

LFC Requester: \_\_\_\_\_

**AGENCY BILL ANALYSIS - 2025 REGULAR SESSION**

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**SECTION I: GENERAL INFORMATION**

*{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}*

**Date Prepared:** 2/7/2025 *Check all that apply:*  
**Bill Number:** HB 71 Original  Correction   
Amendment  Substitute

**Sponsor:** Gallegos **Agency Name and Code** 337 – State Investment Office  
**Short Title:** EARLY CHILDHOOD ED & CARE FUND TRANSFERS **Number:** \_\_\_\_\_  
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**SECTION II: FISCAL IMPACT**

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
\$0.0	(\$196,682.5)	(\$89,100.0)	Recurring	Early Childhood Education & Care Fund
\$0.0	\$196,682.5	\$89,100.0	Recurring	Early Childhood Education & Care Program Fund

(Parenthesis ( ) indicate revenue decreases)

Duplicates/Conflicts with/Companion to/Relates to: SB167 & SJR6

**SECTION III: NARRATIVE**

**BILL SUMMARY**

Synopsis:

House Bill 71 increases the minimum required distribution from the Early Childhood Education and Care Fund (commonly known as the “Early Childhood Trust Fund”) from \$250 million to \$500 million, effective July 1, 2025.

**FISCAL IMPLICATIONS**

Based on current law, the Early Childhood Education and Care Fund (ECECF) annually distributes the greater of \$250 million or 5% of the prior 3-year average market value. The balance of the trust fund as of 12/31/2024 was \$9.015 billion.

Without any changes, the FY26 distribution from the trust fund would be \$303.3 million. Using consensus revenue estimate assumptions for inflows and returns, the ECECF would distribute an estimated \$410.9 million to the program fund in FY27, and distributions could begin to exceed \$500 million/year in FY28 or FY29.

This bill increases the minimum required annual distribution from the ECECF from \$250 million to \$500 million, which would effectively “speed up” the timing for the trust fund to begin making distributions of this size or greater.

The fiscal impact is an additional \$196.7 million from the corpus of the trust fund to the program fund in FY26, and an estimated additional \$89.1 million from the corpus of the trust fund to the program fund in FY27.

The tables in the appendices show the long-term estimated impact of this “speed up” to the corpus of trust fund and the size of the distributions to the program fund. Appendix 1 shows the impact using a 5% long-term annual return assumption, consistent with the assumptions of the consensus revenue estimating group. Appendix 2 shows the impact using a 6.77% long-term annual return assumption, which is the ECECF’s estimated long-term expected compound return as determined in the 2024 Asset Allocation Study based on our general consultant RVK’s long-term capital market assumptions.

## **PERFORMANCE IMPLICATIONS**

As of 11/30/2024, the existing ECECF earned a 1-year net return of 11.63% and a 3-year net return of 5.85%. The Council voted in May 2023 to shift the ECECF’s asset allocation toward more growth-oriented assets, increasing the fund’s future long-term expected performance. The Council is unlikely to adjust the trust fund’s asset allocation based on the passage of this bill. The Council will continue to manage the trust fund in accordance with the Uniform Prudent Investor Act and seek to ethically optimize risk-adjusted returns and grow the fund over time.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Senate Bill 167, and its companion Senate Joint Resolution 6, renames and establishes the ECECF as the Early Childhood Trust Fund in the NM Constitution, (2) requires an annual distribution from the ECTF to be the greater of \$500 million or 5% of the prior 3-year average market value of the fund, (3) allows for expenditure from the ECTF if state fund balances are insufficient to cover the current fiscal year’s appropriations, and (4) specifies that distributions from the trust fund shall only be used for prenatal and early childhood programs and services for children until they are eligible for kindergarten.

**Appendix 1 – Fiscal impact of increasing the minimum required trust fund distribution from \$250 million to \$500 million, using a 5% long-term return assumption**

**5% Long Term Return Assumption (as used in the Dec 2024 Consensus Revenue Estimate)**

Trust Fund Market Value				Distributions to Program Fund			
Calendar Year	Current	Proposed	Difference	Fiscal year	Current	Proposed	Difference
2020	\$ 306.1	\$ 306.1	\$ -	FY20			\$ -
2021	\$ 314.1	\$ 314.1	\$ -	FY21			\$ -
2022	\$ 3,462.0	\$ 3,462.0	\$ -	FY22	\$ 20.0	\$ 20.0	\$ -
2023	\$ 5,721.2	\$ 5,721.2	\$ -	FY23	\$ 30.0	\$ 30.0	\$ -
2024	\$ 9,015.8	\$ 9,015.8	\$ -	FY24	\$ 150.0	\$ 150.0	\$ -
2025	\$ 9,918.0	\$ 9,721.3	\$ (196.7)	FY25	\$ 250.0	\$ 250.0	\$ -
2026	\$ 10,893.8	\$ 10,598.2	\$ (295.6)	FY26	\$ 303.3	\$ 500.0	\$ 196.7
2027	\$ 11,529.0	\$ 11,215.8	\$ (313.3)	FY27	\$ 410.9	\$ 500.0	\$ 89.1
2028	\$ 12,022.9	\$ 11,707.4	\$ (315.5)	FY28	\$ 497.1	\$ 500.0	\$ 2.9
2029	\$ 12,603.0	\$ 12,287.1	\$ (315.9)	FY29	\$ 539.0	\$ 525.6	\$ (13.4)
2030	\$ 12,920.4	\$ 12,604.5	\$ (315.9)	FY30	\$ 574.1	\$ 558.7	\$ (15.4)
2031	\$ 13,199.2	\$ 12,883.3	\$ (315.9)	FY31	\$ 602.6	\$ 586.8	\$ (15.7)
2032	\$ 13,432.7	\$ 13,116.8	\$ (315.9)	FY32	\$ 625.8	\$ 610.0	\$ (15.8)
2033	\$ 13,580.5	\$ 13,264.6	\$ (315.9)	FY33	\$ 645.4	\$ 629.6	\$ (15.8)
2034	\$ 13,648.2	\$ 13,332.2	\$ (315.9)	FY34	\$ 659.2	\$ 643.4	\$ (15.8)
2035	\$ 13,668.5	\$ 13,352.5	\$ (315.9)	FY35	\$ 670.2	\$ 654.4	\$ (15.8)
2036	\$ 13,670.3	\$ 13,354.4	\$ (315.9)	FY36	\$ 677.7	\$ 661.9	\$ (15.8)
2037	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY37	\$ 681.6	\$ 665.8	\$ (15.8)
2038	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY38	\$ 683.1	\$ 667.3	\$ (15.8)
2039	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY39	\$ 683.5	\$ 667.7	\$ (15.8)
2040	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY40	\$ 683.5	\$ 667.7	\$ (15.8)
2041	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY41	\$ 683.5	\$ 667.7	\$ (15.8)
2042	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY42	\$ 683.5	\$ 667.7	\$ (15.8)
2043	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY43	\$ 683.5	\$ 667.7	\$ (15.8)
2044	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY44	\$ 683.5	\$ 667.7	\$ (15.8)
2045	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY45	\$ 683.5	\$ 667.7	\$ (15.8)
2046	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY46	\$ 683.5	\$ 667.7	\$ (15.8)
2047	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY47	\$ 683.5	\$ 667.7	\$ (15.8)
2048	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY48	\$ 683.5	\$ 667.7	\$ (15.8)
2049	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY49	\$ 683.5	\$ 667.7	\$ (15.8)
2050	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY50	\$ 683.5	\$ 667.7	\$ (15.8)

Using a 5% return assumption results in a “flattening” of the long-term fiscal impact, since the interest earnings on the trust fund corpus is assumed to be equal to the 5% distribution rate to the program fund.

**Appendix 2 – Fiscal impact of increasing the minimum required trust fund distribution from \$250 million to \$500 million, using a 6.77% long-term return assumption**

**6.77% Long Term Return Assumption (2024 RVK Asset Allocation Study)**

Trust Fund Market Value				Distributions to Program Fund			
Calendar Year	Current	Proposed	Difference	Fiscal year	Current	Proposed	Difference
2020	\$ 306.1	\$ 306.1	\$ -	FY20	\$ -	\$ -	\$ -
2021	\$ 314.1	\$ 314.1	\$ -	FY21	\$ -	\$ -	\$ -
2022	\$ 3,462.0	\$ 3,462.0	\$ -	FY22	\$ 20.0	\$ 20.0	\$ -
2023	\$ 5,721.2	\$ 5,721.2	\$ -	FY23	\$ 30.0	\$ 30.0	\$ -
2024	\$ 9,015.8	\$ 9,015.8	\$ -	FY24	\$ 150.0	\$ 150.0	\$ -
2025	\$ 10,080.9	\$ 9,884.2	\$ (196.7)	FY25	\$ 250.0	\$ 250.0	\$ -
2026	\$ 11,249.5	\$ 10,953.1	\$ (296.4)	FY26	\$ 302.0	\$ 500.0	\$ 198.0
2027	\$ 12,099.2	\$ 11,788.5	\$ (310.7)	FY27	\$ 416.5	\$ 500.0	\$ 83.5
2028	\$ 12,822.1	\$ 12,503.8	\$ (318.3)	FY28	\$ 505.6	\$ 500.0	\$ (5.6)
2029	\$ 13,645.6	\$ 13,321.2	\$ (324.4)	FY29	\$ 545.3	\$ 531.9	\$ (13.4)
2030	\$ 14,219.7	\$ 13,889.2	\$ (330.5)	FY30	\$ 566.8	\$ 551.5	\$ (15.3)
2031	\$ 14,765.5	\$ 14,428.8	\$ (336.7)	FY31	\$ 583.4	\$ 567.6	\$ (15.8)
2032	\$ 15,275.9	\$ 14,933.0	\$ (342.9)	FY32	\$ 602.7	\$ 586.6	\$ (16.1)
2033	\$ 15,709.5	\$ 15,360.2	\$ (349.3)	FY33	\$ 621.0	\$ 604.6	\$ (16.4)
2034	\$ 16,070.1	\$ 15,714.3	\$ (355.8)	FY34	\$ 635.9	\$ 619.1	\$ (16.8)
2035	\$ 16,389.6	\$ 16,027.2	\$ (362.4)	FY35	\$ 647.9	\$ 630.9	\$ (17.1)
2036	\$ 16,696.4	\$ 16,327.2	\$ (369.2)	FY36	\$ 660.1	\$ 642.7	\$ (17.4)
2037	\$ 17,007.5	\$ 16,631.5	\$ (376.0)	FY37	\$ 672.3	\$ 654.6	\$ (17.7)
2038	\$ 17,324.0	\$ 16,941.0	\$ (383.0)	FY38	\$ 684.8	\$ 666.8	\$ (18.0)
2039	\$ 17,646.4	\$ 17,256.2	\$ (390.2)	FY39	\$ 697.6	\$ 679.2	\$ (18.4)
2040	\$ 17,974.7	\$ 17,577.3	\$ (397.4)	FY40	\$ 710.6	\$ 691.9	\$ (18.7)
2041	\$ 18,309.2	\$ 17,904.4	\$ (404.8)	FY41	\$ 723.8	\$ 704.7	\$ (19.1)
2042	\$ 18,649.9	\$ 18,237.6	\$ (412.3)	FY42	\$ 737.3	\$ 717.8	\$ (19.4)
2043	\$ 18,996.9	\$ 18,576.9	\$ (420.0)	FY43	\$ 751.0	\$ 731.2	\$ (19.8)
2044	\$ 19,350.4	\$ 18,922.6	\$ (427.8)	FY44	\$ 765.0	\$ 744.8	\$ (20.1)
2045	\$ 19,710.5	\$ 19,274.7	\$ (435.8)	FY45	\$ 779.2	\$ 758.7	\$ (20.5)
2046	\$ 20,077.3	\$ 19,633.4	\$ (443.9)	FY46	\$ 793.7	\$ 772.8	\$ (20.9)
2047	\$ 20,450.9	\$ 19,998.7	\$ (452.2)	FY47	\$ 808.5	\$ 787.2	\$ (21.3)
2048	\$ 20,831.4	\$ 20,370.8	\$ (460.6)	FY48	\$ 823.5	\$ 801.8	\$ (21.7)
2049	\$ 21,219.0	\$ 20,749.9	\$ (469.1)	FY49	\$ 838.8	\$ 816.7	\$ (22.1)
2050	\$ 21,613.9	\$ 21,136.0	\$ (477.9)	FY50	\$ 854.4	\$ 831.9	\$ (22.5)

Using a higher return assumption reflects a higher long-term fiscal impact (than the 5% return assumption) due to greater “lost earnings” from the sped-up distributions.