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

		ORIGINAL DATE	02/20/11		
SPONSOR	Beffort	**LAST UPDATED**		**HB**	
SHORT TITLE	Cigarette Taxes for Early Childhood Programs			**SB**	437
				ANALYST	Burrows

REVENUE (dollars in thousands)

Estimated Revenue Impact			Recurring or Non-Rec	Fund Affected
FY11	**FY12**	**FY13**		
	($8,500.0)	($8,350.0)	Recurring	General Fund
	$4,250.0	$4,175.0	Recurring	Public Education Dept
	$4,250.0	$4,175.0	Recurring	Children, Youth & Families Dept

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SB264

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
$11.0	$0.0	$0.0	$11.0	Recurring	TRD – ITD Operating Budget

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Health (DOH)
Children, Youth and Families Department (CYFD)
Taxation and Revenue Department (TRD)

Responses Not Received From
Public Education Department (PED)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 437 would require additional distributions of the net receipts of the cigarette excise tax to the Public Education Department (PED) in the amount of 5 percent of revenue, and to the Children, Youth and Families Department (CYFD) in the amount of 5 percent of revenue. The bill further provides that these funds are to be used for early childhood programs, including state-assisted child care, TEACH early childhood New Mexico, and other early childhood initiatives. PED is specifically disallowed from using these funds for administration or administrative purposes; CYFD is not prohibited from using funds in this manner.

Because no effective date is provided in the bill, its provisions will become effective 90 days after the 2011 legislative session adjourns, on June 17, 2011.

FISCAL IMPLICATIONS

The December 2010 consensus revenue forecast was used to calculate the fiscal impacts. The additional distributions would not impact statutory distributions to other beneficiaries, but would decrease the remainder due to the general fund.

This bill creates a new fund and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

SIGNIFICANT ISSUES

According to the Department of Health, the Pew Center on the States has summarized research that demonstrates supporting healthy early childhood development, including education initiatives, from birth to age five, produces substantial benefits for children and their communities. Moreover, the Pew Center notes that failure to invest early, can lead to a higher risk of being abused, teenage pregnancy, increased high school dropout rates, and alcohol and drug abuse. The study also indicates that taking the lowest estimated cost of a school dropout in terms of reduced wages and other social costs, an effective pre-kindergarten program that costs $10,000 per child that produced 1 high school graduate in 10 who would not otherwise graduate would save $2.50 for every dollar spent.

Economic studies have shown that investment in early childhood education can lead to a greater payoff in terms of educational attainment than investment at later stages of development.

DOH also reports that polling data show that 78 percent of business leaders, 77 percent of tribal leaders, and 80 percent of legislators in New Mexico believe that not more than half of New Mexico’s children begin kindergarten and first grade with the skills they need to do their best in school.

CYFD reports the leading research in brain development is overwhelming in its findings that the most critical years of development are pre-natal to three years old.

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

1. ***Adequacy:*** *revenue should be adequate to fund government services.*
2. ***Efficiency:*** *tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.*
3. ***Equity****: taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.*
4. ***Simplicity****: taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.*
5. ***Accountability/Transparency:*** *Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.*

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc

PERFORMANCE IMPLICATIONS

CYFD notes Senate Bill 437 supports the CYFD Department Strategic Plan initiative to "improve the quality, accessibility and affordability of early care and education programs statewide" and to "help these programs achieve and maintain high quality standards."

DOH notes that Senate Bill 437 aligns with the goals of 2009-2012 New Mexico Early Childhood Comprehensive State Systems Strategic Plan, which aims to promote access to families of state-funded early childhood services.

ADMINISTRATIVE IMPLICATIONS

TRD reports within the state's central accounting system (SHARE) new subaccounts would need to be created by Financial Distributions Bureau staff to account for the distribution of the cigarette tax to the new recipients. The computer system changes would require about 120 hours or $10,800.

TECHNICAL ISSUES

TRD reports the department cannot change a revenue distribution in the middle of a month, and an effective date for the bill must be specified, along with an applicability section. The Department suggests an effective date of July 1, 2011, and an applicability specification that the new distributions apply to receipts from the cigarette excise tax that are attributable to cigarette tax stamp sales on or after July 1, 2011.

OTHER SUBSTANTIVE ISSUES

CYFD notes that funding to support state assisted child care could help offset the CYFD's budget shortfall, which has led to 1) a waitlist since January 2010 for child care assistance for all families with incomes above the federal poverty line, 2) a 4 percent reduction in child care provider reimbursement rates, and 3) a 10 percent increase in child care assistance copayments. Child disenrollment may be necessary without additional funding.

Moreover, CYFD notes the TEACH scholarship program, which provides tuitions support to early childhood educators, was cut from $481,900 to $255,754 in FY11, and another group of programs that focused on providing services to infants, toddlers, and three year olds was eliminated. Additionally, the PreK program, which serves only four year olds, has also sustained budget cuts.

According to CYFD, Arizona's First Things First and California's First 5 programs are funded through cigarette taxes; Arkansas has funded some early childhood programs through a liquor tax.

The revenue forecast estimates an average decline in cigarette tax revenue of 2 percent over the next four fiscal years. TRD notes reliance on a declining revenue source to fund recurring program needs may become problematic over time.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Cigarette tax revenue will not be distributed to PED and CYFD for the purpose of funding early childhood education initiatives.

LKB/bym