



Overviews of the Tax Stabilization Reserve and the Early Childhood Education and Care Fund

Presentation to the Revenue Stabilization & Tax
Policy Committee

Ismael Torres, Chief Economist, LFC

October 6, 2022

RESERVE DETAIL

(millions of dollars)

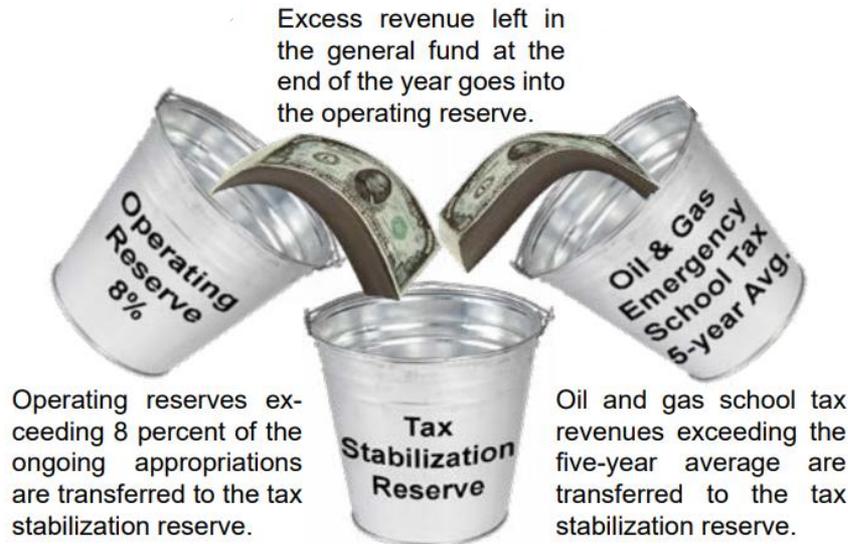
August 15, 2022
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	Estimate FY2022	Estimate FY2023	Estimate FY2024
OPERATING RESERVE			
Beginning Balance	\$ 347.5	\$ 117.4	\$ 596.6
BOF Emergency Appropriations/Reversions	\$ (2.4)	\$ (2.5)	\$ (2.5)
Transfers from/to Appropriation Account	\$ (201.2)	\$ 1,237.2	\$ -
Transfers to Tax Stabilization Reserve	\$ -	\$ (755.5)	\$ -
Disaster Allotments ¹	\$ (26.4)	\$ -	\$ -
Transfer from (to) ACF/Other Appropriations	\$ -	\$ -	\$ -
Revenues and Reversions	\$ -	\$ -	\$ -
Transfers from tax stabilization reserve	\$ -	\$ -	\$ -
Transfers from tax stabilization reserve to restore balance to 1 percent ⁴	\$ -	\$ -	\$ -
Ending Balance	\$ 117.4	\$ 596.6	\$ 594.1
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	\$ 55.5	\$ 457.5	\$ 140.2
Disaster Allotments	\$ (54.6)	\$ (16.0)	\$ (16.0)
Appropriation from 2021 Second Special Session	\$ (345.4)		
Other Appropriations (including 2022 Regular Session)	\$ (275.1)	\$ (309.3)	\$ -
Transfers In ⁹	\$ 1,069.2	\$ -	\$ -
Revenue and Reversions	\$ 8.0	\$ 8.0	\$ 8.0
Ending Balance	\$ 457.5	\$ 140.2	\$ 132.2
STATE SUPPORT FUND			
Beginning Balance	\$ 4.0	\$ 10.4	\$ 10.4
Revenues ²	\$ 15.5	\$ -	\$ -
Appropriations to State Support Reserve Fund ⁶	\$ 30.0	\$ -	\$ -
Impact Aid Liability FY20	\$ (39.1)		
Impact Aid Liability FY21		\$ -	\$ -
Audit Adjustments	\$ -	\$ -	\$ -
Ending Balance	\$ 10.4	\$ 10.4	\$ 10.4
TOBACCO SETTLEMENT PERMANENT FUND (TSPF)			
Beginning Balance	\$ 285.3	\$ 301.0	\$ 333.8
Transfers In ³	\$ 36.5	\$ 32.5	\$ 24.0
Appropriation to Tobacco Settlement Program Fund ³	\$ (36.5)	\$ (16.3)	\$ (12.0)
Gains/Losses	\$ 15.7	\$ 16.6	\$ 18.4
Additional Transfers to/from TSPF	\$ -	\$ -	\$ -
Ending Balance	\$ 301.0	\$ 332.8	\$ 364.2
TAX STABILIZATION RESERVE (RAINY DAY FUND)			
Beginning Balance	\$ 1,812.6	\$ 1,848.8	\$ 2,680.8
Revenues from Excess Oil and Gas Emergency School Tax	\$ 1,300.3	\$ 1,245.3	\$ 617.0
Gains/Losses	\$ 36.3	\$ 76.5	\$ 107.2
Transfers In (From Operating Reserve)	\$ -	\$ 755.5	\$ -
Transfer Out to Operating Reserve ^{4,5}	\$ -	\$ -	\$ -
Transfer Out to Early Childhood Trust Fund ⁷	\$ (1,300.3)	\$ (1,245.3)	\$ (617.0)
Ending Balance	\$ 1,848.8	\$ 2,680.8	\$ 2,788.0
Percent of Recurring Appropriations	24.8%	31.9%	
TOTAL GENERAL FUND ENDING BALANCES	\$ 2,735.1	\$ 3,761.8	\$ 3,888.9
Percent of Recurring Appropriations	36.7%	44.8%	

The Tax
Stabilization
Reserve operates
as the state's "rainy
day fund."



Tax Stabilization Reserve- Funding Mechanisms and Decision Tree



- Funds are deposited into the tax stabilization reserve from the oil and gas emergency tax if (a) annual revenue exceeds the five-year average AND (b) reserves are LESS than 25%.
- Once the operating reserve fund hits 8 percent of the prior budget year's recurring appropriations, the excess must be transferred to the tax stabilization reserve by law.
- Money in the tax stabilization reserve may only be appropriated if (1) the governor declares it necessary because of a shortfall and the House and Senate approve it with a simple majority vote, or (2) two-thirds vote of both the House and Senate.

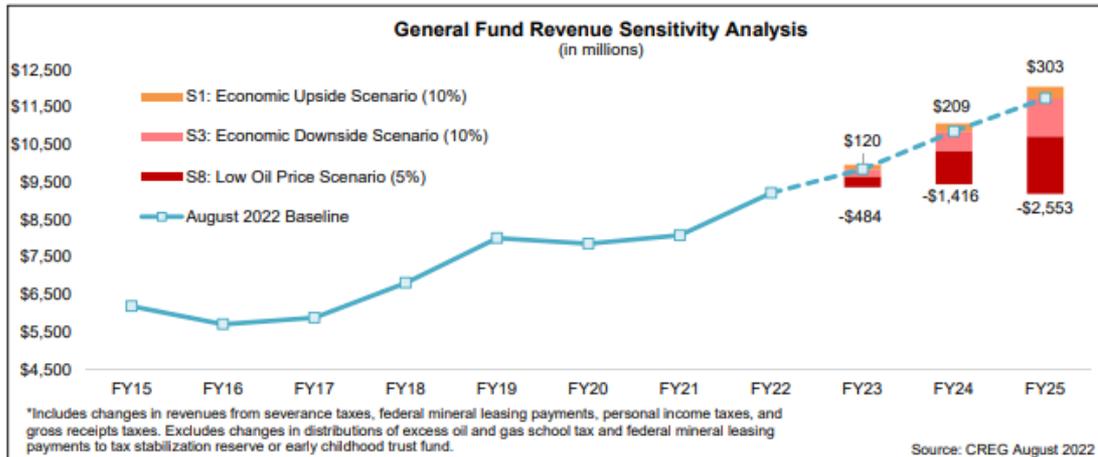


The TSR receives revenue from excess oil and gas emergency school tax, investment gains and losses, and transfers from the operating reserve.

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New Mexico's volatility and reliance on oil and gas revenues informs the need for reserves.



- New Mexico's revenues are the 4th most volatile in the nation.
- Rainy day funds help the state prepare for oil and gas market shocks and economic downturns
- Stress-testing of the general fund revenues shows the state, on average, needs about 30 percent in reserves to withstand an oil price shock lasting the current fiscal year to the middle of the budget year.

Scenario	S8: Low Oil Price			S3: Economic Downside			S1: Economic Upside		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
Severance Taxes to GF	-\$59	-\$472	-\$787	\$8	\$1	-\$292	-\$5	-\$11	-\$9
Federal Mineral Leasing to GF	-\$5	-\$132	-\$671	-\$5	\$22	-\$51	-\$5	-\$4	\$8
Gross Receipts Taxes	-\$276	-\$576	-\$790	-\$102	-\$306	-\$466	\$123	\$197	\$267
Personal Income Taxes	-\$145	-\$236	-\$306	-\$95	-\$236	-\$211	\$8	\$28	\$37
General Fund Difference from Baseline	-\$484	-\$1,416	-\$2,553	-\$194	-\$518	-\$1,019	\$120	\$209	\$303
<i>General Fund Percent of Total Impact</i>	24%	47%	75%		38%	54%		74%	76%
Severance Taxes to TSR or ECE	-\$905	-\$617	-\$304	\$195	-\$564	-\$304	-\$41	\$6	\$32
Federal Mineral Leasing to ECE	-\$607	-\$967	-\$566	\$144	-\$284	-\$566	\$11	\$67	\$64
TSR/ECE Transfers Diff. from Baseline	-\$1,512	-\$1,584	-\$870	\$339	-\$847	-\$870	-\$30	\$73	\$97
<i>TSR/ECE Transfers Percent of Total Impact</i>	76%	53%	25%		62%	46%		26%	24%
Total Difference from Baseline	-\$1,996	-\$3,000	-\$3,424	\$145	-\$1,366	-\$1,889	\$90	\$282	\$400

Note: in millions



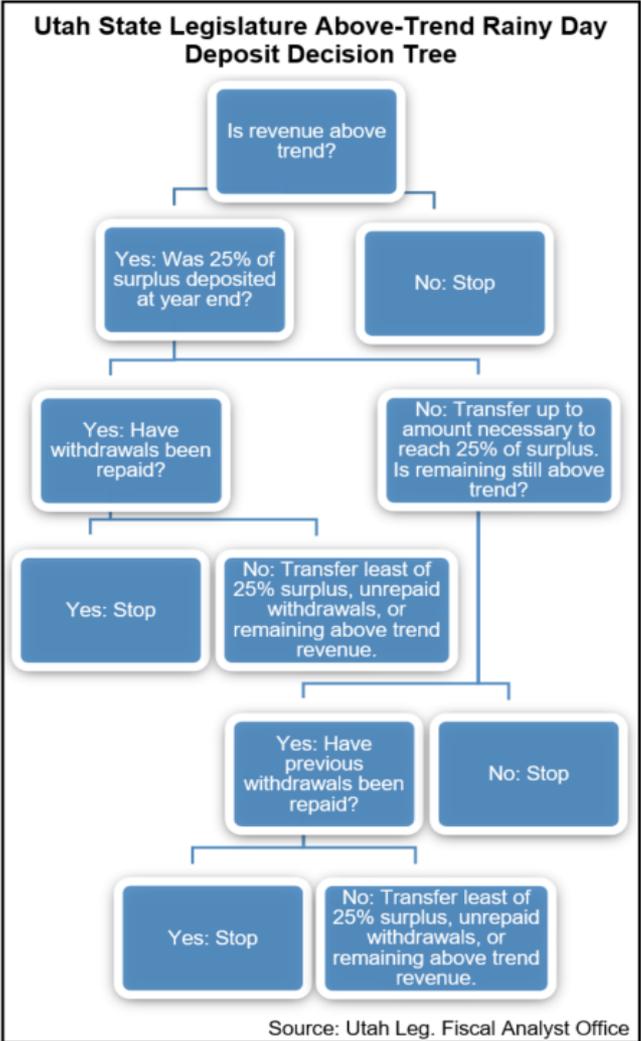
Mechanisms that sort above-trend revenues for nonrecurring purposes have proved useful in other states and could prevent acceleration of out-year deficits.

- Virginia – when general fund revenue growth exceeds the 6-year average, half is deposited into the rainy day fund.

Example of Bill Mechanisms using FY19 General Fund Revenue			
Total General Fund Revenue	General Fund Revenue Growth	Previous 10-Year Average Revenue Growth	5% Above Previous 10-Year Trend
\$ 7,910.3	15.0%	1.5%	\$ 581.0
Distribution of Excess Revenue		Percent	Amount
College Affordability Fund		30%	\$ 174.3
Teacher Affordability Scholarship Fund		20%	\$ 116.2
Early Childhood Education and Care Fund		20%	\$ 116.2
State Road Fund		10%	\$ 58.1
Severance Tax Permanent Fund		10%	\$ 58.1
Rural Libraries Endowment Fund		10%	\$ 58.1

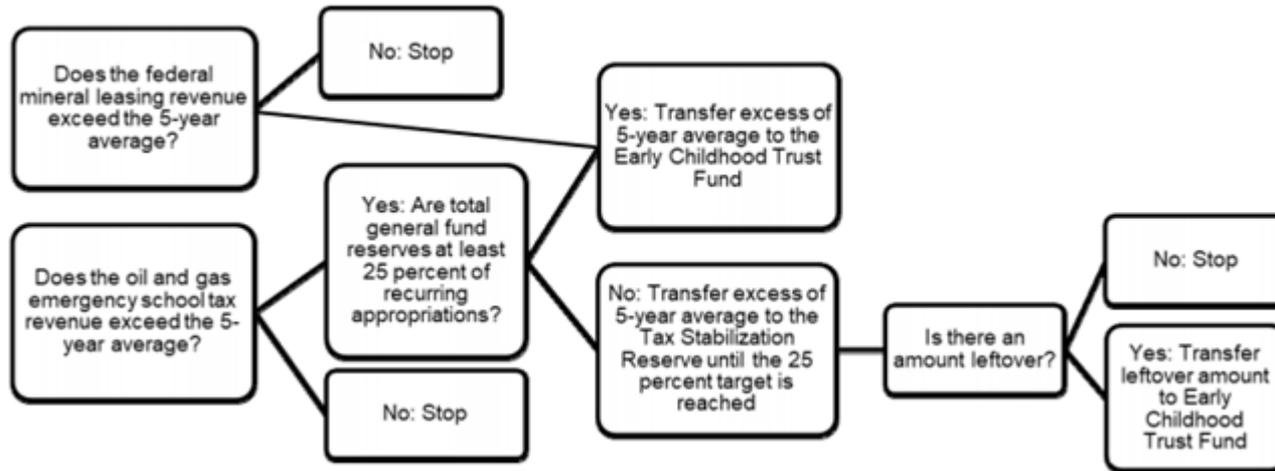
Note: dollars in millions

SB 392
(2021
Regular
Session)



Early Childhood Care and Education Fund - Funding Mechanisms and Decision Tree

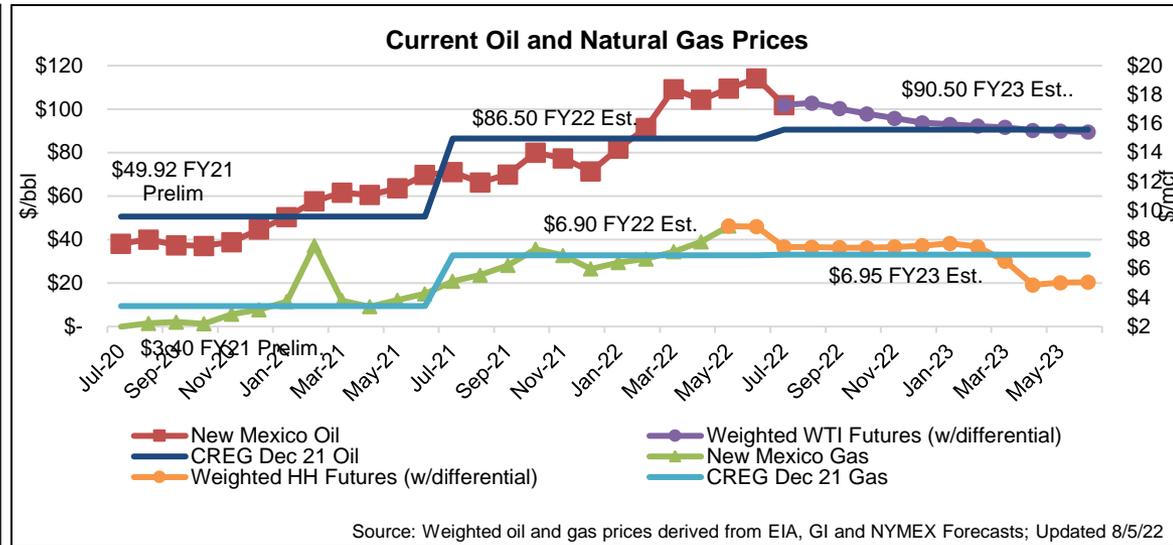
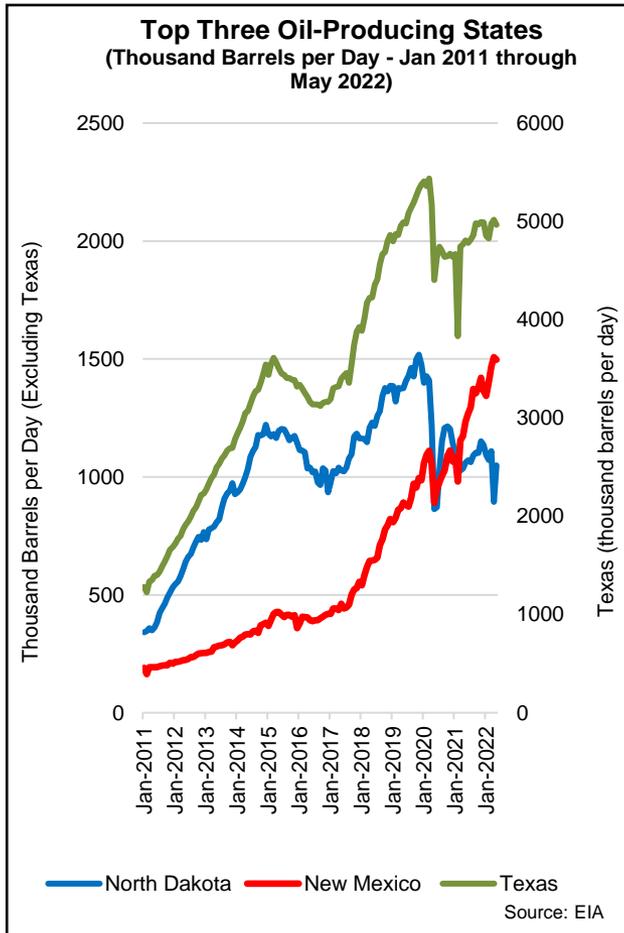
Above-Trend Oil and Gas Revenue Decision Tree



- The fund aka the “Early Childhood Trust Fund (ECTF)” was created in the 2020 regular session and endowed with \$300 million on July 1, 2020.
- The funds revenues are from the oil and gas emergency school tax, federal mineral leasing revenues, and gains/losses on investments.
- Distributions are made from the fund to a program fund that is non-reverting.



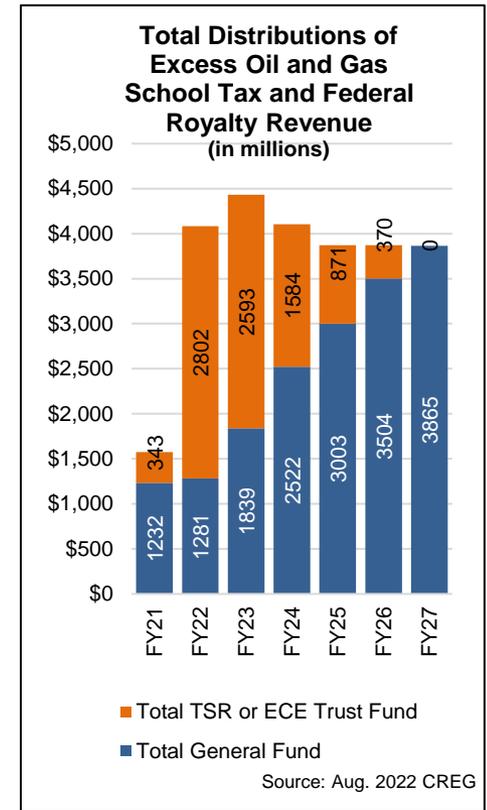
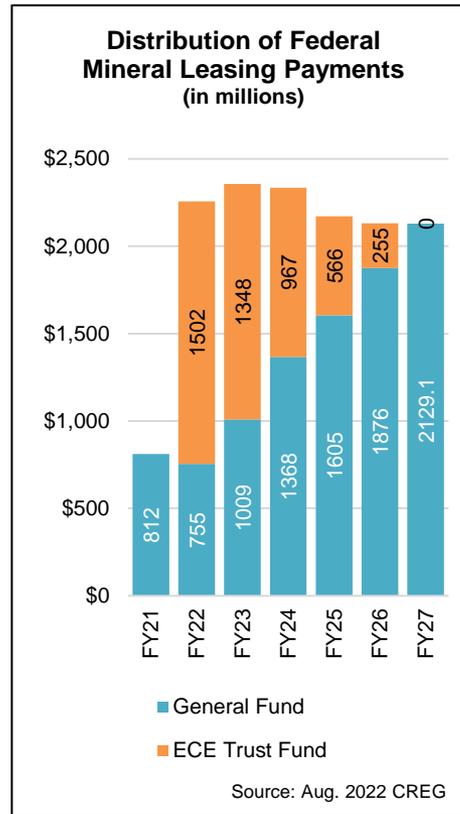
Oil and gas prices and production have soared in New Mexico.



- Favorable prices and attractive economics have driven New Mexico's production and revenue collections to record levels.

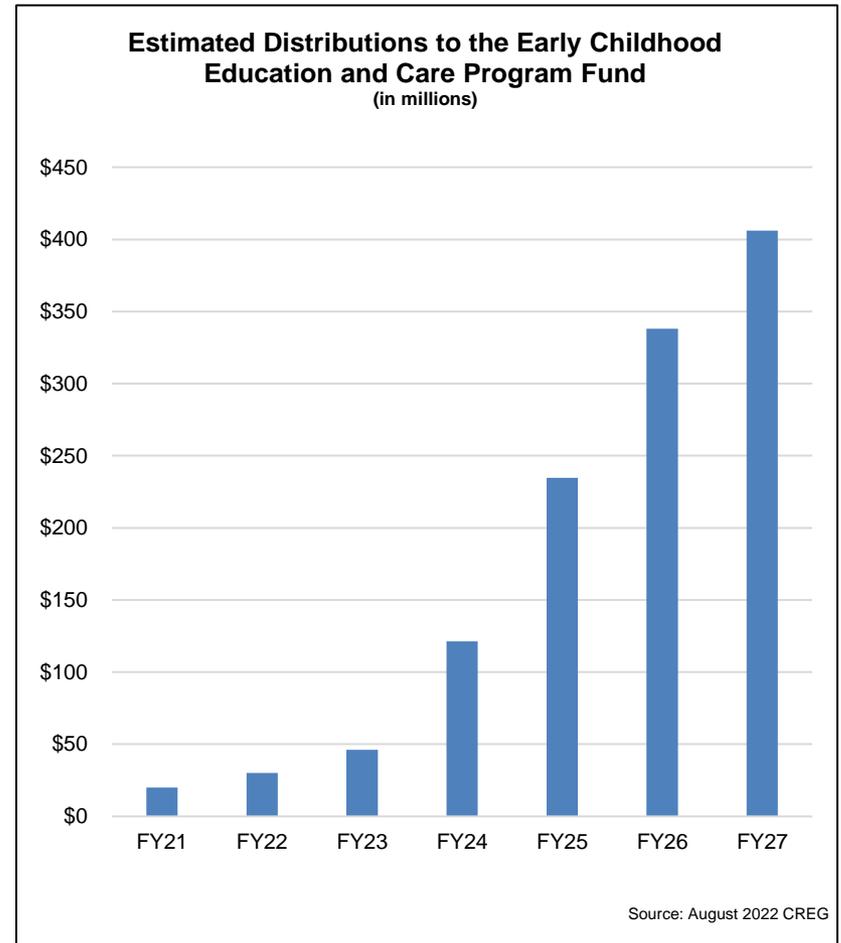


Oil and gas has soared above five-year averages for both the emergency school tax and federal mineral leasing payments, leading to large distributions to the ECTF.



Distributions from the Early Childhood Trust Fund are statutorily (9-29A-1) set.

- Distributions are made from the fund to a program fund. The program fund is non-reverting.
- The distribution was set to \$20 million in FY21.
- For FY22 and beyond, the greater of \$30 million or five percent of the average calendar ending balance of the fund for the immediately preceding three calendar years.



Early Childhood Care and Education Fund – August 2022 Scenario

Early Childhood Trust Fund Forecast - August 2022								
(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	\$2,141.0	\$4,828.8	\$7,112.5	\$8,345.6	\$8,900.1
Gains & Losses	\$6.1	\$34.1	\$12.6	\$85.6	\$193.2	\$284.5	\$333.8	\$356.0
Excess Federal Mineral Leasing	\$0.0	\$0.0	\$1,501.7	\$1,347.9	\$966.6	\$566.4	\$254.6	\$ -
Excess OGAS School Tax*	\$0.0	\$0.0	\$342.7	\$1,300.3	\$1,245.3	\$617.0	\$304.2	\$115.2
Distribution to ECE Program Fund	\$0.0	(\$20.0)	(\$30.0)	(\$46.0)	(\$121.4)	(\$234.7)	(\$338.1)	(\$406.0)
Ending Balance	\$306.1	\$314.1	\$2,141.0	\$4,828.8	\$7,112.5	\$8,345.6	\$8,900.1	\$8,965.3
*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
Distribution to ECE Program Fund		\$0.00	\$20.00	\$30.00	\$46.02	\$121.40	\$234.71	\$338.12

Source: August 2022 Consensus Revenue Forecast

- Over \$2 billion by the end of 2022 and \$4.8 billion by the end of 2023.
- Preliminary FY22 reports show \$1.5 billion in excess federal mineral leasing revenues and \$1.3 billion in excess oil and gas school tax revenues.



Thank you!

For more information or questions:

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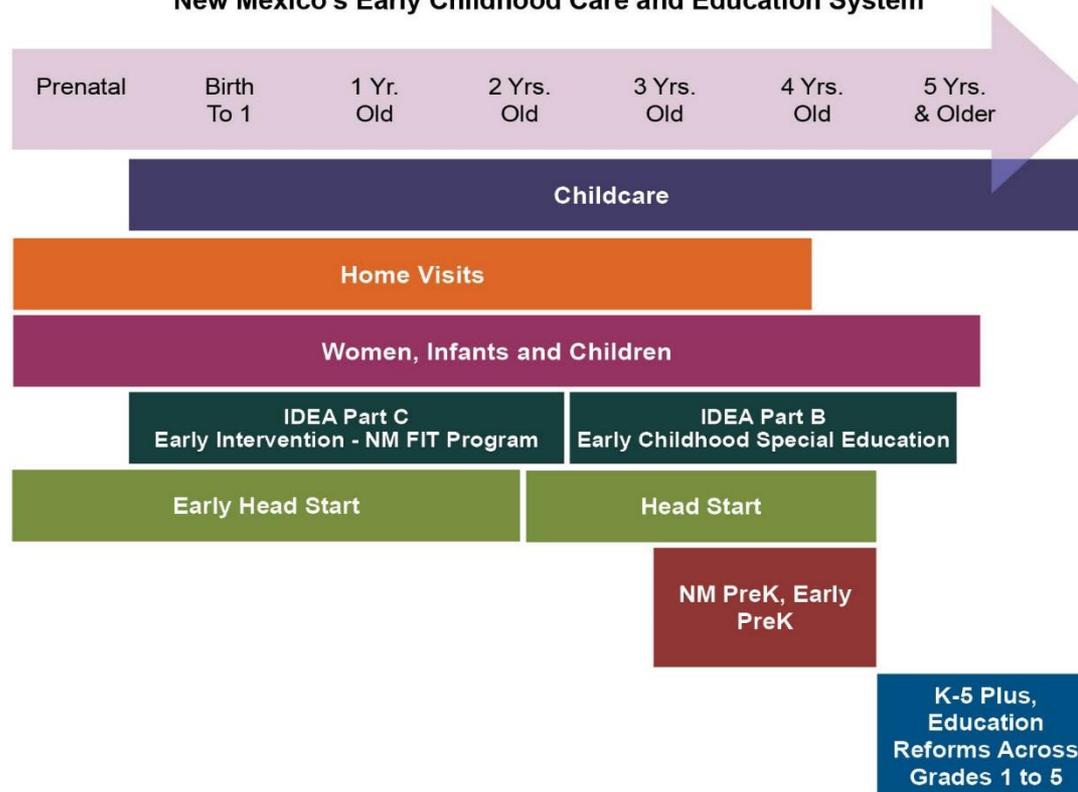


Appendices



New Mexico's Early Childhood System

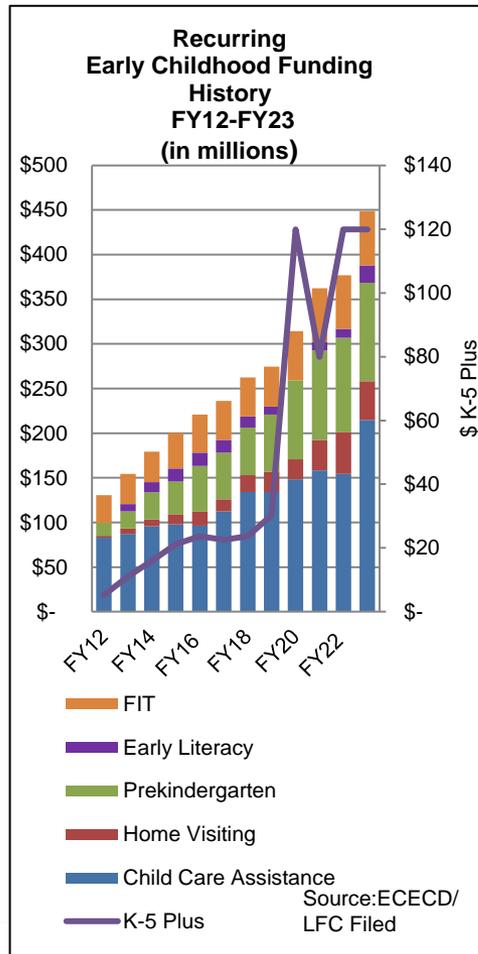
New Mexico's Early Childhood Care and Education System



Source: LFC Files



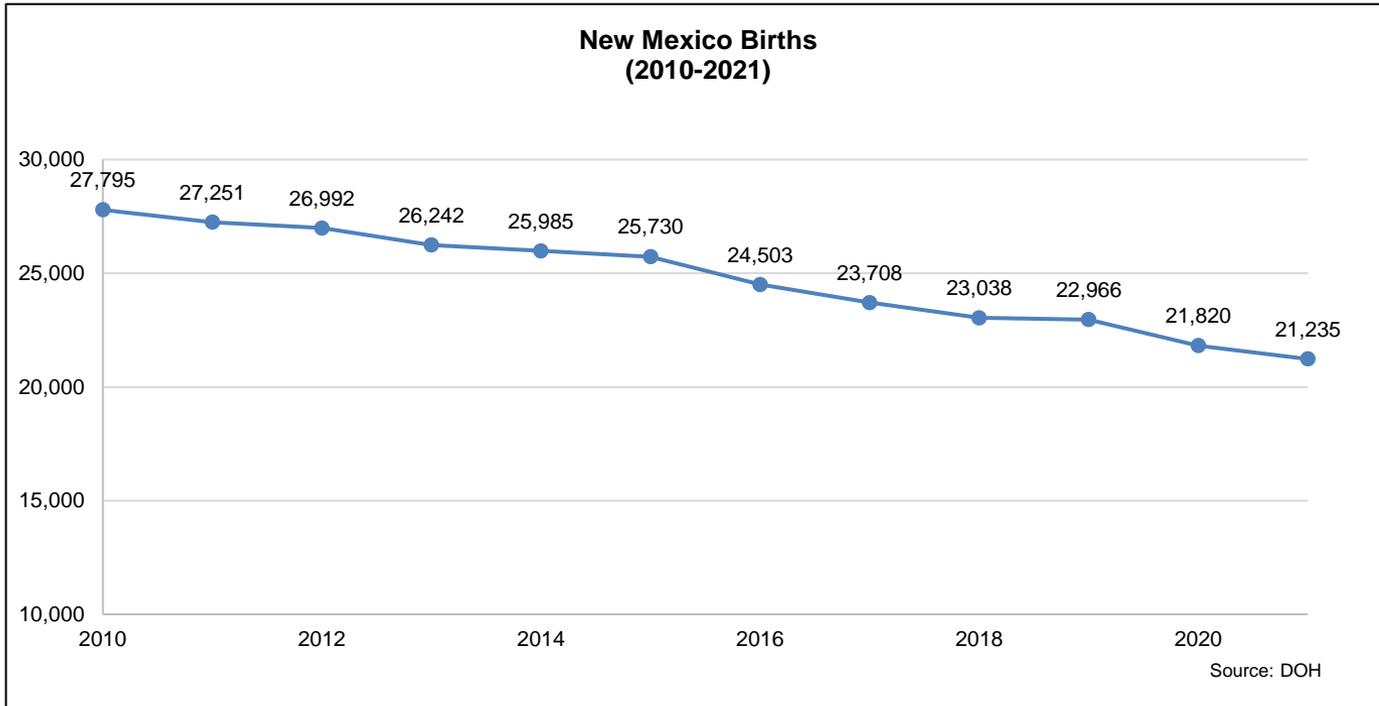
New Mexico Early Childhood Education and Care Funding



- The New Mexico Legislature has significantly increased early childhood education and care funding since state fiscal year 2012.
- Childcare Assistance, Early Prekindergarten, Prekindergarten, and Home-Visiting have been particular focuses of the legislature for increased funding, even in years of financial constraint.
- Since FY15 early childhood funding has increased 157 percent. This is not including increases to other related early care support programs such as Early Head Start, Head Start, and WIC.



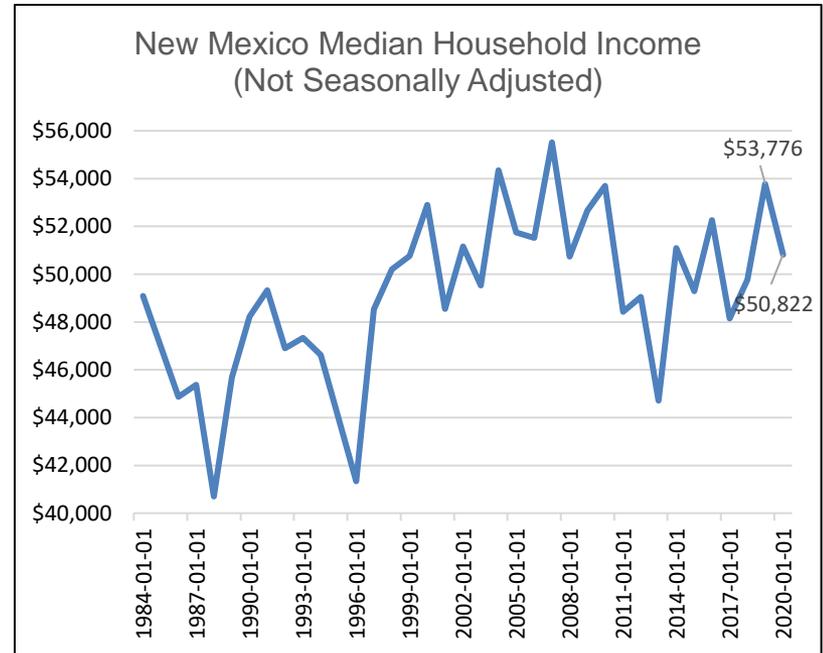
New Mexico Births



Recent Childcare Assistance Policy Changes

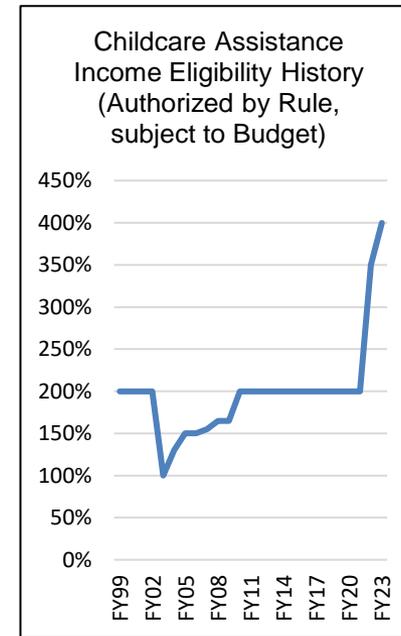
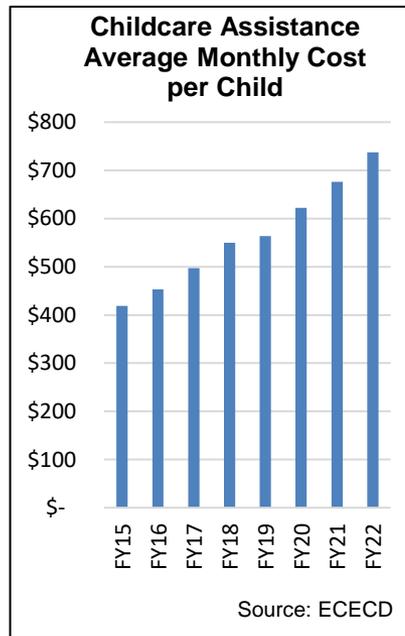
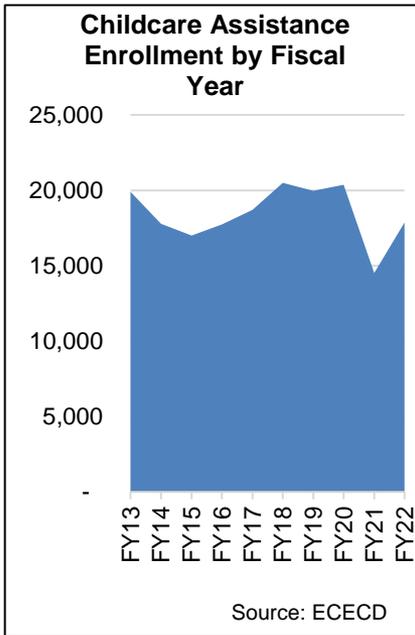
In April 2022, ECECD announced Childcare Assistance income eligibility would increase to 400 percent FPL and all co-payments would be waived. The department estimated this will cost upward of \$60 million annually using non-recurring federal stimulus revenue.

2022 Federal Poverty Levels							
Household Size	100%	150%	200%	250%	300%	350%	400%
1	\$ 13,590	\$ 20,385	\$ 27,180	\$ 33,975	\$ 40,770	\$ 47,565.0	\$ 54,360
2	\$ 18,310	\$ 27,465	\$ 36,620	\$ 45,775	\$ 54,930	\$ 64,085.0	\$ 73,240
3	\$ 23,030	\$ 34,545	\$ 46,060	\$ 57,575	\$ 69,090	\$ 80,605.0	\$ 92,120
4	\$ 27,750	\$ 41,625	\$ 55,500	\$ 69,375	\$ 83,250	\$ 97,125.0	\$ 111,000
5	\$ 32,470	\$ 48,705	\$ 64,940	\$ 81,175	\$ 97,410	\$ 113,645.0	\$ 129,880
6	\$ 37,190	\$ 55,785	\$ 74,380	\$ 92,975	\$ 111,570	\$ 130,165.0	\$ 148,760



Childcare Assistance Enrollment, Average Cost, Income Eligibility

While childcare assistance average costs have continued to increase, enrollment has yet to reach pre-pandemic levels. Increased eligibility and the waiving of copayments will contribute to increased costs.



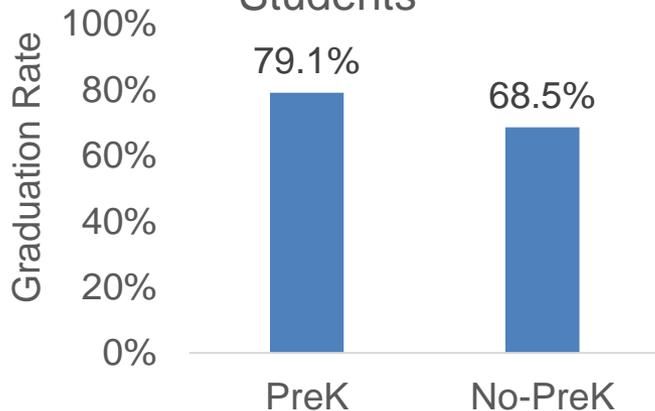
Prekindergarten

Early education program for 3- and 4-year-olds implemented by ECECD and PED

FY22 Operating Budget: \$110.2 million

FY22 Estimated Capacity: 13,539

New Mexico 2019 High School Graduation Rate For Low-Income Students



Source: Courtney et al. (in preparation)

- NIEER: Four year study found impact on language, literacy, & math estimating a \$6 to 1 ROI.
- LFC: Numerous studies have found impacts including:
 - 11% increase in graduation rate for English learners and low-income participants
 - Improved reading and math scores from K through 11th grades
 - 50 percent reduction in grade retention
 - 25 percent reduction in chronic absenteeism
 - Higher rate of exiting special education
 - \$6 to 1 ROI using the NM Results First Model

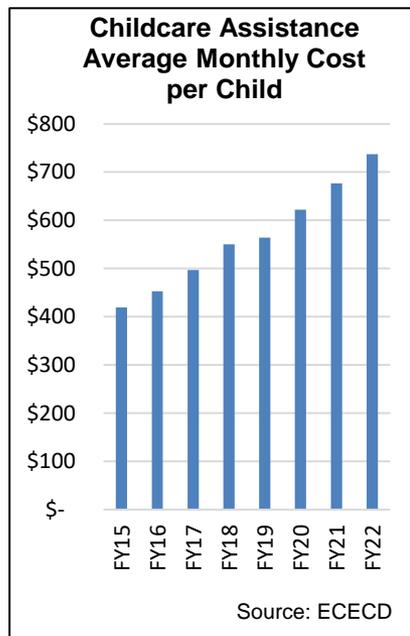


Childcare Assistance

A subsidy program implemented by CYFD for families with children 6 weeks to 13 whose families make less than 200% of the federal poverty level and who work or attend training and education programs

FY22 Operating Budget: \$214.8 million

FY22 Estimated Capacity: 22,000



- 2019 LFC evaluation found childcare participants saw the following benefits:
 - Increased family income (\$3,500)
 - Increased well-child visits
 - Increased dental visits
- Massive investments in quality:
 - Over a 100% increase in reimbursement rates for some age groups (infants)
 - However, to date no research has found evidence of better outcomes with higher quality in NM.
- Weak evidence of impact on school readiness (both CCPI and LFC found impacts in Kindergarten but LFC found these impacts fade out by 3rd grade)



Home Visiting

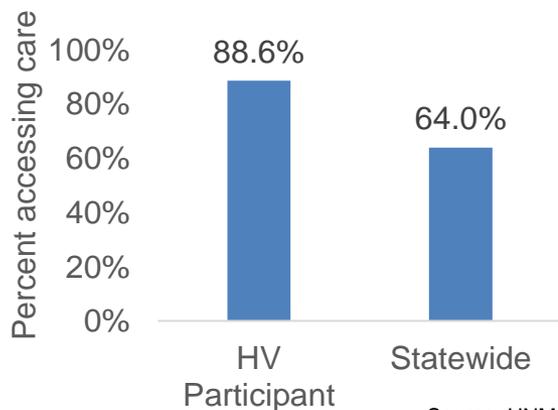
Multiple programs (e.g. Nurse Family Partnerships, Parents as Teachers) dedicated to intensive parent education

FY22 Operating Budget: \$44.3* million
*up to \$14.7 million could be leveraged from Medicaid home visiting pilot

FY21 Estimated Capacity: 4,601 not including total Medicaid match availability

- NM has several evidence-based/promising HV models including Nurse Family Partnership, Parents as Teachers, and First Born
- Generally speaking home visiting programs have positive impacts although type and magnitude of impact vary by program.
- Nationally home visiting programs have demonstrated impacts of improved child development, health, reduced child maltreatment among others.
- UNM's CCPI has found home visiting to improve well-child visits and access to prenatal care,

NM Mothers Accessing Prenatal Care In 1st Trimester



Source: UNM CCPI



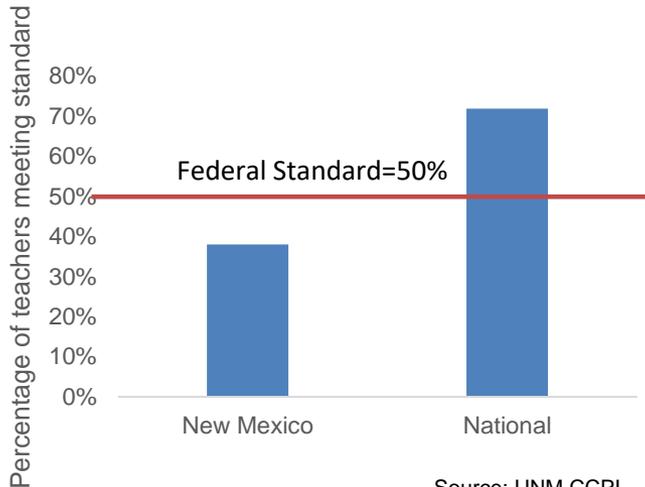
Early Head Start (EHS) and Head Start (HS)

Federally funded programs to promote school readiness of children under the age of 5 by enhancing their cognitive, social, and emotional development.

FY22 Operating Budget: \$78.6 million

FY22 Estimated Capacity: 6,639 slots

Percentage of Head Start classroom teachers meeting federal credential requirements (2019)



- The What Works Clearinghouse (WWC) rates EHS and HS as promising.
- Research indicates that EHS can impact safety and child well being outcomes (22 NM programs)
- Research indicates HS can impact student achievement and development (29 NM programs)
- Federal requirements call for 50% of HS teachers to have a relevant BA degree.
- Such quality metrics may indicate lower impact of NM programs



Stacking of Programs

- It is unlikely that one program alone can close the achievement gap.
- Promising outcomes from stacking of programs but more research is needed.
 - 2017 Early Childhood Accountability Report: Showed a narrowing of achievement gap for PreK AND K3 Plus participants
 - 2020 PreK Report: Better outcomes for children who participated in 3yo PreK AND 4yo PreK

