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LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
56th Legislature, 1st Session, 2023

Bill Number	<u>HB191/aHAFC/aSFC</u>	Sponsor	<u>Dixon/Hemphill/Gallegos/Jaramillo</u>
Tracking Number	<u>.223131.4</u>	Committee Referrals	<u>HHHC/HAFC; SEC/SFC</u>
Short Title	<u>Increase Early Childhood Fund Transfer</u>		
Analyst	<u>Estupiñan</u>	Original Date	<u>2/9/2023</u>
		Last Updated	<u>3/17/2023</u>

BILL SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee (SFC) amendment to HB191/aHAFC (HB191/aHAFC/aSFC) increases the minimum distribution from the early childhood education and care trust fund to \$150 million.

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendment (HB191/aHAFC) to HB191 increases the minimum distribution from the early childhood education and care trust fund to \$125 million.

Synopsis of Bill

House Bill 191 (HB191) would amend Section 9-29A-1 NMSA 1978 (Laws 2020, Chapter 3, Section 1) to increase the minimum annual distributions from the early childhood education and care fund from \$20 million to \$100 million.

FISCAL IMPACT

The bill does not contain an appropriation.

According to the Legislative Finance Committee (LFC), HB191/aHAFC/aSFC would increase the projected FY24 distribution from the early childhood education and care program fund from \$68.2 million to \$150 million. Following the FY24 distribution, the program fund would distribute 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 \$125 million.

While HB191/aHAFC/aSFC would result in an increase of distributions from the early childhood trust fund in FY24, projected distributions to the early childhood education and care program fund in subsequent fiscal years would not see a similar increase in distributions. Rather, as indicated in

Attachment A: Early Childhood Trust Fund Forecast, an increase in FY24 distributions may be followed by a subsequent decrease in the fund’s beginning balances as well as a decrease in its projected annual distributions compared to current projections. This is despite the 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.

These differences in distributions may not be significant or disruptive to the fund’s long-term ability to generate significant fiscal supports for early childhood education and care services.

SUBSTANTIVE ISSUES

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

Statute 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.

Inflows into the Early Childhood Trust Fund. In FY23, LFC anticipates \$3.17 billion in excess school tax and federal royalty distributions being deposited into the early childhood education and care fund. The LFC FY24 revenue forecast anticipates \$1.1 billion in excess federal royalties, followed by \$613 million in FY25 and \$221 million in FY26. By FY27, the five-year average is expected to be more than federal royalties and there will not be a transfer of federal royalties to the early childhood education and care fund.

Projections from LFC also forecast a distribution of \$1.25 billion of excess severance tax collections in FY23, which would follow a \$1.3 billion distribution in FY22.

Projected Balances. Current projections from LFC anticipate the early childhood trust fund reaching an ending-balance of approximately \$10.2 billion in 2027. If HB191/aHAFC/aSFC were enacted, LFC anticipates the fund reaching an ending-balance of approximately \$10.1 billion, or a difference of \$82.6 million.

Uses of Funds. Distributions from the early childhood trust fund are made into the early childhood education and care program fund, which was intended to be a non-reverting fund that would be administered by the early childhood education and care department. Those funds are subject to appropriation by the legislature for early childhood education and care services and programs.

The Senate Finance Committee amendment to the House Appropriations and Finance Committee Substitute for House Bill 2 (HB2/HAFCS/aSFC) includes the increased distribution included in HB191/aHAFC/aSFC. The funding increase includes increases for childcare assistance, tribal services, infant mental health, marketing for the parental education home-visiting program, and department administrative oversight.

SOURCES OF INFORMATION

- LESC Files
- LFC Files

DE/cf/mb/jkh/msb/DE/jkh/mb

Early Childhood Trust Fund Forecast - January 2023

(in millions)

Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Beginning Balance	\$300.0	\$300.0	\$314.1	\$3,470.6	\$5,458.3	\$7,889.4	\$9,284.4	\$9,973.3
Gains & Losses	\$6.1	\$34.1	\$2.2	\$138.8	\$218.3	\$315.6	\$371.4	\$398.9
Excess Federal Mineral Leasing	\$0.0	\$0.0	\$1,501.5	\$1,917.1	\$1,113.5	\$612.9	\$220.9	\$ -
Excess OGAS School Tax*	\$0.0	\$0.0	\$1,682.8	\$0.0	\$1,253.2	\$746.9	\$473.9	\$231.0
Distribution to ECE Program Fund	\$0.0	(\$20.0)	(\$30.0)	(\$68.2)	(\$154.1)	(\$280.3)	(\$377.2)	(\$452.5)
Ending Balance	\$306.1	\$314.1	\$3,470.6	\$5,458.3	\$7,889.4	\$9,284.4	\$9,973.3	\$10,150.8
*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
Distribution to ECE Program Fund		\$0.00	\$20.00	\$30.00	\$68.18	\$154.05	\$280.31	\$377.20

Source: LFC

Early Childhood Trust Fund Forecast - January 2023 – HB 191/aHAFc/aSFC Scenario

(in millions)

Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Beginning Balance	\$300.0	\$300.0	\$314.1	\$3,470.6	\$5,376.5	\$7,805.6	\$9,200.1	\$9,889.8
Gains & Losses	\$6.1	\$34.1	\$2.2	\$138.8	\$215.1	\$312.2	\$368.0	\$395.6
Excess Federal Mineral Leasing	\$0.0	\$0.0	\$1,501.5	\$1,917.1	\$1,113.5	\$612.9	\$220.9	\$ -
Excess OGAS School Tax*	\$0.0	\$0.0	\$1,682.8	\$0.0	\$1,253.2	\$746.9	\$473.9	\$231.0
Distribution to ECE Program Fund	\$0.0	(\$20.0)	(\$30.0)	(\$150.0)	(\$152.7)	(\$277.5)	(\$373.0)	(\$448.3)
Ending Balance	\$306.1	\$314.1	\$3,470.6	\$5,376.5	\$7,805.6	\$9,200.1	\$9,889.8	\$10,068.2
*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
Distribution to ECE Program Fund		\$0.00	\$20.00	\$30.00	\$150.00	\$152.69	\$277.55	\$373.04

Source: LFC