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LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
53rd Legislature, 2nd Session, 2018

Bill Number SJR7 **Sponsor** Sapien
Tracking Number .209142.1 **Committee Referrals** SRC/SFC
Short Title Severance Tax Fund for Early Childhood, CA
Analyst McCorquodale **Original Date** 2/1/18
Last Updated _____

BILL SUMMARY

Synopsis of Bill

Senate Joint Resolution 7 (SJR7) amends Article VIII, Section 10 of the Constitution of the State of New Mexico to increase distributions from the Severance Tax Permanent Fund (STPF) by 0.8 percent of the average of the year-end market values of the fund for the immediately five calendar years. The increase will be made to the general fund dedicated to early childhood education and care programs as provided by law.

The constitutional amendment requires approval of voters in either a general or special 2018 statewide election.

FISCAL IMPACT

Senate joint resolutions do not carry appropriations.

SJR7 would amend Article VIII, Section 10 of the Constitution of the State of New Mexico to increase annual distributions for purposes of implementing early childhood education and care programs provided by the state. The joint resolution proposes a 0.8 percent additional distribution of the average of the year-end market values of the STPF for the immediately preceding five calendar years. Based on Table 1, the State Investment Council (SIC) estimates STPF distributions will increase 5 percent between FY20 and FY21.

Table 1
STPF Estimated Revenue

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY20	FY21	FY22		
(\$38,834.00)	(\$39,769.00)	(\$40,766.00)	Recurring	STPF
\$38,834.00	\$39,769.00	\$40,766.00	Recurring	General Fund

Parenthesis () indicate expenditure decreases.

Source: SIC

The SIC state projections are based on the December 31, 2017 value of the STPF of \$5.1 billion; investment returns of the SIC’s targeted 6.75 percent (6.55 percent net); and contributions of \$33 million per year, which is the annualized average over the past 15 years.

If SJR7 is approved by voters, a projected \$448 million in additional distributions would be delivered to the state over the next 12 years. A STPF value of \$5.3 billion is projected for the end of 2018; the average year-end fund balances of 2014 through 2018 will determine the distribution for FY20. Table 2 demonstrates the increased distribution will result in slower growth of the STPF. After 12 years, the fund will be \$627 million less than it would be with a 4.7 percent distribution rate. The SIC explained a reduction in the value of the corpus will result in a diminished capacity to participate in positive investment return environments.

Table 2
STPF End Year Values and Projections

Corresponding Fiscal Year	STPF Value Current (4.7%) in billions	STPF Distribution at 4.7%	STPF Value with SJR7 (5.5%) in billions	STPF Distribution at 5.5%
2020	\$ 5.3	\$ 228,149,358.0	\$ 5.3	\$ 266,983,291.0
2021	\$ 5.4	\$ 234,898,441.0	\$ 5.4	\$ 274,667,567.0
2022	\$ 5.6	\$ 244,630,898.0	\$ 5.5	\$ 285,396,719.0
2023	\$ 5.7	\$ 254,572,291.0	\$ 5.6	\$ 295,884,206.0
2024	\$ 5.9	\$ 261,886,490.0	\$ 5.7	\$ 302,770,822.0
2025	\$ 6.0	\$ 269,278,108.0	\$ 5.8	\$ 309,186,404.0
2026	\$ 6.2	\$ 276,766,627.0	\$ 6.0	\$ 315,338,267.0
2027	\$ 6.4	\$ 284,355,558.0	\$ 6.1	\$ 321,437,272.0
2028	\$ 6.5	\$ 292,058,078.0	\$ 6.2	\$ 327,513,850.0
2029	\$ 6.7	\$ 299,902,223.0	\$ 6.3	\$ 333,616,257.0
2030	\$ 6.9	\$ 307,905,303.0	\$ 6.4	\$ 339,774,759.0
2031	\$ 7.1	\$ 316,072,363.0	\$ 6.5	\$ 345,998,758.0

Source: SIC

Currently, 4.7 percent of the STPF five-year average is annually distributed to the general fund. In FY18, STPF distributions to the general fund will be about \$210 million. STPF general fund distributions are not ear-marked. STPF was established in 1973 and is required by law to serve as an endowment fund of the state and is funded by income from non-renewable resources.

Section 1-16-13 NMSA 1978 requires the Secretary of State (SOS) to print the full text of each proposed constitutional amendment, in Spanish and English, in an amount equal to 10 percent of the registered voters in the state. The SOS is also constitutionally required to publish the full text of each proposed constitutional amendment once a week for four weeks preceding the election in newspapers in every county in the state. SOS staff estimate each constitutional amendment may cost up to \$19 thousand in printing and advertising costs based on 2016 actual expenditures.

SUBSTANTIVE ISSUES

SIC indicates the STPF has seen challenges over the past couple of decades. Before 1990, the STPF was able to grow, due to strong investment returns and significant inflows delivered annually from the Severance Tax Bonding Fund, with approximately 50 percent of the state’s severance taxes being used for bonding, and the other half saved for the STPF. However, in the late 1990s,

the percentages the state saved to the STPF changed due to some legislative actions, ultimately resulting in a baseline of only 5 percent of the state's severance taxes being saved to the STPF, with 95 percent spent on bonding for capital projects.

In 2015, lawmakers took action by passing HB236, which adjusted the spend and save percentage of severance tax revenues because of concerns over the dramatic restructuring of the funding streams and the associated impact on the long-term viability of the STPF. HB236 changed the severance tax revenues from the 95 to 5 ratio, to a gradual implementation of a new formula that targets saving almost 14 percent of the state's severance tax collections to the STPF by FY22. SIC notes while there is an expectation that the gradual change will eventually help put the STPF on a stronger path long-term, its full implementation is seven years away. It is unclear at this time whether the efforts of HB236 will ensure growth.

State Funding for Early Childhood Education. The Legislature has increased funding for early childhood education services by \$133 million since FY12. New Mexico's early childhood education and care system begins prenatally and extends through age 8. These programs include child care for families; Early Head Start and Head Start; prekindergarten; Family, Infants, and Toddlers (FIT); home visiting for new families; and Women, Infants, and Children (WIC).

According to Volume I of the Legislative Finance Committee (LFC) Report for FY19, New Mexico has demonstrated leadership in increased investment in early care and education. However, the system is not large enough to provide universal services. LFC estimates total statewide funding needed for all early childhood educational services is approximately \$190 million. However, improved leadership, coordination, and oversight are needed. LFC noted additional funding should be targeted to both serve more clients and improve quality.

Early Childhood Issues. The Pew Charitable Trusts, a nonprofit, nonpartisan organization providing analyses 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 adults 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 one of the 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. Ranked 49th in 2017, New Mexico is challenged more than most states by the consequences of poverty on its children.

Children who experience toxic stress – whether it is the result of poverty, instability, abuse or neglect, or other adverse childhood experiences – can experience impaired brain development, especially in the areas of the brain dedicated to higher-order skills. High-quality early childhood education can reduce the toxic developmental effects of poverty and childhood trauma by providing children with rich social experiences needed to succeed in school.

The National Conference of State Legislatures' international study found that successful school systems had strong programs for early childhood, with extra support for struggling students. According to the Center on International Education Benchmarking (CIEB), a program of the National Center on Education and the Economy (NCEE) that conducts research on the world's most successful education systems there were many commonalities in early childhood education

and care programs and services in high-performing countries. Low-income families have subsidized care for infants. Most have ongoing publicly funded parent support, with a special focus on disadvantaged and immigrant families. They all provide social and health services for all families. They all have prekindergarten programs, many free and universal. Finally, most offer subsidized training and education for those working with young children. The early childhood education workforce in these high-performing countries require a bachelor's degree and in some cases, a master's degree in early childhood education. Assistants who work with these teachers are required to have certification in early childhood development.

LFC's 2017 Early Childhood Accountability Report indicates prekindergarten programs have a positive impact on student literacy. Third-grade reading and math scores on the Partnership for Assessment of Readiness for College and Careers (PARCC) assessment were higher for students who participated in prekindergarten than their peers who did not. LFC found the effect persisted through fifth grade. Additionally, LFC found the achievement gap was nearly eliminated by kindergarten for low-income students who participated in prekindergarten and K-3 Plus, an extended school year program for students in kindergarten through third grade compared with students who did not participate.

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TECHNICAL ISSUES

Unlike previous constitutional amendments to the state's permanent funds, SJR7 does not include any safeguards to suspend the additional distribution should the fund's balance drop below a specific value, or through a two-thirds vote by the Legislature. SIC notes if the market significantly drops in value, such a "safety valve" could be critical in protecting the corpus from additional damage at its most stressful time.

ALTERNATIVES

Established in 2006, the Nebraska Early Childhood Education Endowment Fund, also known as Sixpence, is a public and private venture with the Nebraska Department of Education providing \$40 million from the Nebraska Permanent School Fund and another \$20 million from private donations. The \$40 million from the permanent school fund remains in the cash reserve fund for purposes of investment and the accrued interest is distributed to help fund early childhood educational services. The programs are administered through the Nebraska Children and Families Foundation.

Created in 1992, Georgia Lottery proceeds are used to fund specific education programs that comprise tuition grants, scholarships, or loans to undergraduate college students for attendance at eligible Georgia colleges, universities, or technical colleges; the Georgia Pre-kindergarten Program for all four year olds; and capital outlay projects for schools, universities, colleges, and technical schools in the state.

RELATED BILLS

HJR1, Land Grant Fund Distributions, CA, seeks an additional percent annual LGPF distributions for education and early childhood educational services.

HJR2, Land Grant Fund for Public Safety, CA, seeks an additional 0.5 percent annual LGPF distributions for public safety.

HJR3, Severance Tax Fund for Public Safety, CA, seeks an additional 0.5 percent annual STPF distribution.

SJR2, Land Grant Funds for Education, CA, seeks to increase LGPF distributions by 1.5 percent for education.

SOURCES OF INFORMATION

- LESC Files
- Legislative Finance Committee
- State Investment Council

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