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| <b>LFC Requester:</b> | <b>Dawn Iglesias</b> |
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**AGENCY BILL ANALYSIS  
2017 REGULAR SESSION**

**WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:**

[LFC@NMLEGIS.GOV](mailto:LFC@NMLEGIS.GOV)

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*{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 2/18/17  
**Original**     **Amendment**        **Bill No:** SJR14  
**Correction**     **Substitute**   

**Sponsor:** Senator Joseph Cervantes    **Agency Code:** 924  
**Short Title:** SCHOOL FUND FOR LONGER SCHOOL DAYS & YEAR. CA    **Person Writing:** Aguilar/ Craig  
**Phone:** 505-827-6519    **Email:** Paulj.aguilar@state.nm.us

**SECTION II: FISCAL IMPACT**

**REVENUE (dollars in thousands)**

| Estimated Revenue |               |               | Recurring or Nonrecurring | Fund Affected                      |
|-------------------|---------------|---------------|---------------------------|------------------------------------|
| FY19              | FY20          | FY21          |                           |                                    |
| (146,780.7)       | (\$152,492.1) | (\$155,633.9) | Recurring                 | LGPF                               |
| \$124,584.5       | \$129,432.2   | \$132,098.9   | Recurring                 | General Fund (Current School Fund) |
| 22,196.2          | \$23,059.9    | \$23,535.0    | Recurring                 | Other LGPF Beneficiaries           |

(Parenthesis ( ) Indicate Expenditure Decreases)

**SECTION III: NARRATIVE**

**BILL SUMMARY**

Synopsis:

SJR 14 proposes to amend sections of the Constitution related to annual distributions from the Land Grant Permanent Fund by creating an additional one percent distribution to increase the minimum instructional hours and days in a school year as provided by law if the average year-

end market value for the immediately preceding five calendar years is at least \$10 billion.

A three-fifths majority in both the House and Senate may suspend the additional distribution. The additional distribution would also be suspended the average year-end market value for the immediately preceding five calendar years is below \$10 billion.

## **FISCAL IMPLICATIONS**

Current annual distributions from the Land Grant Permanent Fund (LGPF, also known as the Permanent School Fund in the state Constitution) are set at five percent of the average year-end market value of the fund for the preceding five years. SJR 14 would create another additional one percent distribution if the average year-end market value for the immediately preceding five calendar years is at least \$10 billion to increase minimum instructional hours and days in a school year as provided by law.

According to the State Investment Council (SIC), the additional FY19 distribution from the LGPF would total \$146,780,705. The SIC projects the common school beneficiaries increased FY19 distribution to be to be approximately \$124,584,500.

Though often termed a “rainy day fund”, the LGPF acts more as a state trust for future education needs based upon revenues primarily from non-renewable resources. Additional distributions from the LGPF decrease the amount available to future beneficiaries because it decreases the size of the fund that is invested and therefore returns earned on that investment. The SIC has a history of discussing this idea in terms of inter-generational equity, going so far as to create a metric of the concept. When the state increases distributions from the LGPF it is placing the needs of the current beneficiaries (or generation) over the benefits saving and building the corpus of the fund provides to future generations. Currently, the SIC indicates that the LGPF strikes a balance between benefits for the present against benefits for the future.

If SJR 14 were to not become law, the LGPF would continue to grow in both size (corpus) and in investment returns. In this scenario the distributions would increase to match the additional distribution amounts, albeit some time further in the future. Policy stakeholders have termed this the “tipping point” in similar LGPF distribution proposals. With SJR14, SIC is projecting that beneficiaries would receive distributions under current law equal to that they would receive under the additional distribution proposed in SJR 14 after 25 years.

Another point with regard to SJR 14 is the unlikelihood of the additional distribution being suspended because the average year-end market value for the immediately preceding five calendar years was below \$10 billion. Because the proposed suspension looks at a five calendar year average for the calculation, something so drastic would have to happen to the markets in order to trigger this provision in would be on the order of a global depression in equities and related securities. For this reason, past debate on additional distributions similar to those proposed in SJR 14 has considered the likelihood of triggering these so-called “safety valve” provisions.

## **SIGNIFICANT ISSUES**

Currently the beneficiaries of the LGPF include the following: Common Schools (school districts and charter schools), the University of New Mexico, the University Saline Lands, New Mexico State University, Western New Mexico University, New Mexico Highlands University, Northern

New Mexico Community College, Eastern New Mexico University, New Mexico Institute of Mining & Technology, New Mexico Military Institute, New Mexico Boys School (CYFD), New Mexico Miners' Colfax Medical Center, Las Vegas Medical Center, New Mexico Penitentiary, New Mexico School for the Deaf, New Mexico School for the Blind & Visually Impaired, Charitable, Penal & Reform, Water Reservoirs (OSE), Rio Grande Improvements (OSE) and Public Buildings. Under the provisions of SJR 14 many of these beneficiaries would receive an increased distribution but would not be subject to the provisions in law relating to the minimum instructional hours and days in a school year. The SIC projects the other beneficiaries increased FY 19 distribution to be to be approximately \$22,196,200.

## **PERFORMANCE IMPLICATIONS**

To increase the minimum instructional hours and days in a school year, state statute would need to be changed. Currently, at least one bill, SB 256 seeks to effect such a change. If SJR 14 is passed by the voters and the minimum instructional hours or days in a school year is not changed by law, then the extra distribution will increase funding based on the current instructional hours and days in law.

## **ADMINISTRATIVE IMPLICATIONS**

Increasing the distributions to the current school fund alone is unlikely to disrupt or impact PED operations. However, extending the minimum hours in a school day or year in state law will greatly impact almost every aspect of PED operations and may cause the agency to revisit and revise most of its internal processes as well as administrative rule frameworks.

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

SJR 14 should be viewed as a companion to CS/SB 256.

## **OTHER SUBSTANTIVE ISSUES**

If SJR 14 passes, the amendment proposed by the resolution is to be submitted to the voters for their approval or rejection at the next general election or at any special election prior to that date that is called for that purpose.