

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:** 2.15.25 *Check all that apply:*  
**Bill Number:** H7-341 Original  Correction   
 Amendment  Substitute

**Sponsor:** Rep. Serrato **Agency Name**  
Rep. Martinez **and Code** DFA-341  
**Short Title:** CHILDREN'S FUTURE ACT **Number:** \_\_\_\_\_  
& FUND **Person Writing** Delgado L.  
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**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
	\$5,000	NR	General Fund

(Parenthesis ( ) indicate expenditure decreases)

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		

(Parenthesis ( ) indicate revenue decreases)

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>						

(Parenthesis ( ) Indicate Expenditure Decreases)

## **SECTION III: NARRATIVE**

### **BILL SUMMARY**

HB7 aims to establish a funding mechanism aimed at providing financial support for New Mexico children born after January 1, 2025. It creates the Children's Future Fund (CFF) which is to be managed by the State Investment Council (SIC) in consultation with the Department of Finance and Administration (DFA). The bill also outlines provisions for its management, investment, and administration. It does this via the creation of the Children's Future Act (CFA) and the Children's Future Task Force.

HB 7 also establishes the Children's Future Task Force to study and provide recommendations on the optimal design and administration of the Children's Future Act. The task force will operate from the date of its appointment until December 31, 2025, with staff and administrative support provided by the State Investment Council. It will consist of representatives from various state agencies.

The task force is responsible for researching and producing a report with advice and recommendations on implementation of the CFA, including:

1. The optimal design and administration of the program to implement the provisions of the Children's Future Act.
2. A financial plan for funding and implementing the act within five years of its effective date, including data on the effectiveness of baby bonds.
3. Eligibility requirements for beneficiaries to access funds from the Children's Future Fund.
4. Processes for determining eligibility, including potential certification mechanisms across multiple state agencies.
5. The application process and timelines for eligible beneficiaries to request funds.
6. Mechanisms for transferring and expending funds on behalf of beneficiaries.
7. The creation and administration of investment and retirement accounts.
8. Conditions and limitations on the use of funds for investment accounts.
9. Identification of third parties that may assist in administering the program.
10. Measures to ensure fairness and equity for designated beneficiaries born in different years, considering varying investment income levels from the Children's Future Fund.
11. Decisions regarding investment risk and asset allocation for the Children's Future Fund.
12. Any other matters determined by the task force.

By December 31, 2025, the task force will submit its findings, recommendations, and any proposed legislation to the governor and the legislature.

The bill also appropriates \$5 million from the general fund for the CFF's initial implementation in fiscal year 2026.

The CFF is established as a non-reverting fund in the state treasury. Its purpose is to assist beneficiaries who graduate from a New Mexico high school in pursuing education, housing, entrepreneurship, retirement, and investment opportunities within the state. The bill also defines a beneficiary as a person born in New Mexico on or after January 1, 2025, whose primary residence is in and remains in New Mexico. The act does not guarantee financial benefits or create enforceable property interests for beneficiaries. The fund consists of distributions, transfers, appropriations, gifts, grants, donations, and income from investments. Money in the fund shall be

expended solely as provided in the CFA.

In accordance with the prudent investor rule outlined in the Uniform Prudent Investor Act and in consultation with the Secretary of the DFA or their designee, money in the Children's Future Fund shall be invested as follows:

1. Two-thirds of any transfer, distribution, appropriation, gift, grant, or donation shall be invested by the State Investment Officer for 18 years. After this period, the principal and its investment income shall be transferred to and managed by the State Treasurer.
2. One-third of any transfer, distribution, appropriation, gift, grant, or donation shall be invested by the State Investment Officer.

The money in the CFF is appropriated to the DFA for the purposes outlined in the CFA. The DFA shall administer the fund, and expenditures shall be issued by warrant of the Secretary of DFA, based on vouchers signed by the secretary or their authorized representative.

Additionally, the DFA may allocate no more than three percent of the fund's balance at the end of each fiscal year to cover administrative costs associated with implementing the Children's Future Act.

Lastly, HB7 dictates that any money transferred to or spent on behalf of a beneficiary pursuant to the Children's Future Act is exempt from state income taxation.

## **FISCAL IMPLICATIONS**

HB 7 appropriates \$5 million from the general fund for the initial implementation of the Children's Future Fund (CFF) in fiscal year 2026, representing a direct cost to the general fund. However, the bill does not identify additional revenue sources for the CFF. Without a designated inflow of funds, the CFF will primarily grow through potential investment earnings and future legislative appropriations.

Additionally, while the bill establishes the Children's Future Fund (CFF), it does not create a corresponding program fund to manage and distribute benefits to beneficiaries. A successful example of a trust fund and program fund structure in New Mexico is the Early Childhood Education and Care Fund and its corresponding program fund. In this model, the trust fund serves as a long-term financial vehicle, managed through an investment strategy with periodic distributions to the program fund, which covers program-related expenses. This separation allows the trust fund to focus on long-term investment growth while ensuring that the program fund is dedicated to fulfilling program objectives and covering operational costs. DFA strongly recommends structuring the CFF using a trust fund and separate program fund model similar to existing successful frameworks.

Without additional revenue inflows, the CFF remains relatively small in scale compared to its intended goal. The table on the next page illustrates the projected growth of the CFF, assuming a 5% annual rate of return and a 3% annual administrative fee. Under these assumptions, the initial endowment is estimated to grow to \$7.2 million over 18 years.

When adjusted for inflation, the estimated future value (FV) of the \$7.2 million fund balance in FY2043 has a present value (PV) of \$4.7 million in FY2025. \*

<b>Children's Future Fund</b>				
<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Assumed 5% Gains</b>	<b>3% Admin Fee</b>	<b>Ending Balance</b>
FY25				
FY26	\$ 5,000,000	\$ 125,000		\$ 5,125,000
FY27	\$ 5,125,000	\$ 256,250	\$ (153,750)	\$ 5,227,500
FY28	\$ 5,227,500	\$ 261,375	\$ (156,825)	\$ 5,332,050
FY29	\$ 5,332,050	\$ 266,603	\$ (159,962)	\$ 5,438,691
FY30	\$ 5,438,691	\$ 271,935	\$ (163,161)	\$ 5,547,465
FY31	\$ 5,547,465	\$ 277,373	\$ (166,424)	\$ 5,658,414
FY32	\$ 5,658,414	\$ 282,921	\$ (169,752)	\$ 5,771,582
FY33	\$ 5,771,582	\$ 288,579	\$ (173,147)	\$ 5,887,014
FY34	\$ 5,887,014	\$ 294,351	\$ (176,610)	\$ 6,004,754
FY35	\$ 6,004,754	\$ 300,238	\$ (180,143)	\$ 6,124,849
FY36	\$ 6,124,849	\$ 306,242	\$ (183,745)	\$ 6,247,346
FY37	\$ 6,247,346	\$ 312,367	\$ (187,420)	\$ 6,372,293
FY38	\$ 6,372,293	\$ 318,615	\$ (191,169)	\$ 6,499,739
FY39	\$ 6,499,739	\$ 324,987	\$ (194,992)	\$ 6,629,734
FY40	\$ 6,629,734	\$ 331,487	\$ (198,892)	\$ 6,762,329
FY41	\$ 6,762,329	\$ 338,116	\$ (202,870)	\$ 6,897,575
FY42	\$ 6,897,575	\$ 344,879	\$ (206,927)	\$ 7,035,527
FY43	\$ 7,035,527	\$ 351,776	\$ (211,066)	\$ 7,176,237

\*Present Value Formula: Present Value =  $FV / (1+r_{\text{real}})^n$  and  $r_{\text{real}} = (1+r_{\text{nominal}}) / (1+\text{inflation rate}) - 1$

Where:

PV = Present Value

FV = Future Value

$r_{\text{real}}$  = Real rate of return (adjusted for inflation)

$r_{\text{nominal}}$  = Nominal rate of return

inflation rate = Expected inflation rate

n = Number of periods

According to the Urban Institute, baby bonds are designed to reduce wealth inequality. The estimated balance and earnings of the CFF would provide modest benefits to approximately 21,385 individuals born in New Mexico in 2025, who will turn 18 in 2043 (Moody's Analytics), assuming benefits are distributed at that age. To expand the CFF to a larger scale, additional appropriations or dedicated revenue inflows would be necessary.

## **SIGNIFICANT ISSUES**

HB 7's Children's Future Task Force is responsible for developing a financial plan to fund and implement the Children's Future Act. The scale and effectiveness of the Children's Future Fund will depend on the task force securing a substantial inflow of funds beyond what is currently proposed.

## **PERFORMANCE IMPLICATIONS**

The bill requires the task force to produce a comprehensive report, including policy and procedural recommendations for the Children's Future Act, within the six-month period from July 2025 to December 31, 2025. However, this timeline may be insufficient for the task force to fully develop a detailed and thorough report as required.

## **ADMINISTRATIVE IMPLICATIONS**

DFA would need to expand its staff capacity to implement the task force's recommendations, requiring the hiring of additional personnel. Additionally, DFA has concerns regarding the future design of the CFF program, eligibility verification, and administrative costs. The task force must establish a system for identifying and verifying beneficiary eligibility, as DFA lacks access to relevant state population data and does not have a system in place for confirming eligibility requirements.

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

## **TECHNICAL ISSUES**

## **OTHER SUBSTANTIVE ISSUES**

## **ALTERNATIVES**

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

## **AMENDMENTS**