# FISCAL IMPACT REPORT

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| | | **LAST UPDATED** | |
| **SPONSOR** | Maestas/Jaramillo | **ORIGINAL DATE** | 2/20/2025 |
| **SHORT TITLE** | New Mexico Next Generation Act | **BILL NUMBER** | Senate Bill 397 |
| | | **ANALYST** | Klundt/Torres |

**APPROPRIATION***
**(dollars in thousands)**

| FY25 | FY26 | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|
| | $100.0 | Nonrecurring | General Fund |
| | $500,000.0 | 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 |
|---|---|---|---|---|---|---|
| **CYFD** | | **$354.5** | **$344.0** | **$698.5** | Recurring | **General Fund** |
| **DFA** | | **$400.0** | **$400.0** | **$800.0** | Recurring | **General Fund** |
| **Total** | | **$754.5** | **$744.0** | **$1,498.5** | Recurring | **General Fund** |

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

Relates to House Bill 7

## Sources of Information

LFC Files

Agency Analysis Received From
Children, Youth and Families Department (CYFD)
Department of Health (DOH)
Early Childhood Education and Care Department (ECECD)
State Investment Council (SIC)
Department of Finance and Administration (DFA)

## SUMMARY

### Synopsis of Senate Bill 397

Senate Bill 397 (SB397) enacts the New Mexico Next Generation Act**,** establishing the next generation trust fund and the baby bonds fund to provide financial resources for eligible beneficiaries born in New Mexico on or after July 1, 2025. The trust fund will serve as a long-term investment vehicle, with distributions made to the baby bonds fund beginning in 2043. The Department of Finance and Administration (DFA) will administer and develop rules for the program, and the State Investment Council (SIC) will manage fund investments.

Beneficiaries must be born in New Mexico to a parent who has resided in the state for at least five consecutive years or have been placed in the custody of the Children, Youth and Families Department (CYFD) before age 18. Eligible expenditures include educational expenses at New Mexico post-secondary institutions or vocational programs and down payments on a home in the state. To access funds, beneficiaries must complete a financial literacy course and be between 18 and 40 years old.

The bill appropriates $500 million from the general fund to the next generation trust fund for FY26 and subsequent years. It also appropriates $100 thousand for the administration of the program. Funds distributed to beneficiaries are exempt from state income taxation.

Beginning in 2043, DFA – along with the Department of Health (DOH) and CYFD – will provide a projection by May 1 to the State Investment Officer on the amount of eligible expenditures required for the upcoming fiscal year. The trust fund will make a distribution to the baby bonds fund on July 1st in an amount determined by DFA in consultation with SIC.

Money in the baby bonds fund is appropriated to DFA to make eligible expenditures on behalf of beneficiaries pursuant to the act.

DFA is tasked with promulgating rules for administering the baby bonds fund, including determining a person’s status as a beneficiary, determining eligible expenditures, accounting for benefits available to individual beneficiaries, and other rules as necessary.

The effective date of the bill is July 1, 2025.

## FISCAL IMPLICATIONS

Senate bill 397 establishes a long-term trust fund intended to provide future financial benefits to eligible New Mexico residents. The initial $500 million appropriation serves as seed funding, but the long-term sustainability of the fund will depend on future appropriations, transfers, and investment performance. The appropriation of $500 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 Senate Bill 397 does not specify future appropriations, establishing a new grant program could create an expectation the program will continue in future fiscal years; therefore, if trust fund revenues are not sufficient to support the program once disbursements are made, this cost may become recurring.

Senate Bill 397 establishes a significant long-term investment by appropriating $500 million from the general fund to the next generation trust fund. Because this appropriation is non-reverting, the funds will remain available for future investment and distribution rather than contributing to the state’s recurring budget needs. Earnings from investments will determine the eventual size of distributions made to the baby bonds fund beginning in 2043, meaning the impact on beneficiaries depends on investment performance and fund management.

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 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.

SB 397 uses SIC's preferred fund structure of creating two separate and distinct funds: one to serve as a trust fund with a long-term investment horizon for SIC to manage and a separate expenditure fund to receive distributions from the trust fund that can be used to carry out the purposes of the program. Based on a 7 percent long-term annual compound return assumption, a trust fund seeded with $500 million has the potential to grow to almost $1.5 billion by the time it must make the first distribution on July 1, 2043 (FY44).

Because the distribution amount from the trust fund to the baby bonds fund will be determined each year, and because the distribution amount depends at least in part upon rules to be established by DFA at a future date, LFC is unable to model the long-term sustainability of the fund at this time.

LFC staff estimate administration of the program at DFA will require at least 4 FTE at an average salary and benefit cost of $100 thousand. CYFD reports that program administration and monitoring for children involved in the state's child welfare system will cost approximately $350 thousand per year.

## 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. National research on structural inequities that disproportionately affect low-income and minority children has highlighted baby bonds as a promising policy for improving 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.

SB397 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. SB397 explicitly states that participation in the program does not create a guaranteed benefit or enforceable property interest. Even still, the distribution of funds for the use by beneficiaries could be an unconstitutional donation of public resources.

SB397 seeks to promote long-term economic mobility by providing financial resources to future generations of New Mexico residents. By directing funds toward education and housing, the program supports 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 post-secondary education, would require about $115 million in recurring funding each year. One nonrecurring appropriation will likely be insufficient to provide benefits to multiple cohorts of eligible recipients. The bill does not establish a dedicated revenue stream beyond the initial $500 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. DFA is responsible for addressing these concerns and making rules, but final implementation of the program will likely require additional legislative action. Further complicating the rulemaking 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.

SB397 does not specify how much a beneficiary may claim under the act. Educational expenses, vary greatly based on the type of program, the institution, whether the student is attending on a full- or part-time basis, and the length of completion. Additionally, recommended downpayments on real estate vary greatly based on the value of the home. As down payments on real estate are generally a percentage of the home's sale price, SB397 does not specify whether the funds allocated to a beneficiary will be determined as a set monetary value, or whether they will constitute a percentage of the beneficiary's home's sale price.

SB397 does not specify whether a beneficiary is able to make more than one claim. It is not clear whether a beneficiary may submit a claim for multiple educational expenses, and then eventually submit a claim for expenses associated with placing a downpayment on a home.

## ADMINISTRATIVE IMPLICATIONS

DFA notes:

> This proposal presents significant operational and administrative challenges. DFA has concerns about the program's scale, eligibility verification, and administrative costs. A system for identifying and verifying beneficiary eligibility must be developed and implemented. Currently, DFA lacks access to relevant state population data, and statistics, and does not have an existing system to confirm eligibility requirements. To effectively implement this proposal and achieve the bill's goals, DFA would need to expand its staff capacity, requiring dozens of additional personnel and millions of dollars in additional resources for program administration.
>
> SB397 allocates only $100 thousand in FY26 to DFA for administering the NM Next Generation Act. This amount is grossly insufficient. Given the scope and complexity of

> this proposal, DFA recommends allocating 5 percent of the fund balance at the end of each fiscal year to cover administrative and operational costs associated with implementing the NM Next Generation Act.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 7 (HB7) creates the Children's Future Act and children's future fund, which have a similar purpose to that of SB397 but with several distinct differences. HB7 creates only one fund to carry out the purposes of the act, splitting investment responsibilities between the State Investment Council and the State Treasurer's Office, which, at a minimum, creates additional administrative complexity and may not be technically possible given the nature of how funds are created within the treasury system and with the state's custodian bank. HB7 also has a different definition of the act's beneficiaries, an expanded set of eligible expenditures, and creates a task force to promulgate rules for the act over a six-month period between July to December 2025.

## TECHNICAL ISSUES

The Early Childhood Education and Care Department notes:

> The Next Generation 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.

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