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

SPONSOR Padilla **ORIGINAL DATE** 2/7/15
LAST UPDATED 2/23/14 **HB**

SHORT TITLE Create Early Childhood Funds **SB** 301

ANALYST Klundt

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
≈$5,200.0	≈$5,200.0				Recurring	Early Childhood Funds
≈($5,200.0)	≈($5,200.0)				Recurring	General Fund

SOURCES OF INFORMATION
LFC Files

Responses Received From
Children, Youth and Families Department (CYFD)
Department of Health (DOH)
State Investment Council (SIC)

Responses Not Received From
Department of Finance and Administration (DFA)
State Treasury Office (STO)

SUMMARY

Senate Bill 301 creates two new funds to provide ongoing funding for early childhood education, the Early Education Endowment Fund and the Early Education and Home Visiting Fund. This bill also requires the balance of all agency general fund appropriations that are set for reversion be credited to these funds and also income from the investment of the funds.

FISCAL IMPLICATIONS

SB 301 creates new funds and provides for continuing appropriations and requires the balance of all Children, Youth and Families Department (CYFD) general fund appropriations that are set for reversion be credited to the Early Education Endowment Fund and the Early Education and Home Visiting Fund. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

The funds in the Early Childhood Education and Home Visitation Fund consist of 50 percent of the amount deposited in the Early Education Endowment Fund at the end of each fiscal year.

The five-year average of reversions by CYFD is $5.2 million. Using the five-year average of reversions, the funds would accrue approximately $2.6 million each year from CYFD reversions. For comparison, the FY15 general fund appropriation to the Early Childhood Services Program is $60.6 million.

SIGNIFICANT ISSUES

Early education in New Mexico includes an array of early learning programs and services in order to meet the developmental needs of infants, toddlers and preschool children, birth to age five. The array of early learning programs include: home visiting, child care, and prekindergarten (PreK) managed through CYFD; the Department of Health (DOH) Family Infant Toddler (FIT) Program early intervention, and PreK and Early Childhood Special Education at the Public Education Department. Such an endowment fund for early childhood could be used to fund all early learning programs across the three state agencies.

CYFD will administer the Early Childhood Education and Home Visitation Fund, and the fund is appropriated to CYFD to provide for nonsectarian early childhood education services for children prenatal through five years of age.

Additionally, this bill has no provision made for investing the money held by either the Endowment Fund or the ECEHV Fund. The State Investment Council (SIC) believes this is a significant issue. If the money were invested in the treasurer's Local Government Investment Pool (LGIP), the funds would receive only a minimal return, according to the treasurer's website on January 28, 2015, the LGIP was paying a net daily rate of return of .109 percent and a net 30 day return of .120 percent, which, if compounded monthly, would amount to only a 1.45 percent annual return. By contrast, if the money held by the Endowment Fund would be available for investment for more than 1 year, and CYFD were allowed to enter into a joint powers agreement with the State Investment Council (SIC), pursuant to § 6-8-7(I), to invest the Endowment Fund, then the Endowment Fund could be invested in investment pools expected to earn far more than the LGIP. For example, the SIC reports the US Large Cap Index Pool, one of the investment pools that the SIC makes available for other state agencies to invest in, had an annual average return of 8.76 percent for the ten years ending December 31, 2014.

The bill's provision for distributing the "investment income" of the Endowment Fund to the ECEHV Fund is inconsistent with current best practices for endowment funds. Specifically, rather than distributing investment income, most endowments today distribute a set percentage of the endowment's net asset value. In this way, the beneficiaries of the endowment benefit from unrealized capital gains as well as investment income, which would be limited to dividends, interest payments, and other realized gains. A reasonable distribution for the Endowment Fund to make annually to the ECEHV Fund might be something like 4 percent of the five year average of the net asset value of the Endowment Fund.

PERFORMANCE IMPLICATIONS

CYFD has performance measures concerning the provision of early childhood and home visiting services.

ADMINISTRATIVE IMPLICATIONS

While it is unclear how much money the funds created by this bill will generate, it is likely that CYFD will require additional FTE in order to adequately administer the Funds, and expend and monitor the monies produced. While the payments will be processed through DFA, CYFD is explicitly prohibited from using Fund monies for secretarial staff, which means any additional FTE monies will come from the general fund.

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