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FISCAL IMPACT REPORT

SPONSOR <u>Padilla</u>	LAST UPDATED <u>2/25/25</u>
	ORIGINAL DATE <u>2/7/25</u>
SHORT TITLE <u>Early Childhood Trust Fund</u>	BILL NUMBER <u>Senate Bill 167/aSRC</u>
	ANALYST <u>Klundt</u>

APPROPRIATION* (dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
	\$210,000.0	Recurring	Early Childhood Education and Care Fund

Parentheses () indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
HCA		\$22,900.0 to \$28,500.0	\$22,900.0 to \$28,500.0	\$45,800.0 to \$57,000.0	Recurring	General Fund

Parentheses () indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to Senate Joint Resolution 6

Sources of Information

LFC Files

Agency Analysis Received From
Early Childhood Education and Care Department (ECECD)
State Investment Council (SIC)

SUMMARY

Synopsis of SRC Amendment to Senate Bill 167

The Senate Rules Committee amendment to Senate Bill 167 (SB167) inserts “and the expenses of administering those programs and services,” allowing the early childhood program fund to disburse funds for administrative costs.

Synopsis of Senate Bill 167

Senate Bill 167 (SB167) proposes updates to the statutes governing the early childhood education and care fund upon the ratification of the constitutional amendment introduced by

Senate Joint Resolution 6 (SJR6). The proposed changes include:

- Increasing the annual distribution from the fund from \$250 million to \$500 million,
- Renaming the fund to the early childhood trust fund,
- Requiring consultation with the Early Childhood Education and Care Department (ECECD) for investments into the fund,
- Clarifying that, under the constitutional amendment proposed by Senate Joint Resolution 6 (SJR6), the fund may only be used for “prenatal programs and services and for early childhood programs and services for children until they are eligible for kindergarten.”

FISCAL IMPLICATIONS

SB167 limits eligible appropriation for the early childhood trust fund to “prenatal programs and services and for early childhood programs and services for children until they are eligible for kindergarten.” This limiting language would result in appropriations from the fund for Medicaid authorized by previous Legislatures to be ineligible for these revenues. LFC estimates this would result in an estimated \$22.9 million to \$57 million in trust fund revenue that would need to be replaced by general fund revenues.

Additionally, the bill diverts or “earmarks” revenue, representing a recurring loss from the general fund. LFC has concerns with including continuing distribution language in the statutory provisions for funds because earmarking reduces the ability of the Legislature to establish spending priorities.

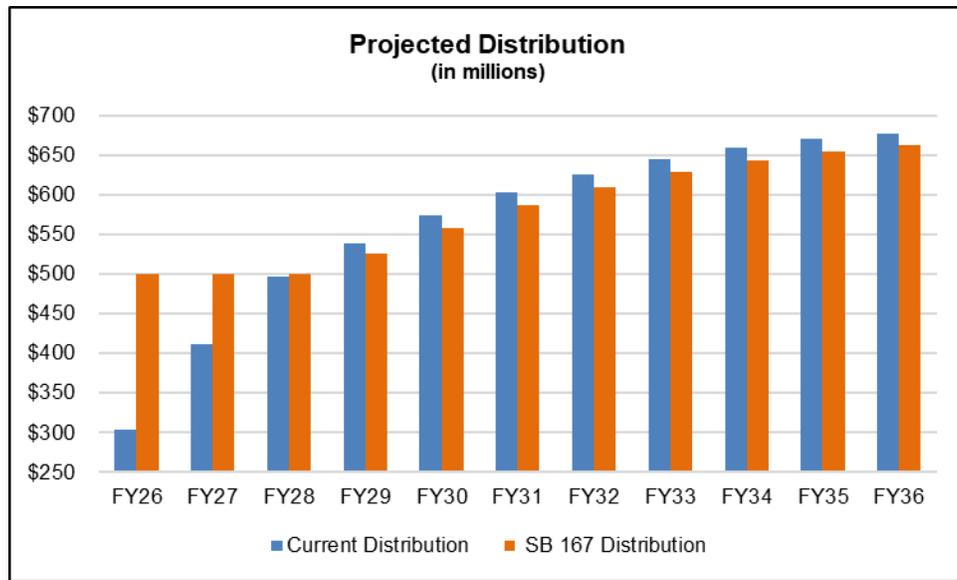
SIC reports the balance in the early childhood education and care fund, which would be transferred to the to-be-created early childhood trust fund, was \$9.015 billion as of December 31, 2024. The ECTF would also receive all the same recurring revenue sources currently received by the ECECF:

1. Oil and gas emergency school tax revenues in excess of the five-year annual average receipts of these funds,
2. Federal mineral leasing revenue in excess of the five-year annual average receipts of these funds.

From SIC:

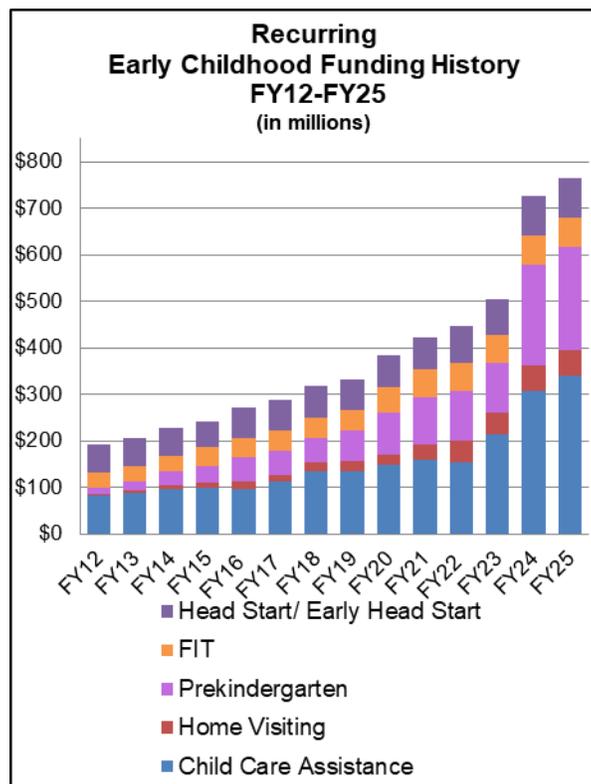
Based on current law, the ECECF annually distributes the greater of \$250 million or 5 percent of the prior three-year average market value. Without any changes, the FY26 distribution from the trust fund would be \$303.3 million. Using consensus revenue estimate assumptions for inflows and returns, the ECECF would distribute an estimated \$410.9 million to the program fund in FY27, and distributions could begin to exceed \$500 million a year in FY28 or FY29.

SB167 (and SJR6) increases the minimum required annual distribution from the ECECF/ECTF from \$250 million to \$500 million, which would effectively “speed up” the timing for the trust fund to begin making distributions of this size or greater.



Source: SIC

The fiscal impact is an additional \$196.7 million from the corpus of the trust fund to the program fund in FY26, and an estimated additional \$89.1 million from the corpus of the trust fund to the program fund in FY27.



Source: LFC Files and ECECD

SIGNIFICANT ISSUES

ECECD reports the department would use the additional revenue proposed under this bill to expand services, which could include prekindergarten, childcare assistance, and home visiting.

The SIC table below shows the long-term estimated impact of this “speed up” to the corpus of trust fund and the size of the distributions to the program fund using a 5 percent long-term annual return assumption, consistent with the assumptions of the Consensus Revenue Estimating Group (CREG), which consists of economist from the Legislative Finance Committee and executive branch.

Using a 5 percent return assumption results in a “flattening” of the long-term fiscal impact because the interest earnings on the trust fund corpus is assumed to be equal to the 5 percent distribution rate to the program fund.

5% Long Term Return Assumption (Consensus Revenue Estimate)

Trust Fund Market Value				Distributions to Program Fund			
Calendar Year	Current	Proposed	Difference	Fiscal year	Current	Proposed	Difference
2020	\$ 306.1	\$ 306.1	\$ -	FY20			\$ -
2021	\$ 314.1	\$ 314.1	\$ -	FY21			\$ -
2022	\$ 3,462.0	\$ 3,462.0	\$ -	FY22	\$ 20.0	\$ 20.0	\$ -
2023	\$ 5,721.2	\$ 5,721.2	\$ -	FY23	\$ 30.0	\$ 30.0	\$ -
2024	\$ 9,015.8	\$ 9,015.8	\$ -	FY24	\$ 150.0	\$ 150.0	\$ -
2025	\$ 9,918.0	\$ 9,721.3	\$ (196.7)	FY25	\$ 250.0	\$ 250.0	\$ -
2026	\$ 10,893.8	\$ 10,598.2	\$ (295.6)	FY26	\$ 303.3	\$ 500.0	\$ 196.7
2027	\$ 11,529.0	\$ 11,215.8	\$ (313.3)	FY27	\$ 410.9	\$ 500.0	\$ 89.1
2028	\$ 12,022.9	\$ 11,707.4	\$ (315.5)	FY28	\$ 497.1	\$ 500.0	\$ 2.9
2029	\$ 12,603.0	\$ 12,287.1	\$ (315.9)	FY29	\$ 539.0	\$ 525.6	\$ (13.4)
2030	\$ 12,920.4	\$ 12,604.5	\$ (315.9)	FY30	\$ 574.1	\$ 558.7	\$ (15.4)
2031	\$ 13,199.2	\$ 12,883.3	\$ (315.9)	FY31	\$ 602.6	\$ 586.8	\$ (15.7)
2032	\$ 13,432.7	\$ 13,116.8	\$ (315.9)	FY32	\$ 625.8	\$ 610.0	\$ (15.8)
2033	\$ 13,580.5	\$ 13,264.6	\$ (315.9)	FY33	\$ 645.4	\$ 629.6	\$ (15.8)
2034	\$ 13,648.2	\$ 13,332.2	\$ (315.9)	FY34	\$ 659.2	\$ 643.4	\$ (15.8)
2035	\$ 13,668.5	\$ 13,352.5	\$ (315.9)	FY35	\$ 670.2	\$ 654.4	\$ (15.8)
2036	\$ 13,670.3	\$ 13,354.4	\$ (315.9)	FY36	\$ 677.7	\$ 661.9	\$ (15.8)
2037	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY37	\$ 681.6	\$ 665.8	\$ (15.8)
2038	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY38	\$ 683.1	\$ 667.3	\$ (15.8)
2039	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY39	\$ 683.5	\$ 667.7	\$ (15.8)
2040	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY40	\$ 683.5	\$ 667.7	\$ (15.8)
2041	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY41	\$ 683.5	\$ 667.7	\$ (15.8)
2042	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY42	\$ 683.5	\$ 667.7	\$ (15.8)
2043	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY43	\$ 683.5	\$ 667.7	\$ (15.8)
2044	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY44	\$ 683.5	\$ 667.7	\$ (15.8)
2045	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY45	\$ 683.5	\$ 667.7	\$ (15.8)
2046	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY46	\$ 683.5	\$ 667.7	\$ (15.8)
2047	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY47	\$ 683.5	\$ 667.7	\$ (15.8)
2048	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY48	\$ 683.5	\$ 667.7	\$ (15.8)
2049	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY49	\$ 683.5	\$ 667.7	\$ (15.8)
2050	\$ 13,670.7	\$ 13,354.8	\$ (315.9)	FY50	\$ 683.5	\$ 667.7	\$ (15.8)

ADMINISTRATIVE IMPLICATIONS

SIC reports, by transitioning the statutory ECECF to a new constitutional ECTF, it is unclear whether SIC would be required to create new accounting mechanisms to transfer assets from an old account to a new account, or if the fund could simply be renamed for SIC's accounting purposes. SIC will need to consult with the Department of Finance and Administration, the State Treasurer's Office, and the custodian bank to determine if SB167/SJR6 would require an actual transfer of assets between accounts, which could potentially have small associated transaction costs.

RELATIONSHIP

This bill relates to SJR6, which proposes constitutional amendment to New Mexico voters that, if passed, would amend Article 20 of New Mexico's Constitution by adding a new section that will make the early childhood trust fund a permanent fund in the state treasury that may be used only for prenatal programs and services and programs and services that serve children until they are eligible for kindergarten.

TECHNICAL ISSUES

SIC reports—because this bill changes the name of the current early childhood education and care fund in Section 9-29A-2 NMSA 1978 (recompiled as Section 6-4-35 NMSA 1978) to the early childhood trust fund but does not repeal the existing ECECF—it is unclear whether the temporary provision in Section 5 of SB167 to transfer the balance of the ECECF to the ECTF is necessary.

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