F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 01/24/12
SPONSOR Trujillo & Rodriguez **LAST UPDATED** **HJR** 2

SHORT TITLE Land Grant Fund Annual Distribution, CA **SB**

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY11	**FY12**	**FY13**		
		$23,993.0	Recurring	General Fund
		$4,707.0	Recurring	Other Beneficiaries
		$28,700.0	Recurring	Land Grant Permanent Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
State Investment Council (SIC)

SUMMARY

Synopsis of Bill

House Joint Resolution 2 proposes an amendment to Article 12 Section 7 of the State Constitution, which would make permanent the 5.8% annual distribution from the Land Grant Permanent Fund to public schools and other LGPF beneficiaries. The current 5.8% distribution rate is scheduled to wind down to 5.5% in FY 2013, and return to its base distribution of 5% starting in FY 2017.

HJR 2 stipulates that should the 5-year average of the LGPF drop below $6 billion, the additional 0.8% be suspended during the current calendar year. The proposal also allows the additional eight-tenths of a percent to be suspended by a 3/5 vote by both House & Senate.

If approved by the legislature, the constitutional amendment would be brought to voters in the next general election or at a special election for this purpose. Due to the need for electoral mandate, changes to the LGPF distribution rate could not be implemented before FY 2014.

FISCAL IMPLICATIONS

SIC notes that the additional 0.3% (in FY14-FY16) and subsequently 0.8% above the 5.0% base LGPF distribution (starting in FY 2017) create significant revenue for the general fund and the other LGPF beneficiaries. The chart below was provided by SIC and assumes LGPF returns at 7.5%/annum and contributions from the Land Office at $350M/yr. The 7.5% investment return is the long-term target adopted by the State Investment Council in 2011, and the $350M/year is an estimate based on the average prior 10-years contributions to the LGPF from energy taxes.

Fiscal Year	Distribution @5.8% ($M)	Distribution @5.5% ($M)	Distribution @5.0% ($M)	Difference in distrib. ($M)	LGPF Fund Value ($M) (est)
2010	$ 525.5				
2011	$ 535.9				
2012	$ 553.4				
2013 (est)		$ 527.1		$ -	10,082
2014 (est)	$ 554.9	$ 526.2		$ 28.7	10,618
2015 (est)	$ 593.6	$ 562.9		$ 30.7	11,206
2016 (est)	$ 625.0	$ 592.8		$ 32.2	11,818
2017 (est)	$ 649.9		$ 560.9	$ 89.0	12,440
2018 (est)	$ 683.3		$ 590.8	$ 92.5	13,109
2019 (est)	$ 717.7		$ 622.5	$ 95.2	13,826
2020 (est)	$ 752.7		$ 655.9	$ 96.8	14,563
TOTAL				$ 465.1	

SIGNIFICANT ISSUES

This increased distribution will undoubtedly deplete the fund over time. While short term impact to the LGPF of increasing the base distribution to 5.8% is not insignificant at an estimated -$356 million as of 2020, just five years later the corpus of the fund is diminished by almost $1.4 billion, and five years after that, the negative impact has grown to almost $2.5 billion, or nearly 10% less in the Land Grant Permanent Fund than we would expect to have under the current constitutional distribution formula by 2030.

For perspective, that $2.5 billion would translate into approximately $125 million less, every year, that could be distributed to NM education in 2030 and subsequent years thereafter.

However, the concept of a perpetual endowment is not in itself “good policy”. Julius Rosenwald was President of Sears and Roebuck and major 20th century philanthropist. He wrote that “I am opposed to the permanent or what might be styled the never-ending endowment… Permanent endowment tends to lessen the amount available for immediate needs; and our immediate needs are too plain and too urgent to allow us to do the work of future generations.”

In short the decision to deplete an endowment is a policy decision rather than a financial dictum or “best practice”. The real question is whether the benefits of the expenditures will outweigh the benefits of greater income tomorrow.

SS/svb