstand the short-term 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.

PERFORMANCE IMPLICATIONS

The Department of Cultural Affairs Library Division and the State Investment Council do not anticipate any administrative or performance implications associated with increased funding to the endowment.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to the LFC recommendation for the General Appropriation Act, which \$15 million, \$22 million less than the appropriation contained in this bill, for the rural libraries endowment fund.

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