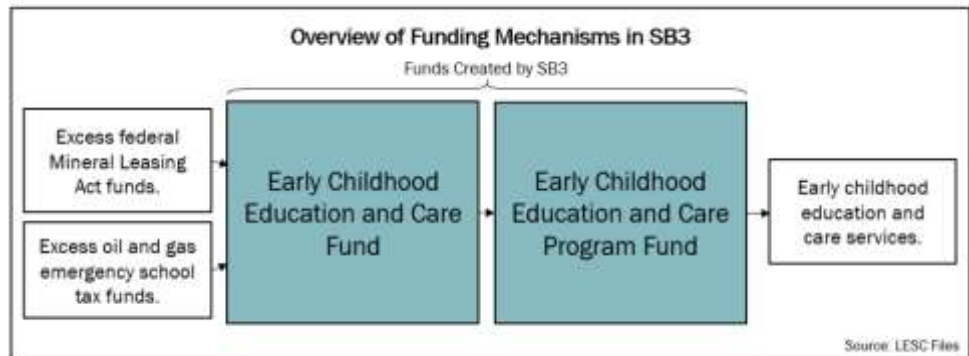


Conference Committee Report for the House Appropriations and Finance Committee substitute for House Bills 2 and 3 (HB2 and 3/HAFCS/CCR) includes an appropriation of \$10 million contingent on the passage of SB118 or similar legislation. This appropriation includes \$5.3 million to the Early Childhood Education and Care Department (ECECD) for teacher salary increases and contractual services in prekindergarten programs, \$2.4 million to the Department of Health (DOH) to the public health program, \$1 million for the Children, Youth and Families Department to the behavioral health services program, and \$1.3 million for Crime Victims Reparations Commission to the grant administration program.

SUBSTANTIVE ISSUES

Over the past decade, New Mexico has prioritized investments in early childhood programs, increasing state funding for early childhood programs now overseen by ECECD from \$110 million in FY12 to \$369 million in FY22, an increase of 235 percent.

To ensure the sustainability of these investments, the Legislature established the early childhood education and care fund during the 2020 legislative session with the passage of House Bill 83, which created a trust fund that earns interest and receives contributions from certain above-trend oil- and gas-related revenues, and a program fund that receives annual distributions from the trust fund that can be appropriated for early childhood programs. HB83 (2020) provided for a continual distribution from the early childhood trust fund to the early childhood program fund beginning in FY22, from which the legislature may appropriate for early childhood education and care services and programs.



The trust fund was established by the Legislature to create a dedicated funding source that would provide a long-term, revenue producing asset for early childhood education and care services and programs. According to statute, annual distributions from the fund are set at \$20 million in FY22 and \$30 million in FY23. Beginning in FY24, distributions to the program fund would be based on 5 percent of the three-year average, with \$69.2 million expected to be available for distribution in FY24, \$129.5 million in FY25, and \$174.9 million in FY26.

Current Early Childhood Trust Fund Forecast

(in millions, for early childhood services and programs)

	FY21	FY22	FY23	FY24	FY25	FY26
Beginning Balance	\$300.00	\$656.40	\$2,171.10	\$3,301.40	\$3,939.90	\$4,332.40
Gains & Losses	\$13.70	\$26.30	\$86.80	\$132.10	\$157.60	\$173.30
Excess Federal Mineral Leasing	\$ -	\$684.30	\$625.20	\$322.30	\$216.40	\$118.70
Excess OGAS School Tax	\$342.70	\$824.10	\$448.30	\$253.30	\$148.0	\$61.30
Distribution to ECE Program Fund (for early childhood education and care services and programs)	\$ -	(\$20.00)	(\$30.00)	(\$69.20)	(\$129.50)	(\$174.90)
Ending Balance	\$656.40	\$2,171.10	\$3,301.40	\$3,939.90	\$4,332.40	\$4,510.80

Source: DFA

While the trust fund is not part of general fund reserves, statute provides for appropriations from the trust fund to shore up a budget shortfall if other primary general fund reserve accounts are exhausted (the tax stabilization reserve and the tobacco settlement permanent fund).

ECECD FY22 Early Childhood Education and Care Program Fund Spending. ECECD received their first allocation from the program fund in FY22. The department utilized the program fund to serve a range of early childhood programs, including pay equity for community-based prekindergarten educators, community-based prekindergarten, mixed-age prekindergarten, early prekindergarten, home-visiting parental support services to new families, child abuse prevention, and parental engagement.

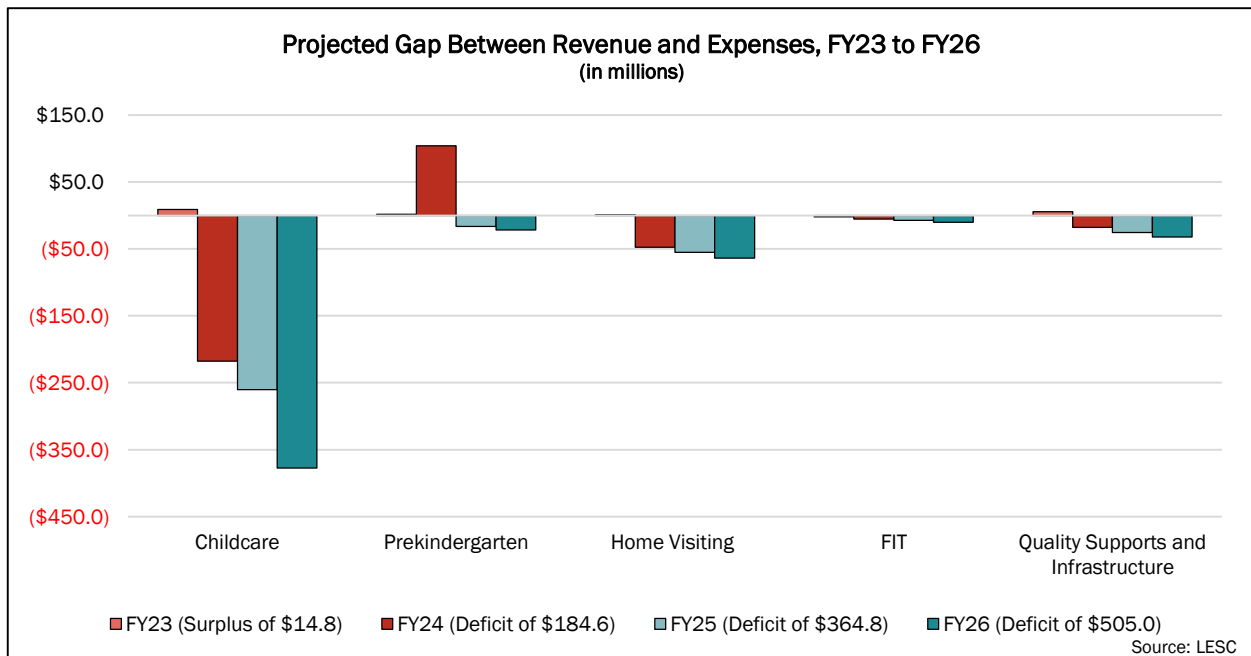
ECECD FY 22 Program Fund Spending

Program	Amount
Community-based prekindergarten, mixed aged prekindergarten, and early prekindergarten	\$7,765,400
Public-school-based prekindergarten 1/2 day to extended day and expansion	\$2,834,600
Home-visiting services	\$3,000,000
Pay equity for community-based prekindergarten educators	\$3,000,000
Families FIRST home-visiting salaries and benefits	\$1,000,000
Infrastructure hosting, maintenance, and support	\$1,800,000
Family, Infant, Toddler provider rate Increase	\$600,000
Total Fund Distribution	\$20,000,000

Source: ECECD

ECECD Four-Year Finance Plan.

According to the department’s *Four Year Finance Plan*, which provides recommendations for financing the early childhood education and care system, ECECD will need an additional \$505 million by FY26 to provide universal access to early childhood services, an increase of 37 percent. Most of the additional funding will be needed to provide childcare assistance subsidies because that program is expected to more than double in size, with smaller increases for prekindergarten and home-visiting.



Early Childhood Issues. 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. In its *2019 Early Childhood Accountability* report, the LFC found the achievement gap was nearly eliminated by kindergarten

for low-income students who participated in prekindergarten and the K-3 Plus extended school year program (the precursor of K-5 Plus). The Legislature has prioritized early childhood education funding even through two economic downturns and the Covid-19 pandemic because some early childhood interventions have proven successful at narrowing the achievement gap between low-income students and their more affluent peers.

National reports also conclude that high-quality early childhood education is a cornerstone to closing the achievement gap and ensuring all children are ready for kindergarten. The National Conference of State Legislatures international study of world-class educational systems, *No Time to Lose*, identified four common elements for educational success, the first of which is students come to school ready to learn, with extra support given to struggling students so all students have the opportunity to achieve high standards. The early childhood years provide the foundation for literacy skills and are critical for brain development. When children do not have adequate opportunities to create these connections—or experience adverse childhood experiences (ACEs)—their future educational achievement and life outcomes can be harmed. According to Child Trends, a nonpartisan research center, 18 percent of children in New Mexico experienced three or more ACEs, outpacing the national average of 11 percent. However, research indicates some educational supports, such as trauma-informed instruction and secure attachment relationships, can help ameliorate the negative effects of ACEs. A highly qualified educator can mitigate negative experiences and provide resources to families.

Martinez-Yazzie Lawsuit. Early childhood education, specifically prekindergarten, was a focus of the plaintiffs in the consolidated *Martinez-Yazzie* education sufficiency lawsuit, which noted that quality full-day prekindergarten addresses the issue of at-risk students—defined in the lawsuit as Native American, English learning, low-income, and special education students—starting school behind other children. The plaintiffs argued and the court found prekindergarten has “not been funded to the extent that all at-risk children can participate.”

Management of the Early Childhood Education and Care Fund. According to the State Investment Council, which oversees the investment of the trust fund, the council typically does not formally support or oppose legislation it does not originate, but in 2019 seven members of the 11-member council, not including Governor Lujan Grisham (who helped originate the measure), signed a letter of support in favor of the trust fund. Generally, the council has taken a position in favor of the endowment model as a revenue-creating economic and planning tool for the state.

ADMINISTRATIVE IMPLICATIONS

SB118 opens the program fund to any agency providing childhood education and care services and programs, leaving ECECD to administer funding for multiple state agencies.

In the agency analysis submitted by ECECD, the department noted,

If enacted, SB118 would eliminate ECECD’s ability to rely upon the [program] fund as a predictable and reliable source of revenue. ECECD’s recently released and statutorily mandated Four-Year Finance Plan estimates a nearly \$300 million revenue gap in FY24, and over \$500 million revenue gap by FY26 for the programs and services administered by ECECD. Without the certainty of predictable and sustained funding, ECECD’s performance would be negatively impacted.

NM Crime Victims Reparation Commission reports in their agency analysis that “the language of the statute suggests a need for specificity as to the purposes which an appropriation may address. If the funds are to be used for Child Advocacy Centers, language to that effect is needed.”

OTHER SIGNIFICANT ISSUES

Early Childhood Education and Care. According to LFC, New Mexico’s 4-year-old service capacity, when taking into account both state and federal care and education services, is at nearly 80 percent, which is considered universal access. However, service gaps in prekindergarten still exist. The percentage of 4-year-olds served varies by geographic area, with oversaturation in some areas leading to competition by providers, while other areas have few or no providers.

During the 2020 legislative session, several state agencies submitted analyses in support of establishing the early childhood education and care fund as a dedicated funding source for early childhood. According to the Public Education Department (PED),

Building a stable source of funding for early childhood programs will protect the investment that the state has made in expanding home-visiting, prekindergarten, as well as other programs serving New Mexico’s young children and their families. Families will benefit as they can count on quality services being available for their children.

Quality early childhood programs, particularly prekindergarten, produce substantial long-term gains that include long-term cognitive effects equivalent in size to one half or more of the achievement gap between minority and white children or low-income and other children through the end of high school as well as gains in social and emotional development, improvements in school success including less grade repetition, less special education placement, and increased high school graduation (National Institute for Early Education Research, 2013). Furthermore, studies that include benefit-cost analyses describe yields that average a \$7 to \$1 ratio (NIEER, 2013).

[The trust fund supports] the PED’s prekindergarten program and allow[s] for responsible coordinated growth with the goal of universal services, which is defined as 85 percent of all four-year-olds, and 50 percent of all three-year-olds.

According to the State Land Office, the commissioner supports expanding early childhood education funding. Early childhood education reduces the deleterious developmental effects of poverty and trauma by providing children with the tools and experiences needed to succeed in school.

According to CYFD, development of the early childhood trust fund enables the ECECD to provide important supports to the early childhood education and care workforce: “Supporting the workforce through increased formal education opportunities and compensation is essential to ensure that all children have access to high-quality care and education.”

According to DOH, the early childhood funding mechanisms in the trust fund support goals one and two of DOH’s strategic plan to improve the health status of New Mexicans and to expand access to services, respectively.

Investments in Early Childhood Workforce. Research shows teachers influence student outcomes more than anything else within a school. New Mexico has a limited educator workforce qualified in early childhood. 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. During the transition of programs to ECECD in FY20, ECECD worked with CYFD, PED, and the Human Services Department to develop uniform procedures for early childhood programs and their workforce.

ECECD oversees state-funded prekindergarten programs in New Mexico offered through both public and private providers; however, the department reports workforce compensation between the two is significantly different, and low pay, particularly among

Early Childhood Workforce in New Mexico

Program Type	2020	2021	Number needed to reach FY26 planned enrollment	Number needed to reach universal care
Child Care Professionals	8,958	11,500	11,960	11,960
NM Prekindergarten Teachers	799	847	912	1,935
NM Prekindergarten Assistants	450	671	761	1,606
Home Visitors	270	300	403	403
Head Start and Early Head Start	2,210	2,240	2,240	2,240
Early Intervention Professionals	808	800	1,024	1,200
Consultants and Coaches	93	93	101	215
Total Early Childhood Professionals	12,780	16,451	17,401	19,559

Source: ECECD

private providers, could limit the development of a highly qualified workforce, a workforce that must increase if ECECD projections of enrollment are accurate. In FY22, the department funded 1,498 scholarships to increase the number of qualified early childhood educators and used \$3 million of the department’s FY22 program fund appropriation for pay parity for private prekindergarten providers.

CONSEQUENCE OF NOT ENACTING THE BILL

If SB118 were not enacted, distributions from the program fund would continue to be allocated for early childhood education and care services and programs, subject to appropriation by the Legislature. For FY23, program fund distribution would be \$30 million, as required in statute. In FY24, available distribution from the program fund for early childhood education and care services and programs would be based on 5 percent of the three-year average of the fund, as the greater sum, or \$69.2 million. Projected distributions from the program fund for early childhood education and care services would be \$129.5 million in FY25 and \$174.9 million in FY26.

SOURCES OF INFORMATION

- LESC Files
- Early Childhood Education and Care Department (ECECD)
- LFC Files
- NM Crime Victims Reparation Commission