

LFC Requester:	Dawn Iglesias
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**AGENCY BILL ANALYSIS
2018 REGULAR SESSION**

WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:

LFC@NMLEGIS.GOV

and

DFA@STATE.NM.US

{Include the bill no. in the email subject line, e.g., HB2, and only attach one bill analysis and related documentation per email message}

SECTION I: GENERAL INFORMATION

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

Check all that apply: Date 02/09/18
Original **Amendment** **Bill No:** SJR7
Correction **Substitute**

Sponsor: Senator John M. Sapien **Agency Code:** 924
Short Title: SEVERANCE TAX FUND FOR EARLY CHILDHOOD, CA **Person Writing:** Debbie Rael
Phone: 827-8070 **Email:** DebbieM.Rael@state.nm.us

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY18	FY19		

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY20	FY21	FY22		
(\$37,552.59)	(\$38,888.97)	(\$40,225.14)	Recurring	STPF
\$37,552.59	\$38,888.97	\$40,225.14	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	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:

SJR7 proposes to amend Article 8 Section 10 of the New Mexico state constitution to require an additional eight-tenths of a percent distribution from the Severance Tax Permanent Fund for Early Childhood Education and care programs as provided by law.

FISCAL IMPLICATIONS

SJR 7 provides for an additional distribution of eight-tenths percent of the average of the year end market values of the fund for the immediately preceding five calendar years to be made to the General Fund for early childhood education and care programs as provided by law. This increases distributions from the fund from 4.7 percent to 5.5 percent. Estimates were developed using the average of the year ending market value of total fund net assets from the most recent State Investment Council (SIC) December monthly holdings reports available, and applying an average percent growth in distributions, as shown below.

SJR 7 Financial Analysis

CY	MV	% Change
Dec-17	\$5,108,755,475	9.38%
Dec-16	\$4,670,667,084	3.00%
Dec-15	\$4,534,812,273	-3.43%
Dec-14	\$4,696,094,067	5.29%
Dec-13	\$4,460,040,646	
5-YR AVG	\$4,694,073,909	3.56%
0.008	\$37,552,591	

Market Value of Total Fund Net Assets from the SIC's
 December Monthly Holdings Reports

Currently, the Severance Tax Permanent Fund is used for severance tax bonding issuance and debt service. Increasing distribution amounts decreases the growth of the corpus of the fund when compared to the amount of money that would be available to reinvest for compounding returns.

In prior year analyses of similar legislation, the SIC has noted that contributions from the Severance Tax Bonding Fund to the Severance Tax Permanent Fund are volatile and range from \$100 to \$125 million. Contributions into the Severance Tax Permanent Fund are based on severance taxes, collected mostly from the oil and gas industry, and are based upon the percentage of taxes used for bonding capacity. The PED believes programming should be built upon consistent and steady revenue streams to avoid negative impacts to programming.

SIGNIFICANT ISSUES

SJR 7 does not provide a definition of early childhood education or care programs, so it is unclear if these funds are limited to pre-kindergarten programs as currently defined in state statute (PED and CYFD) or if it considers some other programs.

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

SJR 7's proposed constitutional amendment would be submitted to voters for approval at the next general election or any special election prior to that date.

SJR 7 does not speak to agencies responsible for executing and providing oversight of the additional funding. If PED is to receive funds, it is likely additional staff and resources will be required to meet implementation needs. These needs would likely require additional personnel in the Literacy and Early Childhood, Procurement and Fiscal Grants Management Bureaus to support, monitor and disburse additional funds to new early childhood programs.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS