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LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
53rd Legislature, 1st Session, 2017

Bill Number	<u>SB344/SCORCS</u>	Sponsor	<u>SCORC</u>
Tracking Number	<u>.207643.2</u>	Committee Referrals	<u>SEC/SCORC/SFC</u>
Short Title	<u>Income Tax Rates & Pre-K Funding</u>		
Analyst	<u>McCorquodale</u>	Original Date	<u>3/8/17</u>
		Last Updated	<u></u>

BILL SUMMARY

Synopsis of Bill

Senate Corporations and Transportation Committee Substitute for Senate Bill 344 (SB344/SCORCS) creates a new top personal income tax (PIT) bracket with a 6.4 percent marginal tax rate for married individuals who make more than \$125 thousand and who file separately; heads of household, surviving spouses and married individuals who make more than \$250 thousand and file joint returns; and single individuals and estates and trusts with more than \$166,666 of taxable income. The bill also limits a deduction for capital gain income to no more than \$1,000 from the current maximum of \$1,000 or 50 percent of the capital gains included on a federal tax return. The revenues generated pursuant to the changes in the bill would be distributed to the Children, Youth and Families Department's (CYFD) pre-kindergarten fund and the public pre-kindergarten fund to be used for early childhood care and education services provided for prenatal care through third grade. The bill established an effective date of January 1, 2019 to ensure tax revenues are available in FY20.

SB344/SCORCS also repeals an outdated version of Section 7-2-7 NMSA 1978.

FISCAL IMPACT

Prior to FY20, SB344/SCORCS makes no changes to distributions, and all new PIT revenue flows to the general fund. Beginning in FY20, provisions allocate tax revenue as follows:

- In FY20, 0.75 percent of net receipts would be distributed to the CYFD pre-kindergarten fund, 0.75 percent of net receipts to the public prekindergarten fund, 4.5 percent of net receipts to the state equalization guarantee (SEG) distribution; and
- In FY21 and subsequent fiscal years, 1.5 percent of net receipts to the CYFD prekindergarten fund, and 1.5 percent of net receipts to the Public Education Department (PED) prekindergarten fund, and 3 percent of net receipts to the SEG distribution.

The changes in SB344/SCORCS are estimated to generate \$20 million in FY18, \$78.8 million in FY19, \$101.2 million in FY20, and \$104.5 million in FY21. The figures below reflect changes to distributions, including the new distribution to the SEG.

Estimated Revenue (dollars in thousands)

FY18	FY19	FY20	FY21	Recurring or Nonrecurring	Fund Affected
\$20,00.0	\$78.8	\$11.1	\$11.4	Recurring	General Fund
\$0.0	\$0.0	\$11.3	\$23.3	Recurring	Public Prekindergarten Fund
\$0.0	\$0.0	\$11.3	\$23.3	Recurring	CYFD Prekindergarten Fund
\$0.0	\$0.0	\$67.5	\$46.5	Recurring	Public School Fund for SEG Distribution

Source: LFC

The Legislative Finance Committee (LFC) noted that with the new top bracket at 6.4 percent, the withholding tables would be adjusted for January 2018. Thus, the state would receive the full amount of revenue from higher-income wage and salaried taxpayers beginning with FY18. Additionally, the analysis indicated non-salaried or employed higher-income taxpayers affected by the new rate would probably not adjust their estimated payments and the extra amount would likely be paid off as a final settlement in April 2019. These estimates are similar to those calculated by the Tax and Revenue Department (TRD), with the exception that LFC expects a modest amount of revenue collections in FY18 paid through the withholding system on wages and salaries paid.

LFC indicated these impacts have been derived from the December 2016 consensus revenue estimating group update. While the bill provides for continuing appropriations, LFC has concerns with including continuing appropriation language as earmarking could reduce the ability of the Legislature to establish funding priorities.

SUBSTANTIVE ISSUES

In FY17, PED and CYFD received a total of \$53.5 million for prekindergarten programs for half- and full-day programs for 4-year-old children and half-day early prekindergarten programs for 3-year-olds.

For FY17, CYFD and PED budgeted to serve 8,496 4-year-old children in state-funded prekindergarten, including 5,248 children funded to participate in PED-funded programs and 3,248 children funded to participate in CYFD-funded programs. CYFD additionally funded 997 3-year-old children to participate in early prekindergarten programs.

The House Appropriations and Finance Committee substitute for House Bill 2 includes \$53.5 million for FY18 for early childhood learning programs.

A recent LFC gap analysis found enough publically funded slots for 4-year-old students exist to provide nearly all low-income 4-year-olds with some form of early childhood education, though many children currently served are not low-income. An estimated 27 thousand 4-year-olds live in New Mexico and 73 percent are low-income as measured by free or reduced-fee lunch status. Roughly 17,500 slots for 4-year-old early care and education programs are funded annually,

including state funded prekindergarten, four and five star childcare, Head Start, and special education preschool. However, only 80 percent of prekindergarten students are low-income.

As noted in Volume I of the LFC Report for FY18, New Mexico is close to providing sufficient funding to ensure low-income 4-year-olds receive some type of early education when child care assistance, prekindergarten, and Head Start are considered. Possibly as a result of increased access for 4-year-olds to childcare and prekindergarten, enrollment in federally funded Head Start has experienced a significant decline, and New Mexico is losing federal revenues due to a decline in enrollment. The state needs to better coordinate across programs to prevent over-saturation for one age group, while other age groups are under-served. New Mexico could consider shifting more prekindergarten funding to 3-year-olds or encourage Head Start programs to shift more services to Early Head Start.

According to Volume I of the LFC Report for FY18, New Mexico has demonstrated leadership in increased investment in early care and education. Since FY12, the Legislature invested \$100 million in early childhood programs administered by CYFD, the Department of Health (DOH), and PED. CYFD provides child care assistance, home visiting, prekindergarten for 3- and 4-year-olds, early childhood professional development, and high-quality early childhood development centers. In FY17, the Legislature appropriated \$146.8 million to CYFD for these programs. PED provides prekindergarten for 4-year-olds, K-3 Plus, and early literacy (Reads to Lead). In FY17, the Legislature appropriated \$63.2 million to PED for these programs. DOH provides the Infant and Toddler Program for children birth to age 3. In FY17, the Legislature appropriated \$43.7 million to DOH for these programs. Overall, early childhood services received \$259.9 million in FY17, including \$6.2 million from the federal Race to the Top.

OTHER SIGNIFICANT ISSUES

The Pew Charitable Trusts, a nonprofit, nonpartisan organization providing analysis to improve public policy, indicated high-quality prekindergarten increases a child's chances of succeeding in school and in life. The foundation stated children who attend high-quality early learning programs are less likely to be retained, need special education services, and more likely to graduate from high school. Additionally, children who participate in a high-quality prekindergarten program have higher-earning opportunities as an adult and are less likely to become dependent on welfare or be incarcerated.

While New Mexico has significantly heightened its focus on early childhood programs, the state is among the three lowest-ranked states in the Annie E. Casey Foundation's annual *Kids Count Data Book*, which ranks states according to 16 child well-being measures, primarily because of the large number of children in need of services.

LFC indicated early childhood funding has grown by more than 80 percent since FY12. However, improved leadership, coordination, and oversight are needed. LFC noted strategic investments, together with careful attention to implementation and monitoring performance, could improve the social and cognitive skills of children, with benefits extending throughout a child's life.

RELATED BILLS

Early Learning

SB182, Early Childhood Land Grant Act, proposes to create an early childhood land grant permanent fund and the early childhood income fund.

SJR 3, Permanent Funds for Early Childhood, CA, proposes to increase the Land Grant Permanent Fund (LGPF) distribution by 1.5 percent to be used for early childhood education services.

SJR18, Severance Tax Money for Early Childhood, CA, proposes to amend Article 8, Section 10 of the constitution of New Mexico to require an additional 0.8 percent distribution rate for early childhood education and early childhood care programs.

HJR1/aHJC, Permanent Funds for Early Childhood, CA, proposes to increase the LGPF distribution by 1 percent to be used for early childhood education services.

HJR 2, Land Grant Fund for Economic Stimulus, CA, proposes to withdraw \$7 billion from the LGPF to provide economic stimulus programs to include \$1 billion for early childhood services.

Personal Income Tax Act

HB48, Small Business Income Tax Deduction

HB76, Estate or Trust Distribution Tax Deduction

HB117, Supplemental Income Tax

HB169, Income Tax Deductions

HB196, Osteopathic Student Loan Donations

HB201/aHTRC, New Top Income Tax Bracket

HB310, Income & Capital Gains Taxes

HB311, Increase Working Families Tax Credit

SB50, Additional Upper-Tier Tax Brackets

SOURCES OF INFORMATION

- Legislative Education Study Committee Files
- Legislative Finance Committee

CMC/rsg