

LFC Requester: _____

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

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(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

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

Date Prepared: 2.17.25 *Check all that apply:*
Bill Number: S397-341 Original Correction
 Amendment Substitute

Sponsor: Sen. Maestas **Agency Name**
Sen. Jaramillo **and Code** DFA-341
Short NEW MEXICO NEXT **Number:** _____
Title: GENERATION ACT **Person Writing** Delgado L.
Phone: _____ **Email** leonardo.delgado@dfa.nm.gov

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
	\$500,000	NR	GF

(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
Total						

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Senate Bill 397, titled the "New Mexico Next Generation Act," seeks to establish a financial framework to support individuals born in New Mexico after July 1, 2025, by providing funds for educational and housing needs. The legislation creates two primary funds: the Next Generation Trust Fund and the Baby Bonds Fund.

The Next Generation Trust Fund serves as a long-term financial vehicle, managed through an investment strategy with periodic distributions to the Baby Bonds Fund, which covers program-related expenses. The bill stipulates that the State Investment Council (SIC) will oversee investments for the Next Generation Trust Fund, while the Department of Finance and Administration (DFA) will administer the Baby Bonds Fund.

The bill appropriates \$500 million from the general fund in FY26 for the establishment of the Next Generation Trust Fund. Additionally, it allocates \$100,000 for administrative expenses related to implementing the act.

The bill stipulates that the Next Generation Trust Fund will make an annual distribution to the Baby Bonds Fund beginning on July 1, 2043, and continuing thereafter. The Department of Finance and Administration (DFA), in consultation with the State Investment Council (SIC), will determine the distribution amount.

Additionally, the bill requires that by May 1, 2043, DFA, in consultation with the Department of Health and the Children, Youth, and Families Department (CYFD), project the amount of eligible expenditures for the upcoming fiscal year.

The bill also mandates that by July 1, 2025, the Vital Records and Health Statistics Bureau of the Department of Health and CYFD enter into an agreement with DFA to provide any necessary information to verify the identity and number of beneficiaries eligible for assistance under the New Mexico Next Generation Act.

DFA is responsible for establishing rules for determining beneficiary status, defining eligible expenditures, and tracking available benefits.

Lastly, SB397 specifies that any funds expended on behalf of a beneficiary under the New Mexico Next Generation Act will be exempt from state income taxation.

Key highlights by section:

Section 2: Definitions

- Beneficiary: Individuals born in New Mexico after July 1, 2025, with specific residency conditions.

- Educational Expenses: Costs related to tuition, housing, school supplies, and vocational training.
- Eligible Expenditure: Funds spent for educational purposes or down payments on homes in compliance with state laws.
- Parent: Refers to biological or adoptive parents with intact parental rights.

Section 3: Program Eligibility and Claims

- Eligibility: Beneficiaries aged 18-40 who complete a financial literacy course can submit claims for eligible expenditures.
- Claims Process: Claims to be made using prescribed forms to the Department of Finance and Administration.

Section 4: Next Generation Trust Fund

- Creation: Establishes a non-reverting fund to generate resources for the Baby Bonds Fund.
- Management: The fund shall be managed per the Uniform Prudent Investor Act by the state investment officer, in consultation with the state treasurer.
- Distribution: Annual distributions to the Baby Bonds Fund based on the number of beneficiaries and projections.

Section 5: Baby Bonds Fund

- Purpose: Provides resources for educational and housing assistance for beneficiaries, supporting state economic development.
- Funds Management: The Department of Finance and Administration administers the fund and makes eligible expenditures.

Section 6: Information Sharing

- Collaboration: The Department of Health and the Children, Youth and Families Department must share necessary information with the Department of Finance and Administration to confirm beneficiary eligibility.

Section 7: Rulemaking

- Regulations: The Department of Finance and Administration is tasked with creating rules for determining beneficiary status and eligible expenditures, and tracking benefits available.

Section 8: No Guaranteed Benefits

- Disclaimer: The act does not guarantee benefits nor create enforceable property interests under state law.

Section 9: Eligibility for Need-Based Assistance

- Funding Provisions: Guidelines for how funds affect eligibility for other need-based assistance, aligning with federal law.

Section 10: Information Sharing Provisions

- Children's Code Compliance: Ensures information sharing regarding beneficiaries does not conflict with existing laws.

Section 11: Appropriations

- Funding:

- \$500 million allocated to the Next Generation Trust Fund.
- \$100,000 allocated for the administration of the act.

Section 12: Effective Date

- Implementation: The provisions of the act will become effective on July 1, 2025.

FISCAL IMPLICATIONS

SB397 appropriates \$500 million from the general fund for the initial implementation of the Next Generation Trust Fund (NGTF) in fiscal year 2026, representing a direct significant cost to the state. However, the bill does not identify additional revenue sources for the NGTF. Without a designated inflow of funds, the NGTF will rely primarily on investment earnings and potential future legislative appropriations for growth.

The NGTF is designed as a long-term financial vehicle, managed through an investment strategy with periodic distributions to the Baby Bonds Fund, which will cover program-related expenses. This structure follows a successful model already in place in New Mexico, such as the Early Childhood Education and Care Fund and its corresponding program fund. This separation allows the trust fund to focus on long-term investment growth, while ensuring the program fund remains dedicated to fulfilling program objectives and covering operational costs.

This analysis estimates the potential growth of the NGTF through FY44, the first year it is scheduled to make a distribution to the Baby Bonds Fund. The assumed rate of return is set at 5.2%—aligned with the State Investment Council’s (SIC) target rate of return for the Tax Stabilization Reserve (TSR) through the end of calendar year 2029. Beginning in calendar year 2030, the assumed rate of return increases to 6.67%, reflecting SIC’s more aggressive target rate for the Early Childhood Trust Fund.

Using these assumptions, the table below projects the fund’s potential growth, reaching \$1.57 billion by 2043, assuming no distributions are made from the NGTF. Additionally, this analysis does not account for any future revenue inflows beyond the initial appropriation.

Next Generation Trust Fund								
	Beginning	Gains &	Distribution to	Inflow of additional	Ending			
CY	Balance	Losses	Baby Bond Fund	Revenues	Balance (\$ in millions)	FY	Baby Bond Fund	
CY25	\$ 500.0	\$ 13.0	\$ -	\$ -	\$ 513.0			
1 CY26	\$ 513.0	\$ 26.7	\$ -	\$ -	\$ 539.7	FY25	\$ -	
2 CY27	\$ 539.7	\$ 28.1	\$ -	\$ -	\$ 567.7	FY26	\$ -	
3 CY28	\$ 567.7	\$ 29.5	\$ -	\$ -	\$ 597.3	FY27	\$ -	
4 CY29	\$ 597.3	\$ 31.1	\$ -	\$ -	\$ 628.3	FY28	\$ -	
5 CY30	\$ 628.3	\$ 42.5	\$ -	\$ -	\$ 670.9	FY29	\$ -	
6 CY31	\$ 670.9	\$ 45.4	\$ -	\$ -	\$ 716.3	FY30	\$ -	
7 CY32	\$ 716.3	\$ 48.5	\$ -	\$ -	\$ 764.8	FY31	\$ -	
8 CY33	\$ 764.8	\$ 51.8	\$ -	\$ -	\$ 816.5	FY32	\$ -	
9 CY34	\$ 816.5	\$ 55.3	\$ -	\$ -	\$ 871.8	FY33	\$ -	
10 CY35	\$ 871.8	\$ 59.0	\$ -	\$ -	\$ 930.8	FY34	\$ -	
11 CY36	\$ 930.8	\$ 63.0	\$ -	\$ -	\$ 993.9	FY35	\$ -	
12 CY37	\$ 993.9	\$ 67.3	\$ -	\$ -	\$ 1,061.1	FY36	\$ -	
13 CY38	\$ 1,061.1	\$ 71.8	\$ -	\$ -	\$ 1,133.0	FY37	\$ -	
14 CY39	\$ 1,133.0	\$ 76.7	\$ -	\$ -	\$ 1,209.7	FY38	\$ -	
15 CY40	\$ 1,209.7	\$ 81.9	\$ -	\$ -	\$ 1,291.6	FY39	\$ -	
16 CY41	\$ 1,291.6	\$ 87.4	\$ -	\$ -	\$ 1,379.0	FY40	\$ -	
17 CY42	\$ 1,379.0	\$ 93.4	\$ -	\$ -	\$ 1,472.4	FY41	\$ -	
18 CY43	\$ 1,472.4	\$ 99.7	First Distribution	\$ -	\$ 1,572.1	FY42	\$ -	
						FY43	\$ -	
						FY44	First Distribution	

Note: Assumes 5.2% rate of return through CY29. Beginning in CY30 assumed rate of return is increased to 6.77%. Consistent with SICs expected "growth mode" rate of return for the Early Childhoods Trust Fund.

However, as with all investment assumptions, those provided here will almost certainly be wrong and no analysis has been provided, which accounts for a significant downside investment scenario such as the 2007/2008 Great Recession. The bill distributes its first distribution to the Baby Bond Fund on July 1, 2043 or in FY44. The current proposal does not outline a formula for distribution but rather tasks DFA to determine this calculation in consultation with SIC.

Because the bill does not stipulate benefits, a present value analysis of future benefits cannot be made. This analysis calculates the present value of the fund's estimated future balance in CY2043.

When adjusted for inflation, the estimated future value (FV) of the \$1.57 billion fund balance in CY2043 has a present value (PV) of \$956 million in CY2025. *

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

Where:

PV = Present Value

FV = Future Value

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

$r_{nominal}$ = 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, however, scant evidence suggests that they will accomplish that goal. The estimated distributions of the NGTF to the Baby Bond Fund may provide very 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. However, it would also result in more than a billion dollars in stranded capital that would be tied up for decades. That capital would be better used now, to make investments that would improve the lives of all New Mexicans. To expand the NGTF to a larger scale, additional appropriations or dedicated revenue inflows would be necessary.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

SB397, specifically Sections 4, 5, 6, and 7, assigns several key responsibilities to the DFA:

- Determining distributions: In consultation with the State Investment Council (SIC), DFA must determine the distribution from the Next Generation Trust Fund to the Baby Bonds Fund based on the projected number of beneficiaries.
- Administering the Baby Bonds Fund: DFA is responsible for managing the Baby Bonds Fund and ensuring eligible expenditures are made.
- Coordinating with other agencies: The Department of Health (DOH) and the Children, Youth, and Families Department (CYFD) must share relevant information with DFA to confirm beneficiary eligibility.
- Establishing program rules: DFA is tasked with creating rules and procedures for determining beneficiary status, identifying eligible expenditures, and tracking available benefits.

This proposal presents significant operational and administrative challenges. DFA has concerns about the program's scale, eligibility verification, and administrative costs. A system for identifying and verifying beneficiary eligibility must be developed and implemented. Currently, DFA lacks access to relevant state population data, and statistics, and does not have an existing system to confirm eligibility requirements. To effectively implement this proposal and achieve the bill's goals, DFA would need to expand its staff capacity, requiring dozens of additional personnel and millions of dollars in additional resources for program administration.

SB397 allocates only \$100,000 in FY26 to DFA for administering the NM Next Generation Act. This amount is grossly insufficient. Given the scope and complexity of this proposal, DFA recommends allocating 5% of the fund balance at the end of each fiscal year to cover administrative and operational costs associated with implementing the NM Next Generation Act.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB397 conflicts with HB7 which creates a similar fund.

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If SB397 is not enacted, the Next Generation Trust Fund and the Baby Bond Fund will not be created, and the \$500 million appropriation will not be allocated from the general fund.

AMENDMENTS