FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/19
SPONSOR Maestas/Martinez, J **LAST UPDATED** 2/15/19 **HJR** 1

SHORT TITLE Permanent Funds For Early Childhood, CA **SB**

ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	**FY20**	**FY21**	**FY22**	**FY23**		
$0.0	See fiscal implications	See fiscal implications	($173,500.0)	($182,800.0)	Recurring	LGPF
$0.0			$147,700.0	$155,600.0	Recurring	General Fund (public schools for early childhood)
$0.0			$25,800.0	$27,200.0	Recurring	Other LGPF beneficiaries

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total			$50.0	$50.0	Nonrecurring	Election Fund

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
State Investment Council (SIC)
State Land Office (SLO)
Children, Youth and Families Department (CYFD)
New Mexico Attorney General (NMAG)
Public Education Department (PED)

SUMMARY

Synopsis of Joint Resolution

House Joint Resolution 1 seeks to amend Article XII, Section 7 of the New Mexico Constitution to provide an additional 1 percent annual distribution from the Land Grant Permanent Fund

(LGPF). The proposed amendment stipulates the amount of the additional distribution coming from the permanent school fund (which is the largest component of the land grant permanent fund allocated to support "common schools"), is to be earmarked for early childhood educational (ECE) services. The amendment defines "early childhood educational services" as nonsectarian and nondenominational services for children until they are eligible for kindergarten.

The additional distribution, which increases the overall rate from 5 percent to 6 percent, would automatically be suspended should the 5-year average value of the LGPF fall below $10 billion and can also be temporarily suspended by a vote of three-fifths of both the House and Senate. The Constitutional Amendment would only be effective if passed by voters in the next general election (2020) or via a statewide special election held for this purpose. Subsequent to approval by the voters, the amendment would require the consent of the US Congress before becoming effective.

FISCAL IMPLICATIONS

The fiscal impact table assumes voters approve the amendment in the next general election (November 2020) and that Congressional approval is granted by July 1, 2021. Therefore, assuming the 6 percent distribution would begin in FY22, LFC staff analysis shows the proposed amendment would deliver about $174 million in additional distributions that year, of which about $148 million would go the general fund for early childhood educational services. The remaining $26 million would go to the other 20 beneficiaries of the LGPF. Depending on the timing of potential voter and Congressional approval of the amendment, it is possible for additional distributions to begin sooner.

The amendment does not contain a delayed repeal date; therefore, the additional 1 percent distribution would continue into perpetuity. SIC provides the following statement regarding their analysis of this bill: "Given that reasonable expectations of healthy, if not robust inflows from oil and natural gas are poised to continue for the next 20-30 years, the permanent fund should continue to grow on a real-dollar basis, despite the 1 percent in additional distributions, even if investment returns be below-average over the coming decade, as we expect."

Increasing the distribution rate results in more general fund revenue in the short term, but reduces the total value of the fund. Doing so, limits the fund's ability to grow over time and reduces the general fund distributions in the long term. The following table shows LFC staff's analysis of the differences in the 5 percent distribution rate versus a 6 percent distribution. The analysis assumes (1) inflows from oil and gas royalties consistent with the consensus revenue forecast's expected growth in oil and gas value over the next five years and static inflows for the years after that, and (2) a 5.5 percent investment return over the next 10 years then a 6.8 percent return afterwards consistent with the SIC's target and expected rate of return for the next 10-years, on average.

The additional benefits of the 6 percent distribution rate would continue to outpace benefits of a 5 percent distribution rate fund until about 2048, at which point, 28-years into the new distributions, the larger 5 percent fund would produce more dollars in annual distributions than the 6 percent fund, due to its smaller fund value.

Calendar Year	Corres-ponding Fiscal year	LGPF Value ($B) at CY-end at current 5%	LGPF Distribution at 5%	LGPF Value ($B) at CY-End w/ HJR1 6%	LGPF Distribution at 6%	Difference in LGPF Value ($B)	Difference in LGPF Distribution (6% vs. 5%)
2018	2020	$17.054	$784,249,918	$17.054	$784,249,918	$0.000	$0
2019	2021	$18.081	$819,977,326	$18.081	$819,977,326	$0.000	$0
2020	2022	$19.181	$867,756,686	$19.181	$1,041,308,023	$0.000	$173,551,337
2021	2023	$20.357	$919,616,413	$20.266	$1,102,441,116	$(0.092)	$182,824,703
2022	2024	$21.593	$962,664,213	$21.308	$1,150,683,613	$(0.285)	$188,019,400
2023	2025	$22.886	$1,020,977,712	$22.390	$1,214,709,690	$(0.496)	$193,731,977
2024	2026	$24.196	$1,082,128,139	$23.472	$1,279,396,337	$(0.724)	$197,268,197
2025	2027	$25.515	$1,145,476,491	$24.545	$1,343,767,299	$(0.971)	$198,290,808
2026	2028	$26.842	$1,210,318,561	$25.609	$1,407,884,827	$(1.233)	$197,566,266
2027	2029	$28.173	$1,276,120,271	$26.664	$1,472,150,895	$(1.509)	$196,030,624
2028	2030	$29.509	$1,342,354,141	$27.709	$1,535,983,251	$(1.800)	$193,629,110
2029	2031	$31.201	$1,412,407,117	$29.085	$1,603,345,845	$(2.116)	$190,938,728
2030	2032	$32.935	$1,486,603,519	$30.484	$1,674,621,527	$(2.451)	$188,018,008
2031	2033	$34.709	$1,565,274,747	$31.905	$1,750,172,356	$(2.804)	$184,897,609
2032	2034	$36.521	$1,648,748,908	$33.344	$1,830,327,528	$(3.177)	$181,578,620
2033	2035	$38.368	$1,737,340,341	$34.797	$1,915,379,615	$(3.571)	$178,039,274
2034	2036	$40.249	$1,827,814,551	$36.261	$2,001,488,876	$(3.988)	$173,674,325
2035	2037	$42.161	$1,920,070,295	$37.733	$2,088,471,095	$(4.428)	$168,400,800
2036	2038	$44.104	$2,014,022,435	$39.213	$2,176,164,856	$(4.891)	$162,142,421
2037	2039	$46.079	$2,109,607,524	$40.700	$2,264,440,085	$(5.379)	$154,832,560
2038	2040	$48.086	$2,206,789,584	$42.194	$2,353,206,476	$(5.892)	$146,416,892
2039	2041	$50.126	$2,305,565,915	$43.695	$2,442,421,594	$(6.431)	$136,855,679
2040	2042	$52.199	$2,405,953,964	$45.204	$2,532,072,248	$(6.996)	$126,118,284
2041	2043	$54.306	$2,507,974,805	$46.719	$2,622,151,054	$(7.587)	$114,176,249
2042	2044	$56.447	$2,611,652,178	$48.242	$2,712,654,743	$(8.205)	$101,002,565
2043	2045	$58.622	$2,717,011,639	$49.771	$2,803,582,644	$(8.851)	$86,571,005
2044	2046	$60.833	$2,824,079,891	$51.308	$2,894,935,472	$(9.525)	$70,855,581
2045	2047	$63.080	$2,932,884,371	$52.852	$2,986,714,573	$(10.228)	$53,830,202
2046	2048	$65.363	$3,043,453,094	$54.403	$3,078,921,596	$(10.960)	$35,468,502
2047	2049	$67.683	$3,155,814,599	$55.962	$3,171,558,363	$(11.721)	$15,743,764
2048	2050	$70.041	$3,269,997,923	$57.527	$3,264,626,789	$(12.514)	$(5,371,134)
2049	2051	$72.437	$3,386,032,591	$59.100	$3,358,128,844	$(13.337)	$(27,903,747)
2050	2052	$74.871	$3,503,948,612	$60.680	$3,452,066,524	$(14.191)	$(51,882,088)
2051	2053	$77.346	$3,623,776,487	$62.268	$3,546,441,849	$(15.078)	$(77,334,638)
2052	2054	$79.860	$3,745,547,211	$63.863	$3,641,256,850	$(15.997)	$(104,290,362)
2053	2055	$82.415	$3,869,292,286	$65.465	$3,736,513,573	$(16.950)	$(132,778,713)
2054	2056	$85.012	$3,995,043,721	$67.075	$3,832,214,076	$(17.937)	$(162,829,646)
2055	2057	$87.650	$4,122,834,048	$68.692	$3,928,360,423	$(18.958)	$(194,473,625)
2056	2058	$90.332	$4,252,696,324	$70.317	$4,024,954,693	$(20.015)	$(227,741,631)
2057	2059	$93.057	$4,384,664,143	$71.950	$4,121,998,972	$(21.107)	$(262,665,171)
2058	2060	$95.826	$4,518,771,644	$73.590	$4,219,495,356	$(22.236)	$(299,276,288)

* Highlighted line represents the "tipping point" between the 5 percent and 6 percent distribution

Source: LFC Analysis

The State Land Office (SLO) provided its own analysis of the joint resolution, determining the proposed increased distribution will not diminish the corpus of the fund. The LFC staff analysis above confirms the market value of the fund is expected to increase on an annual basis despite additional distributions; however, the expected ending value of the fund is over $2 billion less within 10 years under the 6 percent distribution scenario and over $12 billion less within 30 years. [1]

The impact of an additional 1 percent distribution of the permanent fund can also be swayed substantially by investment returns and annual revenue inflows to the permanent fund, which are driven primarily by oil and gas royalties.[2] Put simply, higher oil and gas inflows to the LGPF and higher than expected investment returns significantly help mitigate the long-term effects of spending additional investment earnings through an increased drawdown. However, the opposite holds true as well, where depressed oil and gas prices, coupled with lower investment returns (which many predict over the next decade), and a higher spending rate have a much greater potential to negatively impact the health and growth of the endowment long-term.

Tradeoffs and the "Tipping Point". Within 28 years of the amendment's approval, the distribution amount generated from a 6 percent distribution from a smaller fund will be less than the distribution amount generated from 5 percent of a larger fund.

The 2003 amendment to the LGPF permanently increased the LGPF distribution from 4.7 percent to 5 percent, and temporarily increased it to 5.8 percent from FY06-FY12 and 5.5 percent from FY13-FY16. If the 2003 amendment to LGPF were never passed, the fund would have been $1.5 billion greater in FY18. For CY17 an additional $1.5 billion would have generated another $223 million in net earnings for the fund.

By 2017, distributions to the general fund were smaller than they would have been if the 2003 amendment had never occurred. If the distribution had never increased from 4.7 percent, the annual general fund distribution would have been about $20 million higher in FY17 and $25 million higher in FY18. The timeframe of this tipping point was accurately predicted in the original FIR for this legislation (SJR6, 2013).

SIC staff note the key question for policymakers comes down to whether the added cost over the long-run is an appropriate and attractive trade-off for the added benefits of this amendment is expected deliver to New Mexico's education system over the next 30 years. A secondary, but also important question is whether there are other existing avenues to fund early childhood initiatives, while also protecting and growing the existing hundreds of millions of dollars in benefits the LGPF already delivers annually to New Mexico schools. The Public Education Department (PED) points out both the executive and LFC budget proposals for the General Appropriation Act included early childhood program funding.

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[1] The SIC staff analysis of this joint resolution assumes (1) an investment return of 6.8 percent throughout the entire forecast period, and (2) annual inflows from oil and gas royalties of $700 million, increasing 3 percent per year for the first 15 years and 1 percent per year for the following 15 years, and static inflows for the 10 years after that. While the exact figures differ from the LFC analysis, the conclusion that the "tipping point" occurs within 30 years is the same.

[2] Prior analyses of amendments to increase LGPF distributions by 1 percent showed the tipping point occurring in about 25 years, whereas this analysis shows the tipping point occurring in 28 years. The primary difference is an increased assumption in the amount contributions to the permanent fund from oil and gas royalties. In 2018, the LGPF received a record $804 million in contributions, and the consensus revenue forecast expects increases in oil and gas production to continue, which would lead to growing royalty contributions above the 2018 amount. Previous analyses generally assumed about $450 million to $500 million in annual contributions, as it was the historical 10-year average. The current analysis, however, reflects recent changes to oil and gas production in New Mexico.

Impact to State Agencies. New Mexico's early childhood education and care system spans several state agencies, including the Children, Youth and Families Department (CYFD), the Department of Health (DOH), the Human Services Department (HSD), and the Public Education Department (PED). The table below shows the early childhood educational services provided by each agency and the age range of children served.

Early Childhood Education and Care System

State Agency	Program	Age Range
CYFD	Head Start and Early Head Start	prenatal-4
CYFD	Childcare Assistance	3 weeks-13
CYFD	Home Visiting	prenatal-4
CYFD	Prekindergarten	3-4
DOH	Family, Infants, and Toddlers	birth-3
DOH	Women, Infants, and Children	birth-5
HSD	Home Visiting	prenatal-4
PED	Prekindergarten	4
PED	K-3 Plus	5-8
PED	Services for Developmentally Delayed Students	3-4

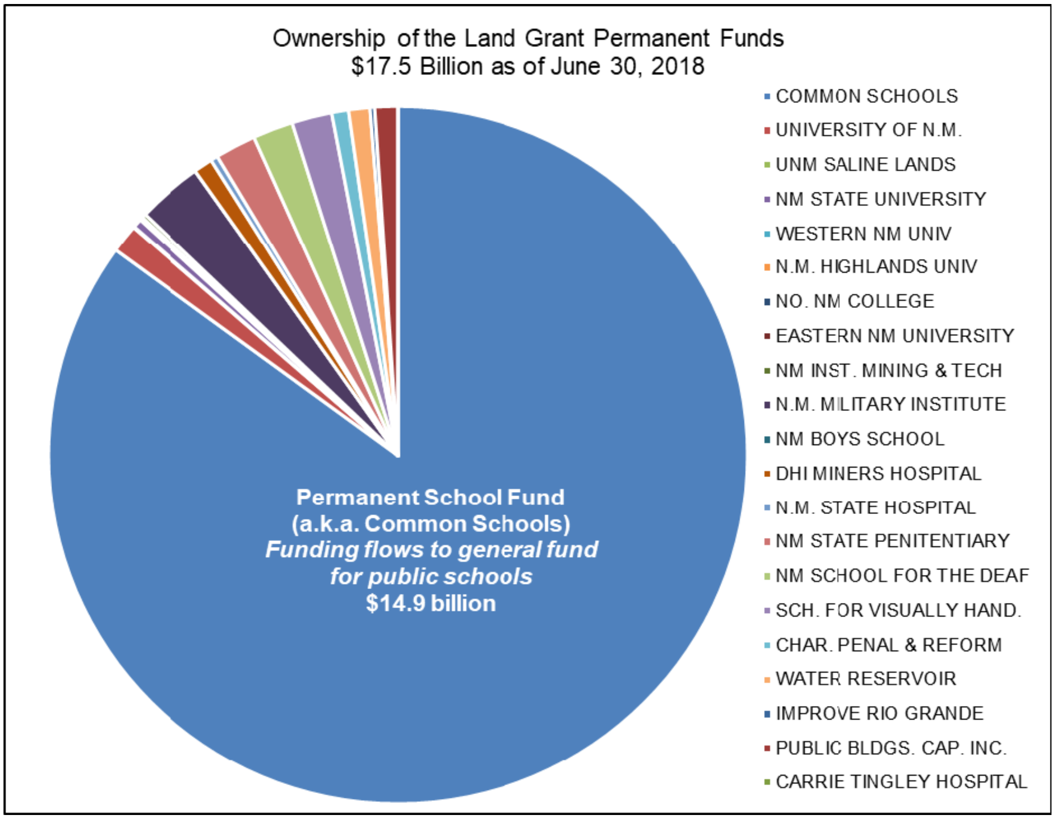
Source: LFC and LESC Analysis

PED states this bill will deliver significant revenue to the state to be applied to the state's ongoing efforts to expand state pre-K and other ECE programs. This bill would establish a recurring revenue stream for early childhood initiatives in perpetuity, given the amendment does not have a sunset clause. The response from CYFD states this joint resolution has no fiscal impact on the agency. However, it is important to note that CYFD administers a significant portion of the state's early childhood services and those services are delivered through private contractors. It is unclear how this joint resolution would impact CYFD's and New Mexico's current structure for delivery of early childhood services (see *Technical Issues* section).

Election Costs. Section 1-16-13 NMSA 1978 requires the Secretary of State (SOS) to print the full text of each proposed constitutional amendment, in both Spanish and English, in an amount equal to 10 percent of the registered voters in the state. The SOS is also constitutionally required to publish the full text of each proposed constitutional amendment once a week for four weeks preceding the election in newspapers in every county in the state. According to Secretary of State, the most recent cost to print a constitutional amendment is $47.60 per word.

SIGNIFICANT ISSUES

Distributions. Notably, the "permanent school fund" and the "land grant permanent fund" are not the same. The permanent school fund is one component (the largest portion) of the land grant permanent fund, accounting for about 85 percent of the LGPF. The proposed amendment increases the distribution to all beneficiaries, and requires only that the additional distributions from the permanent school fund be used for early childhood educational services. The additional distribution that flows to the other 20 beneficiaries of the LGPF is not earmarked for early childhood education.



Early Childhood Education. New Mexico's early childhood care and education system begins prenatally and extends through age 8. Benefits of prekindergarten include improved math and reading proficiencies for low-income 4-year-olds, lower special education and retention rates, and lessened negative effects of mobility. LFC's *2018 Early Childhood Accountability Report* found low-income students who participated in prekindergarten performed better on third grade PARCC than peers not participating. LFC also found prekindergarten programs deliver a positive return on investment for New Mexico taxpayers based on improvement in test scores though the 11th grade.

In the last decade, appropriations for the PED early childhood education programs have increased over tenfold, from about $5 million in FY07 for prekindergarten and K-3 Plus to $68 million for these two programs and an early reading initiative. In FY18, over 9,000 children received prekindergarten services, including extended day services. Prior to FY16, prekindergarten was only available to 4-year-olds but policymakers expanded services for 3-year-olds to support continued gains in student achievement outcomes, and authorized extended day services. Over 950 children participated in 3-year-old prekindergarten programs in FY18. The state has also increased its funding to various early childhood education programs in recent years, most recently allocating $300 million across childcare assistance, home visiting, pre-K, K-3 Plus, and early literacy programs in FY19.

K-3 Plus has been scientifically shown to improve student performance relative to peers when programs are executed correctly. However, there is concern the K-3 Plus program may not be implemented effectively at all schools. For increased gains, students should stay with the same teacher they had during the K-3 Plus program; however, this is not often the case. Further, more programs are now only making available 20 days of instruction rather than 25. LFC's report pointed out that in some cases the intent of the program is not being followed, raising concern that K-3 Plus is turning into summer school rather than a scientifically proven program to extend the school year for students from low-income families that need additional time-on-task to catch up to more affluent peers academically.

Additionally, the LFC report notes publicly delivered prekindergarten services face facility and workforce gaps. PED delivers services by school districts, further strained by teacher shortages and classroom availability. In November 2017, school districts and charter schools reported 637 educator vacancies, of which 476 were teacher vacancies and 158 were education assistant vacancies. Despite significant barriers to expansion, New Mexico is close to providing sufficient funding to ensure all low-income 4-year-olds receive at least some type of early education through childcare assistance, prekindergarten, or Head Start.

While this amendment focuses on early childhood education funding, it could also help address current shortfalls in the state's educational challenges. These issues have been notably identified in the *Yazzie/Martinez v. State of New Mexico* lawsuit, in which the state District Court ruled that state government has failed to live up to its constitutional duty in educating its children. This 2018 ruling does not attach a specific monetary amount that might bring the state into compliance, but it does define several avenues in which the state can address the deficiency. These include implementing statewide Pre-K programs for all children, with an emphasis on at-risk students. The state will require additional capacity building in infrastructure and professional development of teachers as it expands its early childhood education efforts.

PERFORMANCE IMPLICATIONS

The LESC staff analysis of this amendment states, "New Mexico has a limited workforce qualified in early childhood education. Early childhood educational services encompass a range of programs with differing degree and licensure requirements for providers. Disparities in workforce qualifications, licensure requirements, and compensation can create an environment in which programs compete for highly-qualified early childhood educational service providers. Expansion of early childhood educational services cannot outpace the development of a highly-qualified early childhood workforce."

According to PED, a large increase in prekindergarten programs will require additional training, coaching, and technical assistance to ensure quality, as well as scholarships to increase the number of highly qualified early childhood teachers and educational assistants. PED states it will be important to establish funding though the General Appropriations Act for these initiatives.

A higher distribution rate could pressure the State Investment Council to achieve higher rates of return on investment in order to maintain the value of the fund. This is a potentially challenging goal during periods of national or economic decline, and could lead SIC to take on greater investment risk in hopes of achieving higher returns in order to protect the earning power of the fund.

TECHNICAL ISSUES

Administration of Early Childhood Educational Services. The proposal appears to be in conflict with Section 32A-23-9 NMSA 1978, which requires any money appropriated for pre-kindergarten programs be divided equally between PED and CYFD.

Both Section 8 of the Enabling Act of 1910 and Article XII, Section 3 of the New Mexico Constitution prohibit use of land grant permanent funds for any sectarian or private school and require that schools receiving such funds must remain under the exclusive control of the state. Prior analyses of HJR1 by the New Mexico Attorney General's Office stated the prohibitions of the Enabling Act and the constitution apply to indirect as well as direct land fund grant distributions, such that these prohibitions cannot be avoided by appropriating the funds to a state agency for the purpose of disbursing funds to, or executing contracts with, sectarian or private schools not under the exclusive control of the state.

Attorney General Opinion No. 12 - 03, dated February 1, 2012, clarifies that any proposed constitutional amendment to increase distributions from the LGPF for early childhood learning programs would only be permissible if the increased distributions were limited to those programs provided by the public schools. However, CYFD administers a significant portion of the State's early childhood services and those services are delivered through private contractors.

Prior analyses of HJR1 by CYFD noted the following:

> "As clarified in the AG's opinion, the funds from the Land Grant Permanent Fund cannot be used to support private schools (including private early childhood programs) but can be used for early childhood learning programs provided by the public schools. Any distribution made pursuant to this joint resolution could only be used by the Public Education Department for early childhood programs exclusively under the control of the State. The majority of the Public Education Department's early childhood education services is provided through Pre-Kindergarten programs. Therefore the majority of the appropriations made through the distributions provided by the joint resolution would fund Pre-Kindergarten programs run by the Public Education Department."

In their analysis of this amendment, PED reiterates these concerns, stating, "It is unclear as to whether these funds could legally be awarded to private providers who are now funded for [prekindergarten] and other early childhood services through CYFD. It is also unclear as to whether these funds could flow to the proposed Early Education and Care Department rather than the PED."

Additionally, the Legislative Education Study Committee (LESC) staff analysis of this proposal states the amendment's definition of early childhood educational services as nonsectarian and nondenominational make it appear the intent is to appropriate the additional 1 percent permanent school fund distribution to entities other than public schools for early childhood educational services. LESC staff states, "This may open the state up to a lawsuit from the current beneficiaries of the permanent school fund – public schools – for whom these distributions are intended. It is unclear whether a school district or its board of education or a school aged child, as the intended beneficiaries, would be able to bring a successful lawsuit against the state for allocating the additional 1 percent distribution to an entity other than a public school."

Safety Mechanism. The amendment retains an automatic asset value "safety valve" intended to protect the corpus should its 5-year average value fall below $10 billion at calendar-end of any given year. This is currently in the Constitution and is not changed by this proposal.

The structure of the LGPF constitutional distribution formula uses a 5-year fund average with the intention of steadying the revenue stream for legislators to plan around, and to minimize the year-over-year volatility investment markets often bring.

Unfortunately, a side effect of this "smoothing effect" also largely renders the "safety valve" concept ineffective. For example, the value of the LGPF actually went down in CY2018, but due to growth in the previous 4-years, the LGPF will deliver an additional $41 million to its beneficiaries in FY2020.

Similarly, the fund could sustain a loss of 50 percent the next two years in a row, and still not cross the $10 billion fund average threshold, though the fund corpus itself would only be $4.2 billion at that point. It is for this reason that this element, already in the Constitution, should not be viewed as effective at current valuations, and why it is critical to retain the ability of three-fifths of the legislature to vote a temporary stoppage of additional distributions should the fund be endangered.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

PED points out this bill conflicts with budget proposals for the General Appropriation Act, where both the executive and LFC have proposed early childhood program funding.

OTHER SUBSTANTIVE ISSUES

New Mexico is one of a handful of states with a sovereign wealth fund or permanent endowment like the LGPF. Speaking generally, these funds have a wide variety of spending policies, which can sometimes vary due to fund inflows, investment returns or direction of a governing body. For example, Alaska's sovereign wealth fund has distributions near 5 percent, but can be impacted by annual fund cash flows. Wyoming also has a distribution around 5 percent, but the rate can vary, depending on its individual funds and each fund's long-term purpose (much like the 5 percent LGPF varies from the 4.7 percent STPF). Texas recently increased its fund distribution rate from 3.3 percent to 3.7 percent, while also creating new "rainy day" and "closing" funds for attracting business to their state. North Dakota, which only recently established its new Legacy Fund through an oil and gas boom, is basing distributions on fund earnings equivalent to 5.3 percent of the fund this year. Montana on the other hand, which invests very conservatively and receives most of its sovereign wealth inflows from natural resource revenues other than lucrative oil & gas, only distributes 2.2 percent of its fund.

University endowments, which like the LGPF employ the same strategy of using time and compounding effects to grow wealth, have generally seen increases in their spending policies recently in the wake of the multi-year equities bull-market and valuation growth. According to the National Association of College and University Business Officers (NACUBO) and its poll of more than 700 college endowments, the average distribution rate is 4.4 percent. However, university endowments of $1B or more have an average spending policy of 4.8 percent in the most recent data.

ALTERNATIVES

In its analysis of this amendment, PED states, "The state could continue to fund early childhood programs through the General Appropriation Act."

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

Early childhood educational programs will continue to be phased in on a basis of sustained growth in the program through the General Appropriation Act. Future LGPF beneficiaries will continue to receive additional monies as distributions grow as the size of the fund grows.

DI/al/sb

ATTACHMENT 1 – Land Grant Permanent Fund Quick Facts

What is the Land Grant Permanent Fund?

- Established in 1912 through New Mexico's entry into statehood.
- Tied to the federal Enabling Act of 1910, which stipulated that such land grants were to be held in trust for the benefit of the public schools, universities, and other specific beneficiary institutions.
- Oil and gas revenues (rents, royalties, and bonuses) make up over 90 percent of contributions to the fund – 2016 contributions totaled about $371 million.
- One of the largest sovereign wealth funds in the country – currently about $16.3 billion.
- General fund distributions are earmarked for public schools.

Current Distributions from LGPF

Currently, 5 percent of the LGPF five-year average is distributed to 21 beneficiaries of the fund based on land-ownership. The general fund (earmarked for common schools) is the largest fund beneficiary, receiving approximately 85 percent of the distribution. Other beneficiaries include universities, hospitals, and other public institutions. In FY18, LGPF distributions to the general fund will be about $585 million.

Distribution History

- Originally, only interest earnings were distributed to beneficiaries.
- 1996, voters passed a constitutional amendment to raise the distribution amount to 4.7 percent of the five-year average value of the fund.
- 2003, voters passed (92.2 thousand for, 92.0 thousand against) a constitutional amendment to:
  - Raise the annual distribution to 5 percent,
  - Provide an additional distribution of 0.8 percent from FY06 – FY12 (totaling 5.8 percent),
  - Reduce the additional distribution to 0.5 percent from FY13 – FY16 (totaling 5.5 percent),
  - Earmark the general fund portion of the additional distributions to implement educational reforms.
- FY17, the distribution reverted back to 5 percent.

Important Considerations

LGPF was established and is required by law to benefit public schools and other beneficiaries indefinitely. It is funded by income from non-renewable resources and was designed to provide for future generations of New Mexicans even when those resources are exhausted.

As the fund grows, distributions grow.

- While increasing the distribution rate results in more general fund revenue in the short term, doing so reduces the total value of the fund, limiting the funds' ability to grow and reducing the general fund distributions in the long term.

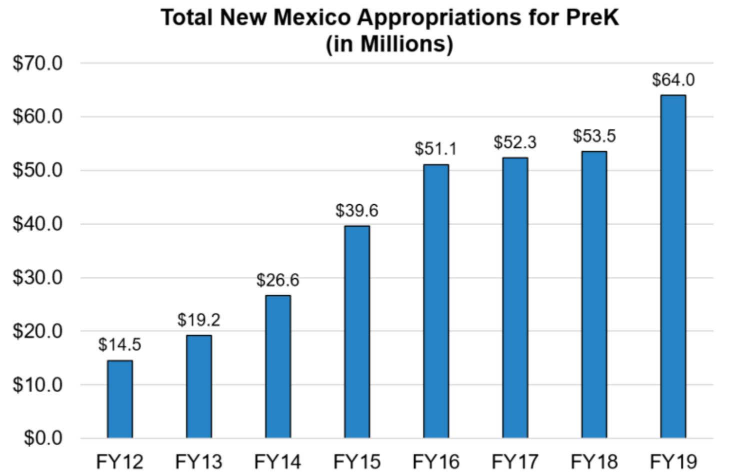
Additional distributions could lead to riskier investments.

A higher distribution rate could pressure the State Investment Council to achieve higher rates of return on investment in order to maintain the value of the fund. This is a potentially challenging goal during periods of national or economic decline, and could lead SIC to take on greater investment risk in hopes of achieving higher returns.

ATTACHMENT 2

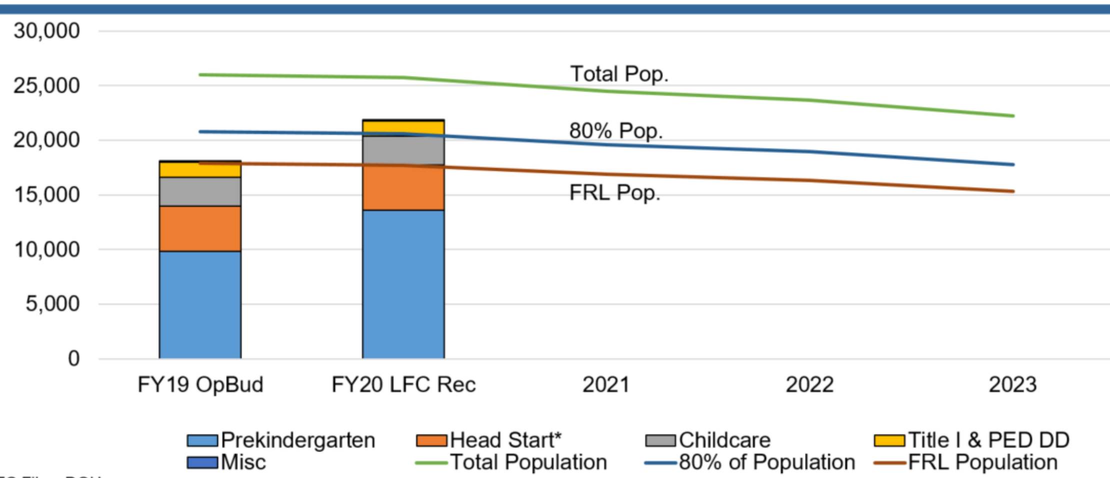
Prekindergarten (PreK)

- PreK is an early education program for three and four-year-olds implemented by PED and CYFD.
- In FY19, LFC staff estimate CYFD and PED will provide over 11 thousand children with PreK services.



Source: LFC May 2018 Post-Session Review. p.57

New Mexico 4-Year-Old Service Capacity: Care and Education



Source: LFC Files, DOH
Notes: Represents funded slots not accounting for children enrolled in multiple services or seasonality
*Includes American Indian Head Start Programs (slots)=685
+Estimated from free/reduced lunch participation rates in New Mexico public schools (185 percent of federal poverty level)
Misc=City of Albuquerque and City of Santa Fe funded slots