

In Table 2, page 2, SIC provided the projected values and fund distributions for FY20 through FY31 at the current 5 percent distribution and the 6.5 percent distribution rate proposed under SJR3. The table also uses a side-by side comparison between increased LGPF distributions over 12 years and the corresponding change of LGPF corpus value over the same time period.

SIC indicated the projection assumes annual inflows of \$400 million and investment returns of 7 percent with additional distributions of 1.5 percent beginning in FY20. The starting value of \$16.7 billion is projected for the end of 2018, which determines the distribution for FY20. Table 2 demonstrates that after 12 years, the higher distribution rate will decrease the corpus of the fund, thus decreasing its value for each subsequent fiscal year. The SIC explained a reduction in the value of the corpus will result in a diminished capacity to participate in positive investment return environments.

Table 2 LGPF End Year Values and Projections (dollars in millions)

Calendar Year	Corresponding Fiscal Year	LGPF Value Current (5%)	LGPF Distribution at 5%	LGPF Value with SJR3 (6.5%)	LGPF Distribution at 6.5%	Rolling Difference in LGPF Distribution	Rolling Difference in LGPF Value
2018	2020	1,680.0	\$766.9	16,680.0	\$996.9	\$230.1	(\$115.00)
2019	2021	17,450.0	\$796.2	17,330.0	\$1,033.6	\$467.4	(\$356.50)
2020	2022	18,230.0	\$824.6	17,880.0	\$1,078.8	\$711.7	(\$621.10)
2021	2023	19,040.0	\$873.3	18,420.0	\$1,121.0	\$959.5	(\$908.80)
2022	2024	19,860.0	\$912.6	18,950.0	\$1,160.4	\$1,207.2	(\$1,217.40)
2023	2025	20,700.0	\$952.8	19,480.0	\$1,196.8	\$1,451.2	(\$1,544.90)
2024	2026	21,550.0	\$993.9	20,010.0	\$1,231.7	\$1,689.0	(\$1,889.30)
2025	2027	22,430.0	\$1,035.8	20,540.0	\$1,266.2	\$1,919.4	(\$2,250.00)
2026	2028	23,310.0	\$1,078.5	21,060.0	\$1,300.6	\$2,141.4	(\$2,626.90)
2027	2029	24,220.0	\$1,122.1	21,590.0	\$1,334.9	\$2,354.2	(\$3,020.30)
2028	2030	25,140.0	\$1,166.5	22,120.0	\$1,369.1	\$2,556.8	(\$3,430.30)
2029	2031	2,080.0	\$1,211.7	22,650.0	\$1,403.5	\$2,748.5	(\$3,857.30)

Parenthesis () indicate expenditure decrease.

Source: SIC

The House and Appropriations and Finance Committee substitute for House Bill 2 includes \$21 million in general fund revenue and \$3.5 million in federal Temporary Assistance for Needy Families (TANF) funds for prekindergarten programs administered by the Public Education Department (PED) in FY18. These recommendations reflect flat funding compared with FY16 and FY17 for state-funded prekindergarten programs administered by PED. Since FY12, the Legislature appropriated \$100 million for state-funded prekindergarten programs.

According to Volume I of the LFC Report for FY18, New Mexico has demonstrated leadership in increased investment in early care and education. Since FY12, the Legislature invested \$100 million in early childhood programs administered by the Children, Youth and Families Department (CYFD), the Department of Health (DOH), and PED. CYFD provides child care assistance, home visiting, prekindergarten for 3- and 4-year-olds, early childhood professional development, and high-quality early childhood development centers. In FY17, the Legislature appropriated \$146.8 million to CYFD for these programs. PED provides prekindergarten for 4-year-olds, K-3 Plus, and early literacy (Reads to Lead). In FY17, the Legislature appropriated \$63.2 million to PED for these programs. DOH provides the Infant and Toddler Program for children birth to 3-year-old. In FY17, the Legislature appropriated \$43.7 million to DOH for

these programs. Overall, early childhood services received \$259.9 million in FY17, including \$6.2 million from the federal Race to the Top.

The constitutional amendment requires approval by voters in a 2018 statewide election, in either a general election or a special statewide election. 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. LFC staff estimate each constitutional amendment may cost up to fifty thousand dollars (\$50,000) in printing and advertising costs based on 2016 actual expenditures.

SUBSTANTIVE ISSUES

SJR3 defines “early childhood services” as nonsectarian services for children until they are eligible for kindergarten. The resolution requires the additional 1.5 percent distribution that goes to public schools to be used for early childhood services administered by a state agency; an Indian nation, tribe or pueblo; the New Mexico School for the Blind and Visually Impaired; or the New Mexico School for the Deaf.

SJR3 would need a three-fifths majority vote in both the House and the Senate to suspend the additional distributions, and the additional distribution would be suspended should the five-year LGPF average drop below \$10 billion.

The resolution requires the constitutional amendment be approved by voters of New Mexico at the next general election or in special election and would not take effect unless the amendment were approved by the U.S. Congress.

SJR3 does not specify a plan for deployment of funds and who will oversee how these funds are spent for the purposes intended. Furthermore, SJR3 specifies that 1.5 percent of the additional annual LGPF distributions shall be used early childhood educational services, yet more than a quarter of the LGPF beneficiaries listed are either not educational facilities or have a mission completely unrelated to educational programs or early childhood educational programs (see Table 3, page 4).

Table 3 FY17 Un-audited LGPF Balance and Income Distribution

Institutions	LGPF Ownership	January 1, 2017 Beginning Balance	Early Educational Services
Public Schools	84.9%	\$12,877,298,118.78	Y
New Mexico Military Institute	3.1%	\$465,472,748.12	N
New Mexico School for the Deaf	1.9%	\$283,906,590.47	Y
School for the Blind and Visually Impaired	1.9%	\$283,304,963.50	Y
New Mexico State Penitentiary	1.9%	\$286,947,852.42	N
University of New Mexico	1.3%	\$202,278,980.00	Y
Public Buildings	1.1%	\$161,661,460.26	N
Water reservoir	1.0%	\$150,216,338.28	N
DHI Miners Hospital	0.9%	\$134,207,601.63	N
New Mexico State University	0.4%	\$64,291,707.02	Y
New Mexico State Hospital	0.3%	\$50,292,346.95	N
Improvement of the Rio Grande	0.2%	\$33,607,280.26	N
New Mexico Institute of Mining and Technology	0.2%	\$28,641,032.21	N
Eastern New Mexico University	0.1%	\$11,728,677.91	Y
University of New Mexico Saline Lands	0.0%	\$6,786,545.47	N
Western NM University	0.0%	\$3,766,185.29	Y
New Mexico Highlands University	0.0%	\$3,746,758.88	?
New Mexico Boys School	0.0%	\$830,441.13	N
Carrie Tingley Hospital	0.0%	\$209,386.54	N
Northern New Mexico Community College	0.0%	\$3,037,459.17	?
Charitable, Penal, and Reform Institutions	0.8%	\$119,234,030.18	N
Total	100.0%	\$15,171,466,504.47	7

Source: SIC

The SIC indicated language in SJR3 would not allow these beneficiaries (UNM Saline Lands, New Mexico Technical Institute, New Mexico Military Institute, DHI Miners Hospital, New Mexico State Hospital, State Penitentiary, Charitable, Penal, and Reform Institutions, Water Reservoir, Improvement of the Rio Grande, Public Buildings, the Carrie Tingley Hospital) to legally have access to the additional 1.5 percent of the funds and could result in costly litigation, or these beneficiaries would have to essentially waive a portion of their rightful share of the LGPF. However, language in SJR3 requires the additional 1.5 percent distributed to the permanent school fund be used for early childhood education services. It appears the other beneficiaries will receive their additional 1.5 percent and would not be obligated to use it for early childhood services. The language included in the joint resolution is similar to the language that increased distributions to 5.8 percent then 5.5 percent and earmarked the increased distribution for public schools to be used for education reforms. All other beneficiaries received the additional 0.8 percent and 0.5 percent distributions and were not required to use those distributions for education reforms.

The Office of the Attorney General (AGO) indicated revenues in the LGPF are derived from the lands granted to the state by Congress in the Enabling Act. 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 as indicated in SJR3.

PED indicated that while the resolution provides for a major influx of new money into early childhood programs, it is unclear whether those funds could immediately be put to use toward those programs. PED stated prior to this year’s budget shortfall, state-funded prekindergarten programs had small waiting lists across the state. Additionally, only 54 out of 89 school districts participated in the program. However, the joint resolution anticipates funds be used for children that are not eligible for kindergarten, and it is likely, given the broad language in the resolution, funds could be used for other early childhood programs, such as home visiting or child care.

TECHNICAL ISSUES

According to SIC, the resolution includes language that protects the fund from the burden of additional distributions during times of financial stress if the five-year average of the fund drops below \$10 billion at year end of any given calendar year. The SIC indicates the resiliency of this protection renders itself ineffective. An alternate technical safety-valve might better be tripped when the current LGPF corpus value itself drops below \$10 billion or some similar appropriate value.

OTHER SIGNIFICANT ISSUES

The Pew Charitable Trusts, a nonprofit, nonpartisan organization providing analysis to improve public policy, indicated high-quality prekindergarten increases a child's chances of succeeding in school and in life. The foundation stated children who attend high-quality early learning programs are less likely to be retained, need special education services, and more likely to graduate from high school. Additionally, children who participate in a high-quality prekindergarten program have higher-earning opportunities as an adult and are less likely to become dependent on welfare or be incarcerated.

Since FY12, the Legislature increased spending on early childhood services by \$100 million. While New Mexico has significantly heightened its focus on early childhood programs, the state is among the three lowest-ranked states in the Annie E. Casey Foundation's annual *Kids Count Data Book*, which ranks states according to 16 child well-being measures, primarily because of the large number of children in need of services.

LFC indicated early childhood funding has grown by more than 80 percent since FY12. However, improved leadership, coordination, and oversight are needed. LFC noted strategic investments, together with careful attention to implementation and monitoring performance, could improve the social and cognitive skills of children, with benefits extending throughout a child's life.

ALTERNATIVES

Established in 2006, the Nebraska Early Childhood Education Endowment Fund, also known as Sixpence, is an innovative public and private venture with the Nebraska Department of Education providing \$40 million from the Nebraska Permanent School Fund and another \$20 million from private donations. The \$40 million from the permanent school fund shall remain in the cash reserve fund for purposes of investment and the accrued interest is distributed to help fund early childhood educational services. The programs are administered through the Nebraska Children and Families Foundation.

Created in 1992, the Georgia Lottery proceeds are used to fund specific education programs that comprise tuition grants, scholarships or loans to undergraduate college students for attendance at eligible Georgia colleges, universities or technical colleges; the Georgia Pre-kindergarten Program for all 4-year-olds; and capital outlay projects for schools, universities, colleges, and technical schools in the state.

RELATED BILLS

SB182, Early Childhood Land Grant Act, proposes to create an early childhood land grant permanent fund and the early childhood income fund.

SJR18, Severance Tax Money for Early Childhood, CA, proposes to amend Article 8, Section 10 of the Constitution of New Mexico that requires an additional .8 percent distribution rate for early childhood education and early childhood care programs.

HJR1/aHSC, Permanent Funds for Early Childhood, CA, proposes to increase the LGPF distribution by 1 percent to be used for early childhood education services.

HJR 2, Land Grant Fund for Economic Stimulus, CA, proposes to withdraw \$7 billion from the LGPF to provide economic stimulus programs to include \$1 billion for early childhood services.

SOURCES OF INFORMATION

- Attorney General’s Office
- LESC Files
- Legislative Finance Committee
- Securities Investment Council

CMC/rsg