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

		LAST UPDATED	
SPONSOR	Serrato/Martinez, J	**ORIGINAL DATE**	2/13/25
SHORT TITLE	Children's Future Act & Fund	**BILL NUMBER**	House Bill 7
		ANALYST	Klundt/Torres

APPROPRIATION*
(dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
	$5,000.0	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
SIC		At least $500.0	At least $500.0	At least $1,000.0	Recurring	**Other state funds**

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From
Early Childhood Education and Care Department (ECECD)
State Investment Council (SIC)
State Ethics Commission (SEC)

Agency Analysis was Solicited but Not Received From
State Treasurer's Office (STO)

SUMMARY

Synopsis of House Bill 7

House Bill 7 (HB7) enacts the Children's Future Act, establishing the children's future fund, a nonreverting trust fund intended to provide financial support for individuals born in New Mexico on or after January 1, 2025. Beneficiaries who graduate from a New Mexico high school would be eligible to use funds for education, housing, entrepreneurship, retirement, and investment opportunities.

The bill directs two-thirds of the fund to be invested by the State Investment Officer for 18 years before transitioning to management by the State Treasurer, while the remaining one-third is continuously invested by the state investment officer. The Department of Finance and Administration (DFA) will administer the fund, and expenditures require approval by the secretary of finance and administration. The bill explicitly states participation in the fund does not create a guaranteed benefit or enforceable property interest for any beneficiary.

HB7 also creates the Children's Future Task Force, which will function until December 31, 2025, and will study the optimal design and administration of the program. The task force is composed of representatives from the State Investment Council, the State Treasurer's Office, DFA, and appointed public members. The task force must report recommendations to the governor and Legislature by the end of 2025, including a financial plan, eligibility criteria, distribution mechanisms, and long-term investment strategies.

The bill includes an income tax exemption for all related funds transferred to or spent on behalf of beneficiaries and appropriates $5 million from the general fund to the children's future fund for expenditure beginning in FY26, with no reversion of unspent funds.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted.

FISCAL IMPLICATIONS

HB7 establishes a long-term trust fund intended to provide future financial benefits to eligible New Mexico residents. The initial $5 million appropriation serves as seed funding, but the long-term sustainability of the fund will depend on future appropriations, transfers, and investment performance. While the bill does not guarantee benefits, it creates a structured investment framework that could provide financial assistance to qualifying beneficiaries on reaching adulthood.

The exemption of fund disbursements from state income tax reduces potential revenue gains that would otherwise be collected from beneficiaries utilizing the funds for eligible expenses. The actual fiscal impact of this provision depends on the number of beneficiaries and the total value of disbursements in future years.

This bill appropriates $5 million from the general fund to the children's future fund in FY26. Growth of the fund's value over 18 years would be dependent on the performance of the investments and the returns they deliver. A $5 million investment returning 4 percent per year would take a full 18 years to double in size. A 7 percent average annual return would double the amount in just over 10 ¼ years.

The bill appropriates the entirety of the balance of the fund to DFA for the purposes of the act, and the bill allows DFA to expend up to 3 percent of the fund balance for administrative costs, which would be $150 thousand in FY26. However, the State Investment Council (SIC) is tasked with supporting the task force and House Bill 7 lacks funds for the administration of this task force at SIC.

The appropriation of $5 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY26 shall not revert. Although HB7 does not specify future appropriations, establishing a new grant program could create an expectation the program will continue in future fiscal years; therefore, this cost is likely to be recurring.

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

SIGNIFICANT ISSUES

Wealth-building public policies that reduce disparities support more stable economies by providing individuals with opportunities to invest in their futures. Access to resources for education, homeownership, and entrepreneurship may improve individuals' abilities to build financial security. Reducing wealth gaps can lead to improved economic participation and reduced health risks. Some national research focused on structural inequities that disproportionately affect low-income and minority children has highlighted "baby bonds" as a policy to improve outcomes. As of early 2023, baby bonds legislation has been enacted in nine states. Recommendations for designing state baby bond policies include automatic enrollment, allocating larger endowments to children from lower-wealth households, and allowing funds to be used for various wealth-building activities. It is also recommended governments structure this policy with sustainable financing and assign accounts directly to individuals to ensure personal ownership.

HB7 raises concerns regarding compliance with New Mexico's Anti-Donation Clause, which prohibits the state from making direct financial gifts or subsidies to private individuals, except in limited circumstances. While the bill explicitly states that participation in the children's future fund does not create a guaranteed benefit or enforceable property interest, the distribution of funds to individual beneficiaries could be an unconstitutional donation of public resources. The State Ethics Commission adds "the Anti-Donation Clause contains several exceptions that could allow for this assistance, for instance, if the public assistance is limited to beneficiaries falling under a certain income threshold or who are sick it would fall under the first exception to the Anti-Donation Clause. The task force will need to be cognizant of the restrictions in and exceptions to the Anti-Donation Clause in implementing the Act."

The children's future fund seeks to promote long-term economic mobility by providing financial resources to future generations of New Mexico residents. By directing funds toward education, housing, and entrepreneurship, the program aims to support workforce development and economic growth. However, the effectiveness of the program will depend on sustained funding, investment returns, and the ability of eligible beneficiaries to access and utilize the funds effectively. The size of the sustained funding will largely determine the effectiveness of the program. For example, births in New Mexico average above 22 thousand a year. Even a small distribution of $5,000 per person, which may be insufficient to support the purchase of a home, the completion of a postsecondary education, or the founding of a business in 18 years, would require about $115 million in current recurring funding each year.

The bill does not establish a dedicated revenue stream beyond the initial $5 million appropriation, meaning future funding levels will rely on legislative appropriations or external contributions. The long-term fiscal impact on the state will depend on whether the fund receives ongoing investments sufficient to generate meaningful distributions to beneficiaries.

Furthermore, there is some uncertainty in creating program design, eligibility verification, and administrative costs. The task force is responsible for addressing these concerns and making recommendations, but final implementation of the program will require additional legislative or regulatory action. Further complicating the task force work is a lack of identified funding. Recommendations from the task force will be incomplete without appropriate consideration of the funding needed and feasible given existing budgetary and revenue constraints.

The Early Childhood Education and Care Department adds:

> HB7 proposes the creation of the "children's future fund," which is designed similarly to "baby bond" policy proposals. "Baby bonds" are publicly funded trust accounts that become available to beneficiaries when they reach adulthood for specific wealth-building uses. Upon adulthood, beneficiaries of baby bonds use that money to pursue higher education, buy a house, start a business, or pursue other wealth-building activities.
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> Baby bonds are intended as a strategy to reduce wealth inequalities and address intergenerational poverty by providing children the opportunity to build assets from birth. There are substantial disparities in income and wealth in the United States, and structural barriers and racial discrimination manifest this overall inequality along racial lines. According to a 2024 report, in 2022 the average wealth of white families nationally was six times the average wealth of Black and Hispanic families. These disparities are also pronounced in New Mexico: according to the Economic Policy Institute, New Mexico ranks 45th in income inequality.

The State Investment Council (SIC) notes:

> ***Expenditure Funds vs. Trust Funds.*** Unlike other trust funds under the State Investment Council's management, this bill does not create a separate program/expenditure fund to which the trust fund could make distributions. Instead, the entirety of the fund is appropriated to DFA and expenditures would be made directly from the [fund].
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> Distributions from the trust funds the SIC invests typically occur once per year, and no other trust fund under SIC's management is a direct expenditure fund used for operational expenses.
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> Infrequent and predicable distributions enables the SIC to invest in certain private asset classes (such as private equity, real estate, etc.) that can earn return premiums due in part to their illiquid nature – those dollars may be "locked up" for long periods of time, generally several years, and getting cash out of those allocations can be very expensive (e.g. forced selling at extreme discounts to market value). Expenditure funds, on the other hand, often have greater liquidity needs and irregular withdrawals, which would limit the types of assets in which SIC can invest those funds, and the similarly could lower expected rates of return or the heightening of risk to achieve target goals.

SIC staff recommend the bill be restructured to create two separate and distinct funds – one to act as a trust fund with a long-term investment horizon, and a separate expenditure fund that could be appropriated to DFA for administration of the Children's Future Act.

ADMINISTRATIVE IMPLICATIONS

SIC points out:

Splitting Investment of a Single Fund between SIC and the State Treasurer's Office (STO). The bill requires 2/3 of any appropriation to the [fund] to be invested by SIC for 18 years, then that 2/3 and any associated investment earnings is to be invested by the State Treasurer. However, the bill does not make a transfer of funds from the State Investment Council to the State Treasurer. Instead, it gives SIC and STO separate investment responsibilities within the same fund.

This setup may not be technically possible, given the nature of how funds are created within the treasury system and with our custodian bank.

Presumably, the purpose of this distinction between what SIC will manage versus what STO will manage is that, once the invested funds will need to be accessed after 18 years, they can be managed predominantly in more liquid, lower risk assets by the State Treasurer.

Again, SIC staff recommend the bill be restructured to create two separate and distinct funds such that distributions can be made from a trust fund invested by the SIC to an expenditure fund invested by STO and administered by DFA.

Splitting Investment of Individual Appropriations/Transfers. Because the bill splits the investment responsibility of individual appropriations or transfers into the [fund], the initial $5 million appropriation contemplated in this bill would have to be tracked and managed differently than any future appropriations to the fund, which would create significant administrative complexity.

Asset Allocation Decisions Driven by the Task Force. SIC invests a dozen different funds for the state of New Mexico, many with different purposes, liquidity needs, investment horizons, and risk/return profiles. The majority of those funds are invested prudently, in a manner strategically determined by the Council, or in some cases in collaboration or with additional guidance from the primary beneficiary of the fund. In the end, however, those funds and how they achieve their returns to meet long-term goals are determined by the State Investment Officer and SIC's investment professionals, as guided by the Council's fiduciary board.

Other third-party funds that are invested by the SIC – more than $2B in governmental client funds – are self-directed by the clients themselves (ideally in tandem with fiduciary advisors) and then invested across a menu of investment pool options.

As proposed by this bill, the structure of the [fund] would seem to be most similar to the SIC client funds, as the Council would not be responsible for determining the investment allocation for the [fund]. Instead, the task force would potentially dictate risk levels, asset allocation and even investment strategies. Given the utmost importance of asset allocation in determining both short and long-term investment outcomes, this is potentially problematic for the SIC.

If the desire is for the task force to determine the [fund's] long-term strategic asset allocation, and not the SIC, it is recommended the fund be invested with SIC as a client fund through a joint powers agreement, rather than placing the fund directly under SIC's investment management.

Six-Month Project Period. The bill requires the task force to produce a full report complete with policy and procedural recommendations for the Children's Future Act during the six-month period from July 2025 to December 31, 2025, which may not be enough time for the Task Force to develop all facets of the program envisioned by the Act…

Requiring SIC to staff the task force would likely create significant administrative burdens related to creating the required report – including conducting policy research, gathering data, writing policy documents and administrative rules, drafting financial plans, and designing application processes.

SIC is currently staffed with investment professionals, investment accountants, legal staff, and administrative staff. However, SIC does not currently have staff that are well-versed in this type of policy and procedural design. Therefore, SIC would need likely to hire additional qualified people to staff the task force during the 6 month project period.

Notably, SIC's budget is funded by the Land Grant Permanent Fund and Severance Tax Permanent Fund, and it is unclear whether SIC can use the permanent funds to hire staff to support the Children's Future Task Force.

TECHNICAL ISSUES

The bill allows DFA to expend up to 3 percent of the "balance of the children's future fund at the end of a fiscal year" for administrative costs. The bill appropriates $5 million to the fund in FY26, which would be deposited on or after July 1, 2025. Therefore, the fund balance at the end of FY25 (June 30, 2025) would be $0, which could mean no administrative funding would be available for FY26.

If administrative funding from the fund is not available until FY27, the fund would be unable to support per diem and mileage for the task force (which is only in effect July to December 2025) or any other administrative costs incurred during the 2026 fiscal year.

From the Early Childhood Education and Care Department:

The stated purpose of the future fund is to "assist beneficiaries who graduate from a high school in New Mexico in pursuing education, housing, entrepreneurship, retirement and investment opportunities. HB7 does not provide additional guidance as to what constitutes a "retirement opportunity" or an "investment opportunity." There are foreseeable issues of statutory interpretation, as "investment opportunity" is a broad term.

Additionally, the Children's Future Act and fund may have implications related to New Mexico's Anti-Donation Clause, found within Article IX, Section 14 of the New Mexico Constitution.

The Ethics Commission adds:

Sections 6 and 7 each separately include the same definition of "beneficiary" for purposes of the section, which definition is different from the definition of "beneficiary" in Section 2's definitions of beneficiary under the Children's Future Act. Since Section 6 provides a tax exemption and Section 7 outlines the task force responsible for providing research and recommendations on the implementation of the Children's Act and many of those provisions include responsibilities related to "beneficiaries," by creating a separate definition between the Act and the recommendations of the task force, this could create an issue in taxation requirements for different individuals under the two definitions of "beneficiary" and for final implementation of the Act.

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