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LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
56th Legislature, 2nd Session, 2024

Bill Number	<u>SB153</u>	Sponsor	<u>Correa Hemphill</u>
Tracking Number	<u>.226773.2</u>	Committee Referrals	<u>SCC/SEC/SFC; HAFC</u>
Short Title	<u>Early Childhood Fund Transfer</u>		
Analyst	<u>Estupiñan</u>	Original Date	<u>1/25/2024</u>
		Last Updated	<u>2/6/2024</u>

FOR THE LEGISLATIVE FINANCE COMMITTEE

BILL SUMMARY

Synopsis of Bill

Senate Bill 153 (SB153) would amend Section 9-29A-1 NMSA 1978 to increase the minimum annual distributions from the early childhood trust fund from \$150 million to \$250 million.

FISCAL IMPACT

The bill does not contain an appropriation.

SB153 would increase the FY25 distribution from the early childhood trust fund to the early childhood education and care program fund from \$154.74 million to \$250 million. Following the FY25 distribution, the early childhood education and care program fund would receive an amount equal to the greater of 5 percent of the average of the year-end market values of the fund for the immediately preceding three calendar years or \$250 million.

While SB153 increases the distribution from the early childhood trust fund in FY25, projected distributions to the early childhood education and care program fund in subsequent fiscal years may be modestly negatively affected. As indicated in **Attachment A: Early Childhood Trust Fund Forecast**, an increase in FY25 distributions may be followed by a modest decrease in the fund's balance and projected annual distributions, when compared to the Legislative Finance Committee's (LFC's) baseline assumptions. This is despite LFC projecting no changes in inflows to the early childhood education and care fund from excess federal mineral leasing and excess oil and gas emergency (OGAS) school tax revenue.

However, these changes in the fund's balance and distributions may not be significant in the fund's long-term capacity to generate fiscal supports for early childhood education and care services.

SUBSTANTIVE ISSUES

Establishment of the Early Childhood Trust Fund. The early childhood trust fund was established on July 1, 2020 with an initial infusion of \$300 million. Statute requires OGAS school tax revenue in excess of the five-year average be deposited in the early childhood trust fund if general fund reserves exceed 25 percent of prior-year recurring appropriations. Additionally, statute requires federal mineral leasing payments in excess of the five-year average also be deposited in the early childhood trust fund.

Statute initially required a minimum distribution of \$20 million be made to the early childhood education and care program fund in FY22. Beginning in FY23, statute required a distribution of an amount equal to the greater of 5 percent of the average of the year-end market values of the fund for the immediately preceding three calendar years or \$30 million. The distribution was later changed to an amount equal to the greater of 5 percent of the average of the year-end market values of the fund for the immediately preceding three calendar years or \$150 million.

Inflows to the Early Childhood Trust Fund. Statute requires revenue in excess of an annual five-year average for federal mineral leasing payments be deposited into the early childhood trust fund. Additionally, if general fund reserves are above 25 percent of recurring appropriations, oil and gas emergency school tax revenue in excess of the five-year average also flows to the fund.

In the 2024 calendar year, LFC anticipates approximately \$2.2 billion in excess school tax and federal mineral leasing revenues being deposited into the early childhood trust fund. For the 2025 calendar year, the consensus revenue forecast anticipates \$1.3 billion in inflows from excess revenue, followed by \$674.6 million in the 2026 calendar year and \$130.2 million in the 2027 calendar year. In the 2028 calendar year, there will not be a transfer of either excess school tax or federal mineral leasing revenues to the early childhood trust fund.

Projected Balances. LFC currently anticipates the early childhood trust fund reaching an ending-balance of approximately \$9.8 billion in the 2028 calendar year. If SB153 were enacted, the fund may have an ending-balance of approximately \$9.7 billion, or a difference of \$96.3 million.

Uses of Funds. Distributions from the early childhood trust fund are made into the early childhood education and care program fund, which is administered by the Early Childhood Education and Care Department (ECECD). Those funds are subject to appropriation by the legislature for early childhood education and care services and programs.

The LFC FY25 recommendation for ECECD includes an increase in the FY25 distribution from the early childhood trust fund to \$250 million, which would provide \$14 million for childcare assistance copayments and restructures \$6 million for prekindergarten quality supports.

Below is a comprehensive list of the programs and services LFC has recommended contingent on the enactment of a bill increasing the trust fund's distributions.

**FY25 LFC Recommendation for increased distribution
(in thousands)**

	Table 1: Early Care and Education Fund (Other State Funds)	
	Agency Request	LFC Recommendation
FY24 OpBud	150,000.0	150,000.0
Childcare Assistance Copayment Restructure	5,000.0	14,000.0
Childcare Assistance Rate and Eligibility		23,000.0
Childcare Assistance Infant and Toddler Contracts		43,000.0
Transfer HSD Infant and Maternal Health Services		5,000.0
Transfer HSD for Doulas and Lactation Support		5,800.0
IT System		500.0
Transfer HSD Medicaid Home visiting Rate Increase and Incentives Pilot		2,000.0
Program Support FTE		605.0
Home Visiting FTE		95.0
Prekindergarten Quality		6,000.0
Total FY25	155,000.0	250,000.0

Source: LFC

The Executive’s FY25 budget recommendation for ECECD requests \$15 million for the agencies’ policy, research, and quality initiatives program and an additional \$5 million for the prekindergarten program. Both requests are contingent on enactment of a bill increasing the distribution from the early childhood care and care fund.

SOURCES OF INFORMATION

- LESC Files
- LFC Files
- Early Childhood Education and Care Department (ECECD)

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ATTACHMENT A: Early Childhood Trust Fund Forecast

Early Childhood Trust Fund Forecast - December 2023									
(in millions)									
Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual	Actual	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Beginning Balance	\$300.0	\$300.0	\$314.1	\$3,462.0	\$5,508.2	\$7,741.7	\$9,108.4	\$9,774.7	\$9,852.1
Gains & Losses	\$6.1	\$34.1	(\$6.4)	\$123.2	\$220.3	\$309.7	\$364.3	\$391.0	\$394.1
Excess Federal Mineral Leasing	\$0.0	\$0.0	\$1,501.5	\$2,073.0	\$1,018.1	\$663.1	\$246.5	\$0.0	\$0.0
Excess OGAS School Tax*	\$0.0	\$0.0	\$1,682.8	\$0.0	\$1,149.8	\$672.4	\$428.1	\$130.2	\$0.0
Distribution to ECE Program Fund	\$0.0	(\$20.0)	(\$30.0)	(\$150.0)	(\$154.7)	(\$278.5)	(\$372.6)	(\$443.7)	(\$478.9)
Ending Balance	\$306.1	\$314.1	\$3,462.0	\$5,508.2	\$7,741.7	\$9,108.4	\$9,774.7	\$9,852.1	\$9,767.3
*Excess OGAS School Tax distributed to Early Childhood Trust Fund if general fund reserves are at least 25% throughout forecast period, and distributions occur for prior fiscal year in January of the following calendar year.									
Note: Investment return assumed at 4% and distributions occur on July 1, based on previous calendar year-ending balance.									
		FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Distribution to ECE Program Fund		\$0.00	\$20.00	\$30.00	\$150.00	\$154.74	\$278.53	\$372.64	\$443.75

Source: December 2023 Consensus Revenue Forecast

Estimated Projection with Increased Distribution in FY25

Early Childhood Trust Fund Forecast - December 2023									
(in millions)									
Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual	Actual	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Beginning Balance	\$300.0	\$300.0	\$314.1	\$3,462.0	\$5,508.2	\$7,646.4	\$9,010.8	\$9,676.4	\$9,754.8
Gains & Losses	\$6.1	\$34.1	(\$6.4)	\$123.2	\$220.3	\$305.9	\$360.4	\$387.1	\$390.2
Excess Federal Mineral Leasing	\$0.0	\$0.0	\$1,501.5	\$2,073.0	\$1,018.1	\$663.1	\$246.5	\$0.0	\$0.0
Excess OGAS School Tax*	\$0.0	\$0.0	\$1,682.8	\$0.0	\$1,149.8	\$672.4	\$428.1	\$130.2	\$0.0
Distribution to ECE Program Fund	\$0.0	(\$20.0)	(\$30.0)	(\$150.0)	(\$250.0)	(\$276.9)	(\$369.4)	(\$438.9)	(\$474.0)
Ending Balance	\$306.1	\$314.1	\$3,462.0	\$5,508.2	\$7,646.4	\$9,010.8	\$9,676.4	\$9,754.8	\$9,671.0
*Excess OGAS School Tax distributed to Early Childhood Trust Fund if general fund reserves are at least 25% throughout forecast period, and distributions occur for prior fiscal year in January of the following calendar year.									
Note: Investment return assumed at 4% and distributions occur on July 1, based on previous calendar year-ending balance.									
		FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Distribution to ECE Program Fund		\$0.00	\$20.00	\$30.00	\$150.00	\$250.00	\$276.94	\$369.42	\$438.90

Source: LFC Analysis of December 2023 Consensus Revenue Forecast