



# **THE IMPACT OF TRANSFERRING RESOURCES FROM NEW MEXICO'S LAND GRANT PERMANENT FUND TO EARLY CHILDHOOD EDUCATION**

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**SUBMITTED TO:**

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## I. EXECUTIVE SUMMARY AND MAIN FINDINGS

The Land Grant Permanent Fund (LGPF) is robust and growing. Even after the decline in the price of oil, the LGPF would grow healthily if a contribution of 1.5% is assigned to early childhood education.

Under the New Mexico Constitution, LGPF beneficiaries currently receive a fixed distribution equal to 5.5% of the trailing five-year average market value of the LGPF. Beginning in fiscal 2017, further distributions will be calculated as 5% of the trailing five-year average of the fund's market value, which would be close to 4.5% of the asset value for the year of the distribution.

An assignment of an additional 1.5% to Early Childhood Education, when adjusted for the trailing five-year rule, would result in distributions of some 5.8%. This is less than the 7% return on the LGPF projected by the Legislative Finance Committee (LFC) even before the contributions of the State Trust Lands (STL). In spite of the lower price of oil and the larger asset value of the LGPF, in the near future the STL contributions will exceed 3% of the LGPF assets. Therefore, withdrawals of 5.8% would be more than made up by inflows of over 10%.

The Land Grant Permanent Fund (LGPF) averaged a 7% return on assets (gain/loss) over the period 2005 through 2014. A projection of less than 7.0% would lead to the question of whether the SIC would be better off cancelling some of the investment advisory contracts and investing in index funds.

The historic contributions of the State Trust Lands (STL) stood at 4.7% of the market value of the Land Grant Permanent Fund. It will be somewhat lower moving forward as a result of the decline in the price of oil. However, with the proposed amendment, the LGPF is projected to grow even before the STL contribution.

The U.S. Energy Information Administration, in its October 2015 issue of the Short-Term Energy Outlook (STEO), foresees a slight recovery in oil prices for 2016, suggesting stabilization in royalty contributions from the STL to the LGPF. Oil prices are difficult to predict and actual prices could be below or above the projections of the US government.

An increase in funding for early childhood education will immediately increase the number of people employed, production activity and tax revenue as a result of the direct investment in early childhood education and the ripple effects that this increased investment in education would have throughout

the New Mexico economy. The initial impact of a 1.5% allocation from the LGPF is estimated at 5,317 jobs, \$146.8 million in payroll and \$324.8 million in additional economic output. The additional economic activity will generate state and local tax revenues of approximately \$11.9 million, including gross receipt taxes, property taxes and income taxes.

The economic benefits and rates of return of early childhood education have been widely documented and are widely accepted.

The New Mexico Legislative Finance Committee (LFC) has issued several reports on proposed laws to amend the state constitution and change the distribution of the Land Grant Permanent Fund. Advantage Business Consulting agrees with most of the analysis of these reports, which reflect a high degree of professionalism. However, the manner in which the reports have been presented have caused some confusion.

For example, the conclusion of the 2014 Fiscal Impact Report on Senate Joint Resolution 12 (FIR SJR 12) was that with the proposed constitutional amendment (additional 1.5% withdrawal rate for early childhood education plus an additional 0.5% for the present beneficiaries from the LGPF), the LGPF would grow, and would do so at a healthy rate that was higher than projected inflation. However, this conclusion was not expressed in the FIR because of flaws in how the LFC report was presented (see chapter on the FIR). Moreover, the FIR made no use of the oil and gas industry standard for natural resource depletion, which is proven reserves and which are currently historically high for the state of New Mexico.

In addition, the FIR SJR 12 (2014) benchmarked the LGPF with university endowments, which is the wrong benchmark. The LGPF is a sovereign wealth fund. As such, FIR SJR 12 (2014) should have benchmarked it with other sovereign wealth funds. After the proposed amendment, the LGPF would still have been more fiscally conservative than the two sovereign wealth funds cited in the FIR: Alaska and Wyoming. This is because while 100% of the new money generated by the STL went into the LGPF, in the case of Alaska, it was 25% and for Wyoming, 42%.

When comparing New Mexico's economic activity index to the U.S. as a whole, it is evident that economic recovery after the 2008-2009 recession has been more accelerated nationwide than in the state. The net effect of the decline in oil prices since the summer of 2014 has been to put pressure on New Mexico's economy.

Two demographic trends pose challenges, emigration and the dependency ratio. New Mexico population declined in 2014 compared to 2013 because net emigration of 0.6% more than made up a natural population growth of 0.5%.

The dependency ratio of New Mexico, defined as the population under 18 plus population over 64 divided by the population 18 to 64, is higher than for the US. Whereas the figure is 0.59 for the United States, it stands at 0.63 for New Mexico. Each working age New Mexican has to take the burden of 0.63 dependents as opposed to the US average of 0.59 dependents. It appears that the working age population is the one emigrating from the state.

For New Mexico to break with these ominous demographic developments, a better-educated labor force is critical. Correctly funding early childhood education should be part and parcel of this effort.

## II. INTRODUCTION

In January 2014, Advantage Business Consulting submitted a report to CHI St. Joseph's Children on the impact of transferring funds from the state of New Mexico's Land Grant Permanent Fund (LGPF) to early childhood education (ECE). The issue for New Mexico is how to effectively manage a balance between investing in human capital (i.e. its residents: parents and children), which includes early childhood education, and investing in financial capital (i.e. the Fund).

The conclusion from the report was that New Mexico can and should provide an additional 1.5% contribution from the Land Grant Permanent Fund (LGPF) to early childhood education (ECE).

Some critical events that have taken place since January 2014 warrant an update of the initial study:

- The LGPF has continued to grow at a healthy rate. In the period July 2013 to June 2014, it grew by 17.6%, from \$12.2 billion to \$14.3 billion. The fund stood at \$14.8 billion as of June 2015 for an increase of over 20% in one year.
- Contributions from the LGPF to education are set to decline from 5.8% in the period 2005-2012 to 5.5% in the period 2013-2016, and again to 5.0% starting in fiscal 2017.
- A 2014 proposal to give the State Investment Council (SIC) the power to approve a 0.5% distribution from the LGPF over and above the distributions currently scheduled in the New Mexico constitution received the support of the SIC. However, the proposal was not approved by the New Mexico Legislature. This proposal entailed the elected Legislature to transfer political power to the unelected SIC, as the SIC would have made decisions on budget funding and indirectly on appropriations. It should be the Legislature (i.e. elected lawmakers) that make the decision as to additional distributions from the LGPF, after considering the advice of the SIC.
- The sharp decline in the price of oil during the past year has reduced the royalties flowing into the LGPF going forward.
- New Mexico continues to score poorly on indicators in children's well-being.
- A marginal decline in the population of the state of New Mexico is a symptom of weakness in the local economy.

- The approval of the Home Visiting Accountability Act by the New Mexico Legislature in 2013 leads to better information collection on home visits.
- New research has been released on the effectiveness of ECE.
- The inflow of freshmen lawmakers to the New Mexico Legislature needs to be educated on the subject of ECE.

SJCH wants to reassess the viability and benefits of the proposed constitutional amendment for ECE in light of the events that have occurred since Advantage's initial report.

### III. PERFORMANCE OF THE LAND GRANT PERMANENT FUND

The Land Grant Permanent Fund (LGPf), the largest among New Mexico's four permanent funds, has experienced remarkable growth since Advantage's last evaluation. From an ending market value of \$10.8 billion for fiscal 2012, the LGPF ended fiscal 2014 with a \$14.3 billion market value, a 33% gain during the two-year period.<sup>1</sup>

| Ending Market Value Growth Change (FYrs) |                        |                            |             |                     |                            |
|--|------------------------|----------------------------|-------------|---------------------|----------------------------|
| Date                                     | Beginning Market Value | Inflows Before Withdrawals | Withdrawals | Ending Market Value | Change Ending Market Value |
| 2005                                     | 7,663,754,096          | 1,026,553,019              | 422,198,988 | 8,268,108,127       | -                          |
| 2006                                     | 8,268,108,127          | 1,289,463,985              | 426,443,664 | 9,131,128,448       | 10.4%                      |
| 2007                                     | 9,131,128,448          | 2,015,900,665              | 438,945,144 | 10,708,083,969      | 17.3%                      |
| 2008                                     | 10,708,083,969         | -93,252,961                | 469,998,264 | 10,144,832,744      | -5.3%                      |
| 2009                                     | 10,144,832,744         | -1,679,413,120             | 521,520,996 | 7,943,898,628       | -21.7%                     |
| 2010                                     | 7,943,898,628          | 1,468,507,705              | 525,512,604 | 8,886,893,729       | 11.9%                      |
| 2011                                     | 8,886,893,729          | 2,415,529,410              | 535,903,008 | 10,766,520,131      | 21.2%                      |
| 2012                                     | 10,766,520,131         | 582,608,771                | 553,418,316 | 10,795,710,586      | 0.3%                       |
| 2013                                     | 10,795,710,586         | 1,928,343,693              | 526,846,548 | 12,197,207,731      | 13.0%                      |
| 2014                                     | 12,197,207,731         | 2,683,412,507              | 535,156,608 | 14,345,463,630      | 17.6%                      |
| 2015                                     | 14,345,463,630         | *                          | *           | 14,809,930,602      | 3.2%                       |

Source: New Mexico State Investment Council, SIC Annual Audit Report

\* SIC announced ending market value for June 2015 but audited statements were unavailable at the time of this writing.

<sup>1</sup> While the ending value for the LGPF was announced, the audited statements for 2015 have yet to be published in the SIC website.



The inflows to the LGPF come from two distinctive sources:

- Gain and loss of the fund itself. The LGPF is mainly invested in securities and other financial instruments. The annual return target for the LGPF is 7.5%, according to the New Mexico Investment Council (NMSIC), which manage the fund.<sup>2</sup> This annual target return is comparable to annualized returns from the S&P 500 stock market index, which have averaged 7.3% in the past 64 years (1950-2013).<sup>3</sup>

| <b>Inflows to the LGPF (FYrs)</b> |                        |                    |                    |                            |
|-----------------------------------|------------------------|--------------------|--------------------|----------------------------|
| Date                              | Beginning Market Value | Gain / Loss        | STL Contributions  | Inflows Before Withdrawals |
| 2005                              | 7,663,754,096          | 705,743,213        | 320,809,806        | 1,026,553,019              |
| 2006                              | 8,268,108,127          | 874,769,518        | 414,694,467        | 1,289,463,985              |
| 2007                              | 9,131,128,448          | 1,617,298,035      | 398,602,630        | 2,015,900,665              |
| 2008                              | 10,708,083,969         | -568,152,123       | 474,899,162        | -93,252,961                |
| 2009                              | 10,144,832,744         | -2,159,939,009     | 480,525,889        | -1,679,413,120             |
| 2010                              | 7,943,898,628          | 1,138,232,262      | 330,275,443        | 1,468,507,705              |
| 2011                              | 8,886,893,729          | 2,004,033,902      | 411,495,508        | 2,415,529,410              |
| 2012                              | 10,766,520,131         | 53,571,045         | 529,037,726        | 582,608,771                |
| 2013                              | 10,795,710,586         | 1,422,855,390      | 505,488,303        | 1,928,343,693              |
| 2014                              | 12,197,207,731         | 1,941,339,620      | 742,072,887        | 2,683,412,507              |
| <b>Average</b>                    |                        | <b>702,975,185</b> | <b>460,790,182</b> | <b>1,163,765,367</b>       |

Source: New Mexico State Investment Council, SIC Annual Audit Report

- Contributions from the State Trust Lands (STL), which are lands that were appropriated to New Mexico for public funding upon entering the union. This is mainly oil royalties and other kinds of returns from land owned by the STL. As shown above, average annualized contributions during the period 2005 to 2014 stood at \$460 million, according to STL data.

<sup>2</sup>Investments and Pensions Oversight Committee, Minutes of Meeting, July 10, 2013, pg. 2.

<sup>3</sup>Chicago Board Options Exchange (CBOE); <http://www.cboe.com/micro/spx/historicaldata.aspx>.

| <b>LGPF Historic Performance (FYrs)</b> |                        |                            |             |                     |
|---|------------------------|----------------------------|-------------|---------------------|
| Date                                    | Beginning Market Value | Inflows Before Withdrawals | Withdrawals | Ending Market Value |
| 2005                                    | 7,663,754,096          | 13.4%                      | 5.5%        | 8,268,108,127       |
| 2006                                    | 8,268,108,127          | 15.6%                      | 5.2%        | 9,131,128,448       |
| 2007                                    | 9,131,128,448          | 22.1%                      | 4.8%        | 10,708,083,969      |
| 2008                                    | 10,708,083,969         | -0.9%                      | 4.4%        | 10,144,832,744      |
| 2009                                    | 10,144,832,744         | -16.6%                     | 5.1%        | 7,943,898,628       |
| 2010                                    | 7,943,898,628          | 18.5%                      | 6.6%        | 8,886,893,729       |
| 2011                                    | 8,886,893,729          | 27.2%                      | 6.0%        | 10,766,520,131      |
| 2012                                    | 10,766,520,131         | 5.4%                       | 5.1%        | 10,795,710,586      |
| 2013                                    | 10,795,710,586         | 17.9%                      | 4.9%        | 12,197,207,731      |
| 2014                                    | 12,197,207,731         | 22.0%                      | 4.4%        | 14,345,463,630      |
| 2015                                    | 14,345,463,630         | *                          | *           | 14,809,930,602      |
| <b>Compound Rate</b>                    |                        | <b>11.7%</b>               | <b>5.2%</b> | <b>-</b>            |

Source: New Mexico State Investment Council, SIC Annual Audit Report

\* SIC announced ending market value for June 2015 but audited statements were unavailable at the time of this writing.

Combined with STL contributions, the rate of inflows to the LGPF averaged 11.7% for the 10-year period from 2005 to 2014. The combination of the two inflows compares favorably with average annual withdrawals of 5.2% shown previously.

Over the period 2005-2014, the compound rate nearly met the long-range return target of 7.5%, despite the fact that the market experienced an abrupt correction at mid-point during the 10-year period. Actual financial returns of the LGPF (gain/loss) over the period 2005 through 2014 averaged 7%. The contributions of the STL stood at 4.7% of the market value of the LGPF.

| <b>Inflows to the LGPF (FYrs)</b> |                        |             |                   |                            |
|-----------------------------------|------------------------|-------------|-------------------|----------------------------|
| Date                              | Beginning Market Value | Gain / Loss | STL Contributions | Inflows Before Withdrawals |
| 2005                              | 7,663,754,096          | 9.2%        | 4.2%              | 13.4%                      |
| 2006                              | 8,268,108,127          | 10.6%       | 5.0%              | 15.6%                      |
| 2007                              | 9,131,128,448          | 17.7%       | 4.4%              | 22.1%                      |
| 2008                              | 10,708,083,969         | -5.3%       | 4.4%              | -0.9%                      |
| 2009                              | 10,144,832,744         | -21.3%      | 4.7%              | -16.6%                     |
| 2010                              | 7,943,898,628          | 14.3%       | 4.2%              | 18.5%                      |
| 2011                              | 8,886,893,729          | 22.6%       | 4.6%              | 27.2%                      |
| 2012                              | 10,766,520,131         | 0.5%        | 4.9%              | 5.4%                       |
| 2013                              | 10,795,710,586         | 13.2%       | 4.7%              | 17.9%                      |
| 2014                              | 12,197,207,731         | 15.9%       | 6.1%              | 22.0%                      |
| 2015                              | 14,345,463,630         | N/A         | N/A               | N/A                        |
| <b>Compound Rate</b>              |                        | <b>7%</b>   | <b>4.7%</b>       | <b>11.7%</b>               |

Source: New Mexico State Investment Council, SIC Annual Audit Report

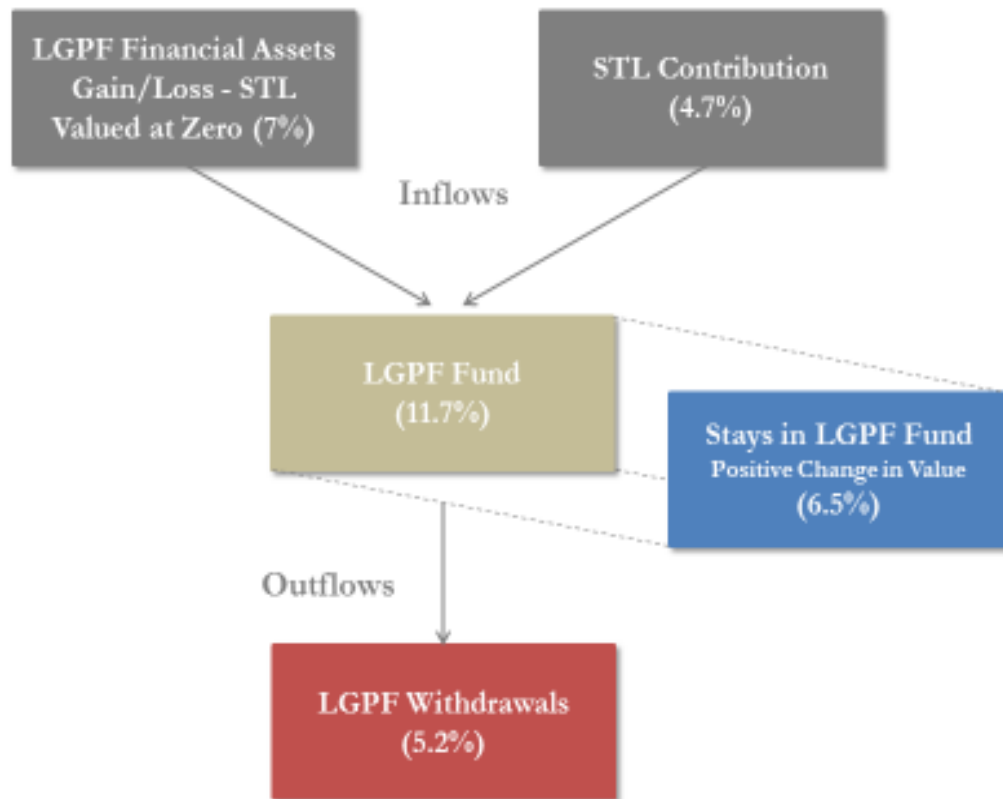
Under the New Mexico Constitution, LGPF beneficiaries currently receive a fixed distribution equal to 5.5% of the trailing five-year average market value of the LGPF. As shown on the previous page, the average withdrawal rate for the period 2005-2014 was 5.2%, allowing the fund to have continuous real growth (adjusted for inflation). Based on the fund's growth, distributions from the LGPF for current fiscal year (2015) are expected to be about \$600 million.

The LGPF's ending market value of \$14.8 billion, as of June 2015, suggests that distributions for fiscal 2016 will most certainly exceed the \$650 million mark. Beginning in fiscal 2017, further distributions will be calculated as 5% of the trailing five-year average of the fund's market value.

The following table shows how the LGPF beneficiary shares were distributed, as of December 31, 2013. Shares distributed included roughly 84% to public schools, while the remaining 16% was distributed in fixed percentages to the other 20 beneficiaries. All earnings and additions to the LGPF (including interest, dividends and capital gains) are credited to the fund.

| <b>NMSIC Beneficiaries</b>              |                              |
|---|------------------------------|
| <b><u>Institutions</u></b>              | <b><u>LGPF Ownership</u></b> |
|   | <b><u>as of 12/31/13</u></b> |
| Public (Common) Schools                 | 83.95%                       |
| NM Military Institute                   | 3.29%                        |
| NM School for the Deaf                  | 1.99%                        |
| NM School for Blind & Visually Impaired | 1.99%                        |
| NM State Penitentiary                   | 1.98%                        |
| University of New Mexico                | 1.45%                        |
| Public Buildings                        | 1.10%                        |
| Water Reservoir                         | 1.08%                        |
| DHI Miners Hospital                     | 0.95%                        |
| Penal Reform                            | 0.86%                        |
| NM State University                     | 0.46%                        |
| NM State Hospital                       | 0.25%                        |
| Improvement of the Rio Grande           | 0.24%                        |
| NM Institute of Mining & Technology     | 0.20%                        |
| Eastern NM University                   | 0.08%                        |
| UNM Saline Lands                        | 0.04%                        |
| Western NM University                   | 0.03%                        |
| NM Highlands University                 | 0.03%                        |
| Northern NM Community College           | 0.02%                        |
| NM Boys School (CYFD)                   | 0.01%                        |
| Carrie Tingley Hospital                 | 0.00%                        |

The following graph illustrates the fund's inflows (revenues), outflows (withdrawals) and the change in value for the last 10 available years.

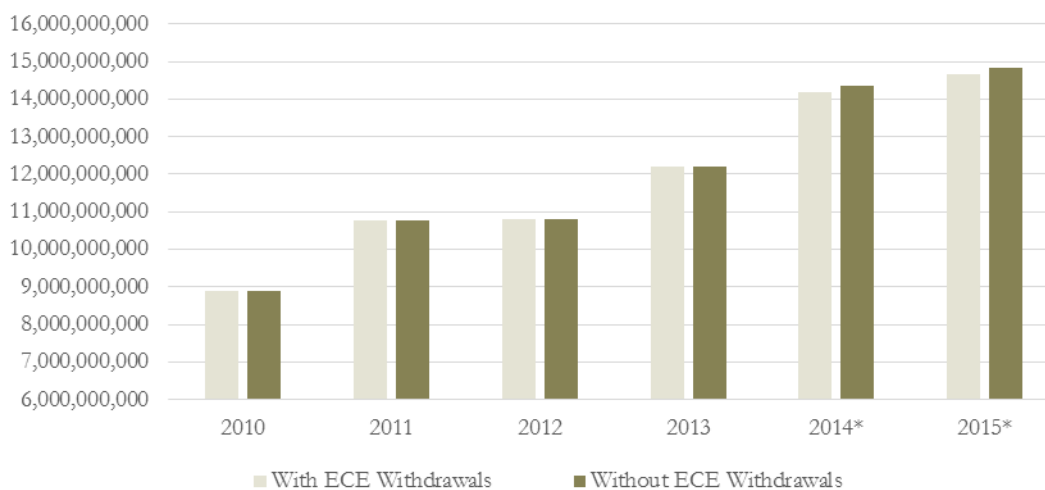


Using current fiscal year data through April 2015, Advantage estimated the STL contributions, gains and ending market value for the LGPF for fiscal 2015. It should be noted that a slight decrease in the contributions to the LGPF for fiscal 2015 was estimated due to the sharp drop in oil prices, and consequently, from oil and gas royalties in recent months.

| <u>Date</u> | <u>Beginning Market</u> | <u>Contributions</u> | <u>Current</u><br><u>Beneficiaries</u><br><u>Withdrawals</u> | <u>ECE</u><br><u>Withdrawals</u> | <u>Total</u><br><u>Withdrawals</u> | <u>Gain/Loss</u> | <u>Ending Market</u> |
|-------------|-------------------------|----------------------|--|----------------------------------|------------------------------------|------------------|----------------------|
|             | <u>Value (US \$)</u>    | <u>(US \$)</u>       | <u>(US \$)</u>   | <u>(US \$)</u>                   | <u>(US \$)</u>                     | <u>(US \$)</u>   | <u>Value (US \$)</u> |
| 2005        | 7,663,754,096           | 320,809,806          | 422,198,988  | 0                                | 422,198,988                        | 705,743,213      | 8,268,108,127        |
| 2006        | 8,268,108,127           | 414,694,467          | 426,443,664  | 0                                | 426,443,664                        | 874,769,518      | 9,131,128,448        |
| 2007        | 9,131,128,448           | 398,602,630          | 438,945,144  | 0                                | 438,945,144                        | 1,617,298,035    | 10,708,083,969       |
| 2008        | 10,708,083,969          | 474,899,162          | 469,998,264  | 0                                | 469,998,264                        | -568,152,123     | 10,144,832,744       |
| 2009        | 10,144,832,744          | 480,525,889          | 521,520,996  | 0                                | 521,520,996                        | -2,159,939,009   | 7,943,898,628        |
| 2010        | 7,943,898,628           | 330,275,443          | 525,512,604  | 0                                | 525,512,604                        | 1,138,232,262    | 8,886,893,729        |
| 2011        | 8,886,893,729           | 411,495,508          | 535,903,008  | 0                                | 535,903,008                        | 2,004,033,902    | 10,766,520,131       |
| 2012        | 10,766,520,131          | 529,037,726          | 553,418,316  | 0                                | 553,418,316                        | 53,571,045       | 10,795,710,586       |
| 2013        | 10,795,710,586          | 505,488,303          | 526,846,548  | 0                                | 526,846,548                        | 1,422,855,390    | 12,197,207,731       |
| 2014        | 12,197,207,731          | 742,072,887          | 535,156,608  | 0                                | 535,156,608                        | 1,941,339,620    | 14,345,463,630       |
| 2015        | 14,345,463,630          | 669,520,450          | 595,993,908  | 0                                | 595,993,908                        | 430,363,909      | 14,849,354,081       |

An illustration of the ending market value for fiscal years 2014 and 2015 of the LGPF highlights that additional yearly withdrawals of 1.5% for early childhood education (ECE) would not have affected the corpus of the fund.

Ending Market Value of the LGPF with and without Early  
Childhood Education Withdrawals of 1.5% (2010-2015)



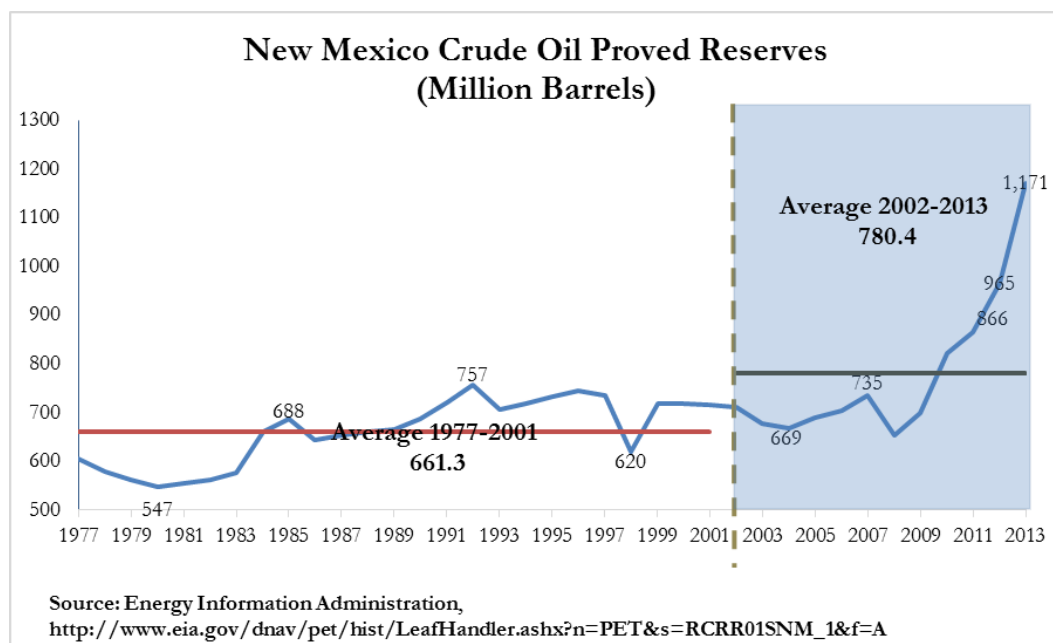
## New Mexico Energy Resources Reserves

Proved reserves are estimated volumes of hydrocarbon resources that an analysis of geologic and engineering data demonstrates with reasonable certainty are recoverable under existing economic and operating conditions. Reserve estimates change from year to year as new discoveries are made, existing fields are more thoroughly appraised, existing reserves are produced and prices and technologies change.<sup>4</sup>

Crude-oil proved reserves for the state of New Mexico have continued their upward trend in the last two years of available data, reaching a historic high of 1.171 billion barrels in 2013.<sup>5</sup> While New Mexico's crude-oil proved reserves averaged 661.3 million barrels from 1977 to 2001, from 2002 to 2013, crude-oil proved reserves grew to an annual average of 780.4 million barrels.

This dramatic increase in quantity should lead to a more nuanced concept of depletion, considering that advances in technology and changes in prices prolong the life of natural resources, and thus, the state revenue source for future generations. The following graph outlines how proved reserves in New Mexico have fluctuated from 1977 to 2013.

Proved oil reserves are positively correlated to oil prices. Higher prices lead to growth in proven

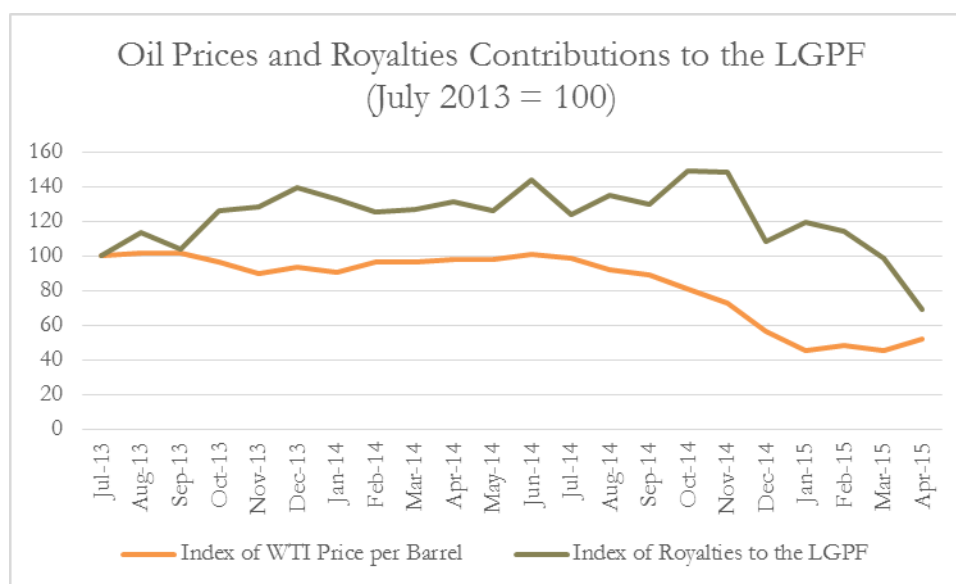


reserves by promoting more exploration and allowing the exploitation of resources that were

<sup>4</sup> U.S. Energy Information Administration

<sup>5</sup> Ibid.

previously unprofitable to extract, as well as higher royalties and contributions to the LGPF. From 2002 to 2013, oil prices more than tripled, while proved reserves in New Mexico grew more than 60%. However, as pointed out earlier, oil prices experienced a sharp drop from its peak in June 2014. According to the Energy Information Administration, during the first four months of 2015, the average price for a barrel of oil was \$52, compared with the \$99.61 average of the first four months of 2014. Therefore, according to the proved reserves definition, the collapse in oil prices could have an adverse effect on New Mexico's proved oil reserves. The impact on the Land Grant Permanent Fund contributions was also seen shortly thereafter. The next graph illustrates the behavior of both variables.

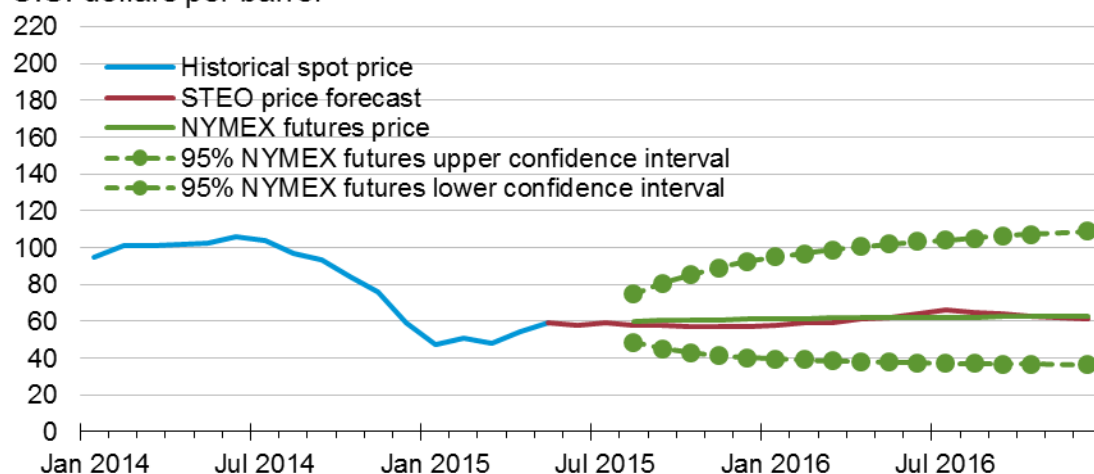


Nonetheless, the U.S. Energy Information Administration, in its June 2015 issue of the Short-Term Energy Outlook (STEO), foresees a slight recovery in oil prices during the next 18 months, suggesting stabilization in royalty contributions from the STL to the LGPF.



## West Texas Intermediate (WTI) Crude Oil Price

U.S. dollars per barrel



Note: Confidence interval derived from options market information for the 5 trading days ending Jun. 4, 2015. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Source: Short-Term Energy Outlook, June 2015.

\*NYMEX (New York Mercantile Exchange)

Based on these realistic assumptions for oil prices (including royalties), withdrawal rates and return targets, Advantage forecasted an alternative scenario for the LGPF market value, considering an increase in withdrawals of 1.5% for early childhood education (ECE). The following table illustrates that even with an average withdrawal of \$265 million annually, the LGPF will continue to grow at a rate above inflation. As the Federal Open Market Commission (FOMC) forecasted in its June 2015 Economic Projections, the inflation rate will be under 2% up to 2017, while the longer-run forecast is 2%. This means that the fund, even with the increase in withdrawals, will continue to grow healthily.

| Date | Beginning Market Value (US \$) | Contributions (US \$) | Current                           | ECE                 | Total               | Gain/Loss (US \$) | Ending Market Value (US \$) |
|------|--------------------------------|-----------------------|-----------------------------------|---------------------|---------------------|-------------------|-----------------------------|
|      |                                |                       | Beneficiaries Withdrawals (US \$) | Withdrawals (US \$) | Withdrawals (US \$) |                   |                             |
| 2016 | 14,849,354,081                 | 550,886,296           | 655,785,168                       | 0                   | 655,785,168         | 1,113,701,556     | 15,858,156,765              |
| 2017 | 15,858,156,765                 | 572,921,748           | 680,458,928                       | 204,137,678         | 884,596,606         | 1,189,361,757     | 16,735,843,664              |
| 2018 | 16,735,843,664                 | 595,838,618           | 739,860,259                       | 221,958,078         | 961,818,336         | 1,255,188,275     | 17,625,052,220              |
| 2019 | 17,625,052,220                 | 619,672,162           | 794,138,704                       | 238,241,611         | 1,032,380,315       | 1,321,878,917     | 18,534,222,984              |
| 2020 | 18,534,222,984                 | 644,459,049           | 836,026,297                       | 250,807,889         | 1,086,834,186       | 1,390,066,724     | 19,481,914,571              |
| 2021 | 19,481,914,571                 | 670,237,411           | 882,351,902                       | 264,705,571         | 1,147,057,473       | 1,461,143,593     | 20,466,238,102              |
| 2022 | 20,466,238,102                 | 697,046,907           | 928,432,715                       | 278,529,815         | 1,206,962,530       | 1,534,967,858     | 21,491,290,337              |
| 2023 | 21,491,290,337                 | 724,928,784           | 975,987,182                       | 292,796,155         | 1,268,783,337       | 1,611,846,775     | 22,559,282,559              |
| 2024 | 22,559,282,559                 | 753,925,935           | 1,025,329,486                     | 307,598,846         | 1,332,928,331       | 1,691,946,192     | 23,672,226,355              |
| 2025 | 23,672,226,355                 | 784,082,972           | 1,076,709,519                     | 323,012,856         | 1,399,722,375       | 1,775,416,977     | 24,832,003,929              |

#### IV. FISCAL IMPACT REPORTS ON THE LGPF

The New Mexico Legislative Finance Committee (LFC) has issued several reports on proposed laws to amend the state constitution and change the distribution of the Land Grant Permanent Fund. Advantage agrees with most of the analysis of these reports, which reflect a high degree of professionalism.

However, the manner in which the reports have been presented have caused some confusion.

For example, the conclusion of the 2014 Fiscal Impact Report on Senate Joint Resolution 12 (FIR SJR 12) is that with the proposed constitutional amendment (additional 1.5% withdrawal rate for early childhood education plus an additional 0.5% for the present beneficiaries from the LGPF), the LGPF will grow, and will do so at a healthy rate that is higher than projected inflation. However, this conclusion was not expressed in the FIR because of two flaws in how the LFC report was presented.

First, the FIR did not include a cash-flow analysis showing the value of the LGPF through time and supporting its statement that the LGPF would be “depleted” with the amendment.

The tables on which the analysis of FIR SJR 12 (2014) was based show that with the amendment in place, the LGPF was projected to grow at the rate of 3.6% (2016 to 2026), which was higher than the Federal Reserve’s long-term projected inflation rate at the time of 2%. Without the amendment, the LFC projected that the LGPF would reach \$27.1 billion by calendar year 2026, representing a growth rate of 5.3% for the period 2016 to 2026.<sup>6</sup>

Second, in its stated conclusion, the FIR used the word “deplete.” This word is ambiguous and has no clear economic or financial definition. The primary definition of deplete is “to make less by gradually using up (resources, funds, strength, etc.),” as defined by the Webster’s New World College Dictionary.

According to the FIR SJR 12, with the amendment in place, in no way would the LGPF have been used up. The FIR stated that the fund would have been “depleted” because with the amendment, the LGPF would have grown at a slower rate. However, a slower healthy growth rate presumably would

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<sup>6</sup> The financial tables were requested by State Sen. Michael Padilla and immediately provided by the LFC. The LFC exhibited complete professionalism and openness.

not have depleted the LGPF. In fact, using the FIR's own financial model, it is a mathematical impossibility that the principal of the LGPF would have declined.

Avoiding the use of the word "deplete" and instead showing the facts and the actual financial tables (base case and with amendment) would have conveyed a more accurate message.

The N.M. State Investment Council (NMSIC) has stated in its Returns Expectations Analysis (issued July 22, 2011) that the LGPF's objectives are to "provide for the statutory distribution to the beneficiaries, protect the corpus from inflation and provide for some real growth of the corpus." According to the financial tables on which FIR SJR 12 was based, all three LGPF objectives would have been met.

The assumptions in the FIR SJR 12 were conservative. For example, the returns on investment by the LGPF were set at 7.5% minus 0.5% for management fees, for a total of 7.0%. This is a conservative projection because the target return for the LGPF is 7.5% after management fees, as stated in the July 2013 minutes of an Investment and Pensions Oversight Committee meeting. Meanwhile, the average return of the S&P 500 for the period 1950 to 2013 was 7.3%. A projection of less than 7.0% would lead to the question of whether the SIC would be better off cancelling some of the investment advisory contracts and investing in index funds.

The FIR SJR 12 mentioned some concerns related to inflation. However, as presented in the NM SIC Returns Expectations Analysis (issued July 22, 2011), the returns on investments are adjusted to inflation. One of the reasons for the NMSIC's 7.5% return target is precisely that low inflation depresses the nominal return of all investments, from bonds to stocks and the State Trust Lands (STL) royalties. Since nominal returns are positively correlated with inflation, higher inflation would imply higher nominal returns.

Moreover, since the additional distributions from the LGPF are not consumed but invested in the human capital of future generations, the issue of intergenerational equity needs a more holistic and nuanced approach in the FIR. The amendment strives to achieve intergenerational equity. This is achieved by investing in improving the health and educational development of New Mexico's present generation of infants and children.

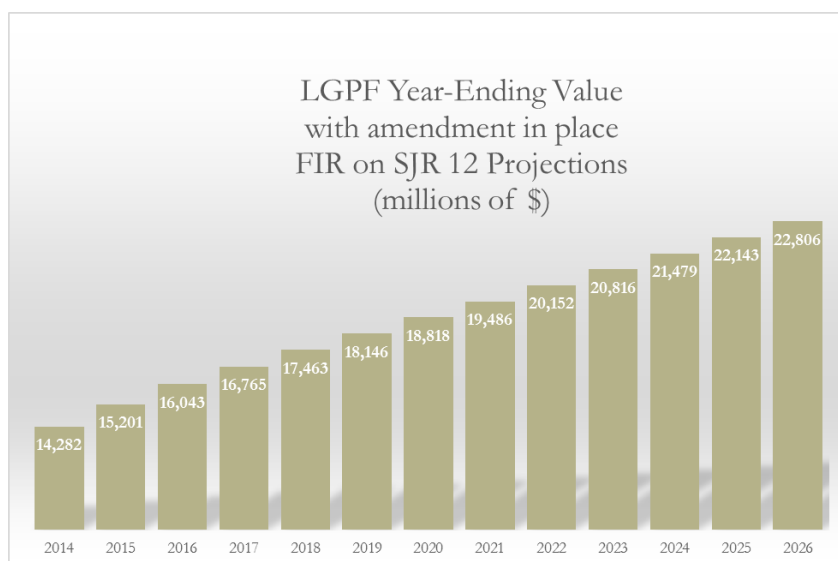
In addition, while the FIR SJR 12 benchmarks the performance of the LGPF with and without the amendment, it did not mention the positive impact that the amendment would have by enhancing

children's well-being, reducing government expenditures in areas from healthcare to corrections and improving the future productivity of New Mexico's labor force. The work of Prof. James Heckman, winner of the Nobel Prize in Economics, RAND Corporation and others, show that the returns on early childhood education are significantly higher than investment in financial capital.

In essence, the FIR SJR 12 discussed the cost of the amendment in terms of a slower growing, but healthy LGPF. Meanwhile, it did not mention that this is offset by benefits flowing from better education to a more productive labor force that would, in turn, make for a wealthier state of New Mexico with higher tax revenues. While FIR SJR 12 could have declined to calculate such benefits, it should have stated that it could not calculate the balance between the costs and the benefits of the proposal.

As an investment strategy, it is riskier for New Mexico to concentrate its investments in the LGPF instead of diversifying them in a more balanced way between the LGPF and the human capital of future generations. Having a sovereign fund is good for New Mexico; in fact, it is only one of four states to have such a fund. However, New Mexico has the second highest poverty levels in the 50 states, indicating the need for investing in its population.

Finally, the LGPF is not a university endowment; it is a sovereign wealth fund. As such, it should be benchmarked with other sovereign wealth funds. Even with the amendment, the LGPF would have been more fiscally conservative than the two sovereign wealth funds cited in the FIR: Alaska and Wyoming. This is because while 100% of the new money generated by the STL goes into the LGPF, in the case of Alaska, this figure was 25% and for Wyoming, 42%.



**Base Case - No Amendment**

**Fiscal Impact Report SJR 12 / Actual Cash Flow Tables (millions of \$)**

|                                   | <b>LGPF Initial</b> | <b>Return</b> | <b>Contribution</b> | <b>Distributions</b> | <b>LGPF Final</b> |
|-----------------------------------|---------------------|---------------|---------------------|----------------------|-------------------|
| <b>Historic CY</b>                |                     |               |                     |                      |                   |
| 2009                              | 7,853               | N/A           | N/A                 | N/A                  | 9,073             |
| 2010                              | 9,073               | N/A           | N/A                 | N/A                  | 10,212            |
| 2011                              | 10,212              | N/A           | N/A                 | N/A                  | 10,060            |
| 2012                              | 10,060              | 704           | 509                 | 540                  | 11,453            |
| 2013                              | 11,453              | 802           | 596                 | 531                  | 13,384            |
| <b>Projected by FIR on SJR 12</b> |                     |               |                     |                      |                   |
| 2014                              | 13,384              | 937           | 527                 | 566                  | 14,282            |
| 2015                              | 14,282              | 1,000         | 544                 | 625                  | 15,201            |
| 2016                              | 15,201              | 1,064         | 555                 | 649                  | 16,172            |
| 2017                              | 16,172              | 1,132         | 542                 | 674                  | 17,171            |
| 2018                              | 17,171              | 1,202         | 547                 | 733                  | 18,187            |
| 2019                              | 18,187              | 1,273         | 548                 | 786                  | 19,222            |
| 2020                              | 19,222              | 1,346         | 546                 | 835                  | 20,278            |
| 2021                              | 20,278              | 1,419         | 547                 | 885                  | 21,360            |
| 2022                              | 21,360              | 1,495         | 547                 | 936                  | 22,466            |
| 2023                              | 22,466              | 1,573         | 547                 | 989                  | 23,596            |
| 2024                              | 23,596              | 1,652         | 547                 | 1,042                | 24,753            |
| 2025                              | 24,753              | 1,733         | 547                 | 1,097                | 25,936            |
| 2026                              | 25,936              | 1,815         | 547                 | 1,153                | 27,145            |

Source: Legislative Finance Committee

**SJR 12 - Amendment (1.5% + 0.5%)**

**Fiscal Impact Report SJR 12 / Actual Cash Flow Tables (millions of \$)**

|                            | <b>LGPF Initial</b> | <b>Return</b> | <b>Contribution</b> | <b>Withdrawals</b> | <b>LGPF Final</b> |
|----------------------------|---------------------|---------------|---------------------|--------------------|-------------------|
| Historic                   |                     |               |                     |                    |                   |
| 2009                       | 7,853               | N/A           | N/A                 | N/A                | 9,073             |
| 2010                       | 9,073               | N/A           | N/A                 | N/A                | 10,212            |
| 2011                       | 10,212              | N/A           | N/A                 | N/A                | 10,060            |
| 2012                       | 10,060              | 704           | 509                 | 540                | 11,453            |
| 2013                       | 11,453              | 802           | 596                 | 531                | 13,384            |
| Projected by FIR on SJR 12 |                     |               |                     |                    |                   |
| 2014                       | 13,384              | 937           | 527                 | 566                | 14,282            |
| 2015                       | 14,282              | 1,000         | 544                 | 625                | 15,201            |
| 2016                       | 15,201              | 1,064         | 555                 | 777                | 16,043            |
| 2017                       | 16,043              | 1,123         | 542                 | 943                | 16,765            |
| 2018                       | 16,765              | 1,174         | 547                 | 1,022              | 17,463            |
| 2019                       | 17,463              | 1,222         | 548                 | 1,088              | 18,146            |
| 2020                       | 18,146              | 1,270         | 546                 | 1,144              | 18,818            |
| 2021                       | 18,818              | 1,317         | 547                 | 1,196              | 19,486            |
| 2022                       | 19,486              | 1,364         | 547                 | 1,245              | 20,152            |
| 2023                       | 20,152              | 1,411         | 547                 | 1,293              | 20,816            |
| 2024                       | 20,816              | 1,457         | 547                 | 1,340              | 21,479            |
| 2025                       | 21,479              | 1,504         | 547                 | 1,387              | 22,143            |
| 2026                       | 22,143              | 1,550         | 547                 | 1,434              | 22,806            |

Source: Legislative Finance Committee

## V. ECONOMY IMPACT ANALYSIS

The Land Grant Permanent Fund (LPGF) is the largest among New Mexico's four permanent funds. The LGPF's estimated ending market value for the five-year period 2011-2015 was \$12.5 billion. A graph illustrating the economic impact of an additional 1.5% in yearly withdrawals (\$188.7 million) from the LPGF for educational services is shown in the following tables.

An increase in funding for early childhood education will increase the number of people employed in New Mexico, as well as the state's production activity and tax revenue generated as a result of direct investment in early childhood education and the ripple effects that this increased investment in education will have throughout New Mexico's economy. In order to estimate these impacts, the input-output econometric model of the firm Implan was used. The impact of the \$188.7 million in the New Mexico economy is estimated at 5,317 jobs, \$146.8 million in total annual salaries for those employed and \$324.8 million in additional economic output every year.

| Yearly Economic Impact Summary |                   |                      |                      |
|--------------------------------|-------------------|----------------------|----------------------|
| <u>Impact Type</u>             | <u>Employment</u> | <u>Payroll</u>       | <u>Output</u>        |
| <b>Direct Effect</b>           | 4,230             | \$107,301,289        | \$188,744,493        |
| <b>Indirect Effect</b>         | 411               | \$14,683,987         | \$52,466,130         |
| <b>Induced Effect</b>          | 675               | \$24,873,322         | \$83,604,768         |
| <b>Total Effect</b>            | <b>5,317</b>      | <b>\$146,858,599</b> | <b>\$324,815,392</b> |

Source: Implan-online - 2014

The additional economic activity will generate in state and local taxes an estimated revenue of \$11.9 million a year, including gross receipt taxes, property taxes and income taxes.

| Yearly Tax Summary |                            |
|--------------------|----------------------------|
| <u>Description</u> | <u>Total</u>               |
| State / Local      | \$11,951,335               |
| Federal            | \$28,315,796               |
| Annual Total       | <u><u>\$40,267,131</u></u> |

Source: Implan-online - 2014



## VI. PERFORMANCE OF THE ECONOMY OF NEW MEXICO

New Mexico's economy is highly driven by petroleum and natural gas production. The availability of these resources makes this state the fourth-largest net supplier of energy to the nation. Oil and gas industry taxes are important revenue sources and feed several permanent funds as well as guarantee capital bond issues. New Mexico also has a variety of natural and cultural resources and infrastructure that contribute to the diversification of the local economy. Private industries and government-services sectors, such as tourism and recreation, are important motors of the state's economy as well.

After the 2009 economic recession, New Mexico's government has worked to promote job creation and investment and is moving toward the development of other economic development alternatives such as the knowledge and technology industries. However, even with these efforts, economic recovery has been slow compared with the U.S. as a whole, and economic growth forecasts are moderate for the next few years.

New Mexico population declined in 2014 compared to 2013 because net emigration of 0.6% more than made up a natural population growth of 0.5%. It appears that the working age population is the one leaving the state.

The dependency ratio of New Mexico, defined as the population under 18 plus population over 64 divided by the population 18 to 64, poses challenges. Whereas the figure is 0.59 for the United States, it stands at 0.63 for New Mexico. Each working age New Mexican has to take the burden of 0.63 dependents as opposed to 0.59 dependents as the US average.

The sustained decline in oil prices worldwide in the last year has had an ambiguous effect on New Mexico's economy. On the one hand, it has stimulated the economy with lower energy prices, but on the other hand, it has had a negative impact on the mining sector, especially the oil and gas industry, which contributes significantly to the state's economy.

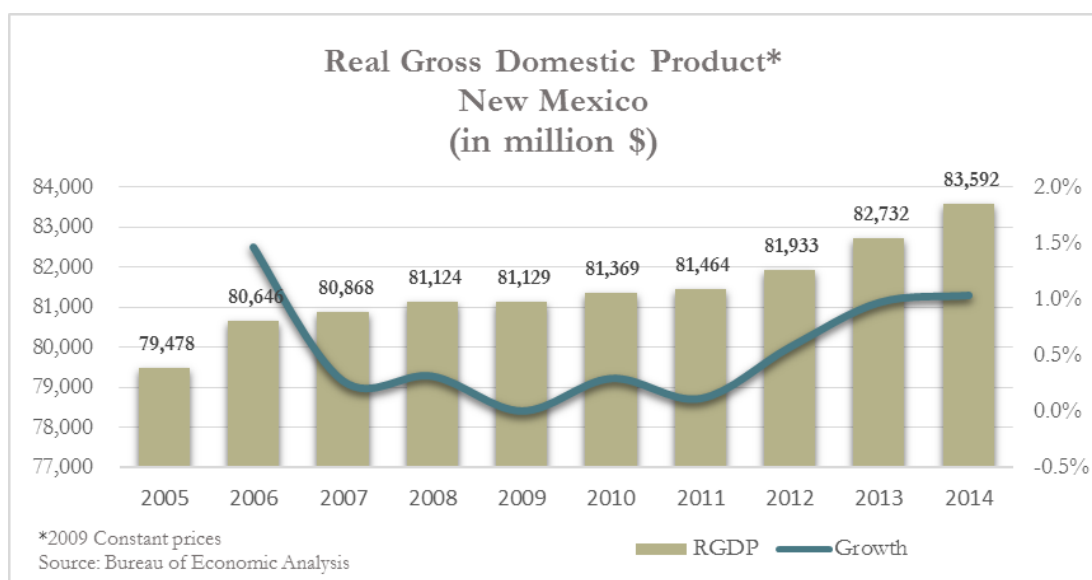
Lower energy prices have also had the effect of saving New Mexico's households approximately \$1 billion in energy expenses. According to projections by the Bureau of Business and Economic Research, if households spent all of this additional income, around \$750 million would have positively affected the state's economy. This would manifest itself in an estimated 6,500 jobs and \$250 million

in wages, salaries and benefits paid. To arrive at the \$750 million figure, additional contributing factors such as loans, taxes, housing and other purchases were taken into account.

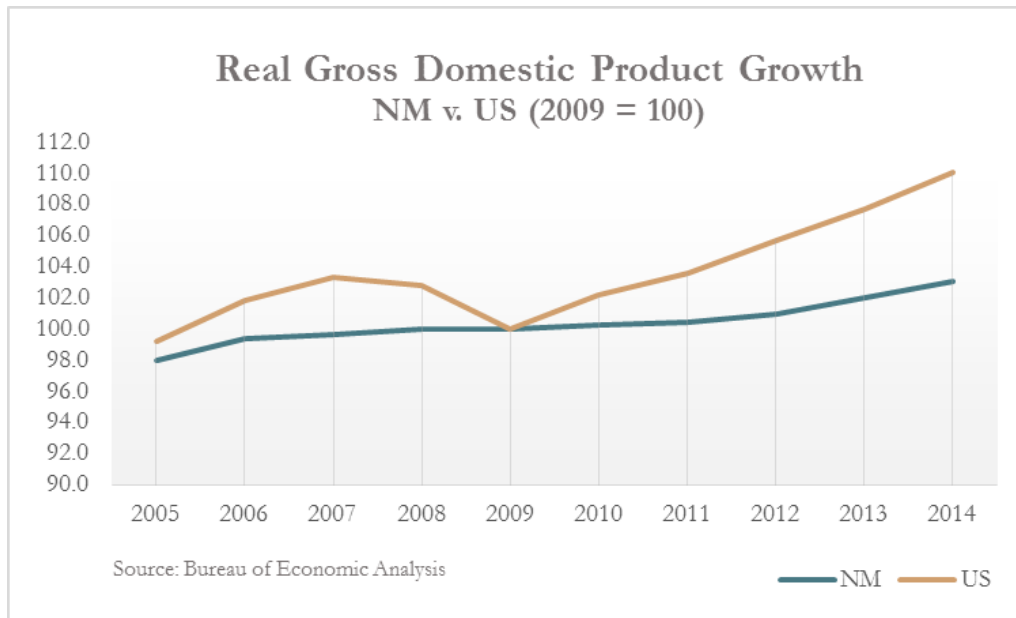
This positive impact would partially offset New Mexico's General Fund losses, as the General Fund receives 20% (roughly \$1.2 billion) of its funds directly from oil and gas taxes and royalties. Regardless of these figures, New Mexico has forecasted a loss of \$145 million for fiscal 2016 due to the decline in oil prices, representing about 2.5% of the state's expected budget.<sup>7</sup>

### Gross Domestic Product and Economic Activity

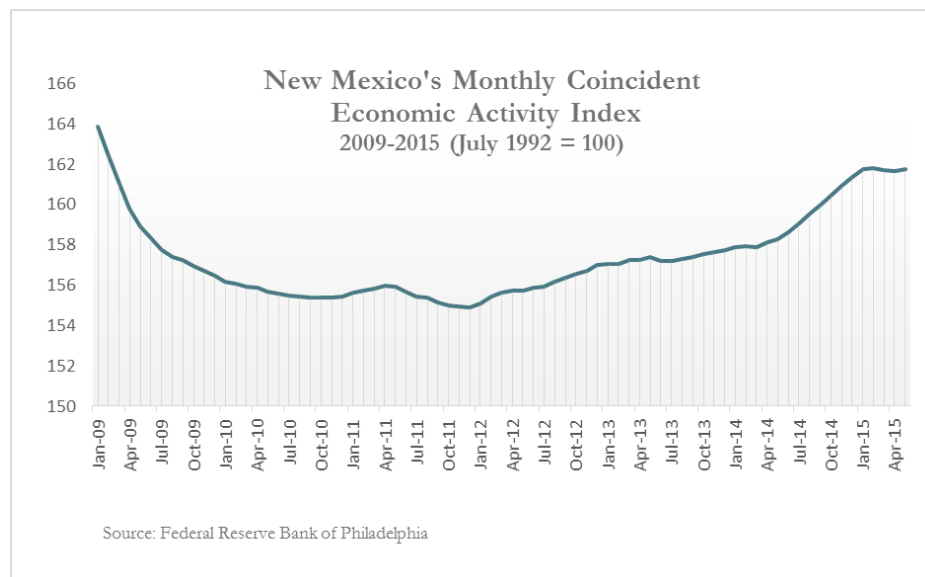
Real Gross Domestic Product (RGDP), as defined by the Bureau of Economic Analysis, is the value of the production of goods and services in the United States, adjusted for price changes. This data was measured through the use of chained dollars with a 2009 base, which allows for viewing different year's dollar amounts, in terms of real value, in 2009. New Mexico's Real Gross Domestic Product growth has been behind U.S. growth and this pattern intensified after the 2009 recession. For 2014, the state's RGDP was \$83.6 billion at constant prices.

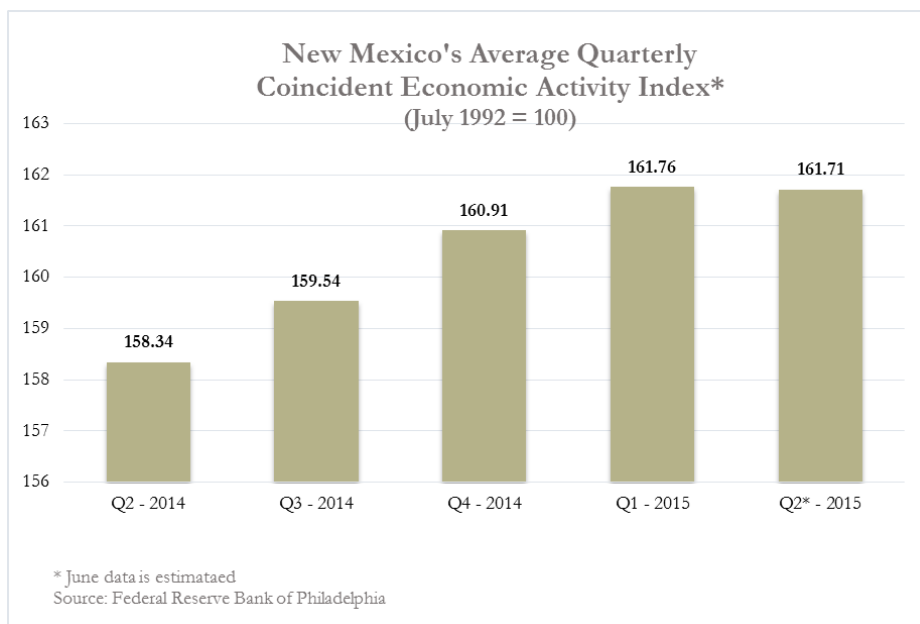


<sup>7</sup><https://bber.unm.edu/presentations/BBER-EconOutlook2015.pdf>



The Coincident Economic Activity Index, estimated by the Federal Reserve Bank of Philadelphia, tracks four indicators: non-farm payroll employment, the unemployment rate, average hours worked in manufacturing, and wages and salaries. New Mexico's Coincident Economic Activity Index shows an improvement in the state's economic activity since 2012, but this growth still has not reached pre-recession 2009 levels. After several quarters of growing indexes, last quarter (April to June 2015) showed a slight decrease when compared to the first quarter of natural year 2015. However, the data compared positively with the same quarter in the previous year (2014).



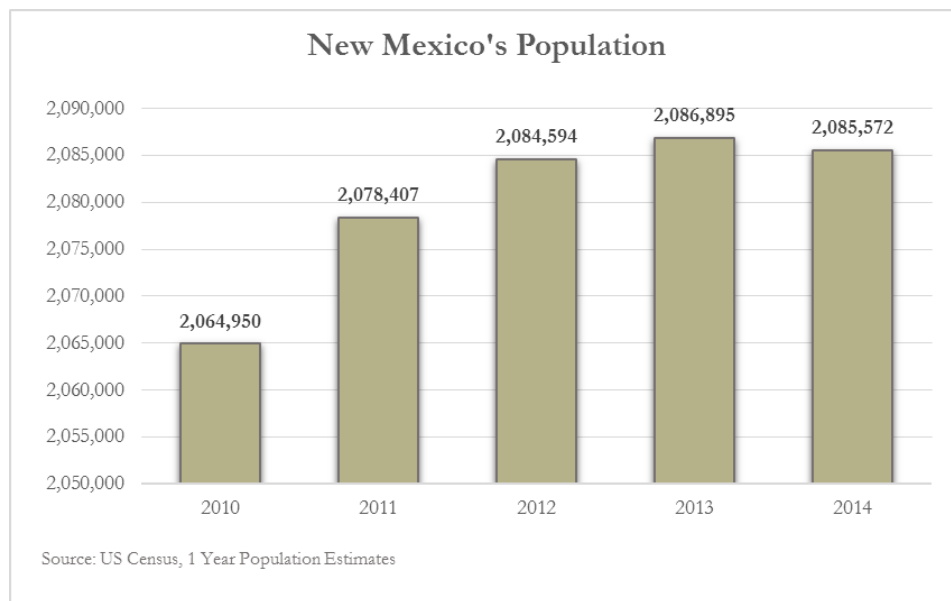


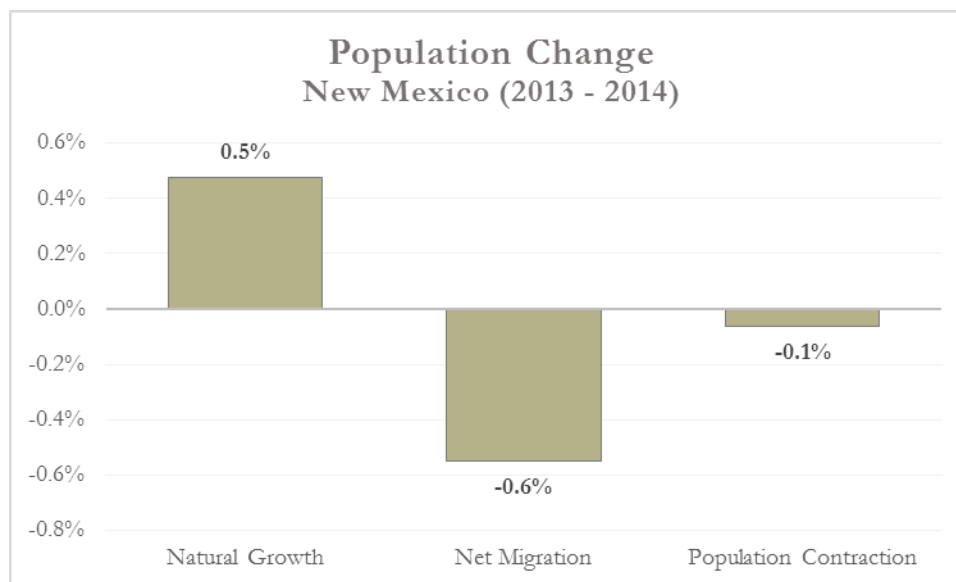
When comparing New Mexico's economic activity index to the U.S. as a whole, it is evident that economic recovery after the 2008-2009 recession has been more accelerated nationwide than in the state.



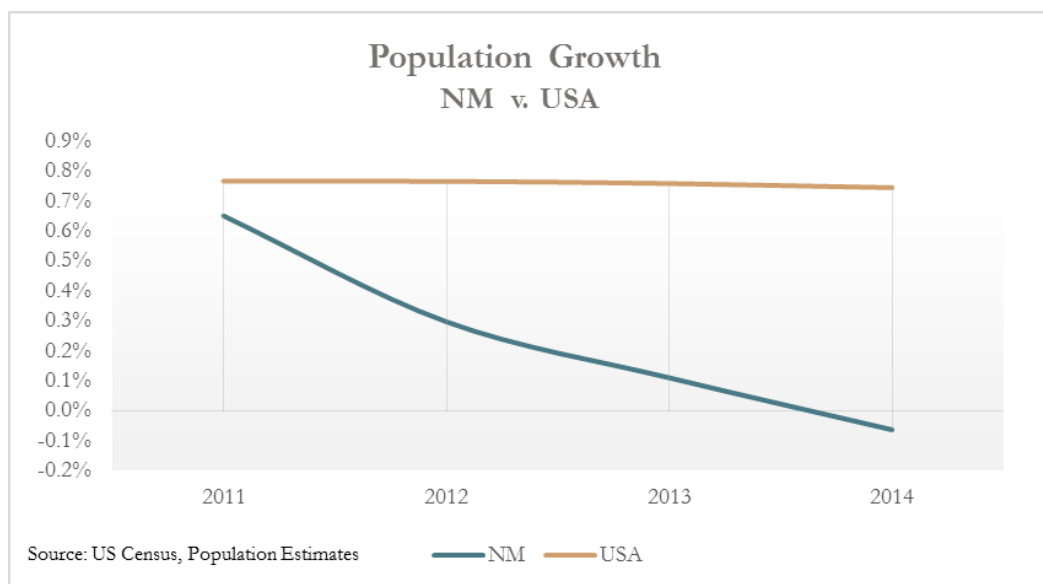
## Population

New Mexico is one of the less densely populated states in the U.S. According to the 2010 U.S. Census, population per square mile in New Mexico is 17 compared with the 87.4 national average. Two demographic trends can be seen in the past few years. First, even though the state's population had been increasing until 2013, Census estimates showed that the population is starting to decrease, beginning in 2014. For 2015, New Mexico's population was estimated at 2,085,572 residents. This represents a contraction of 0.1% when compared to the previous year. In 2014, the natural growth rate (birth rate minus death rate) of the state's population was 0.5% with an emigration rate of 0.6%. This trend can be partially explained by fewer job opportunities in the state.

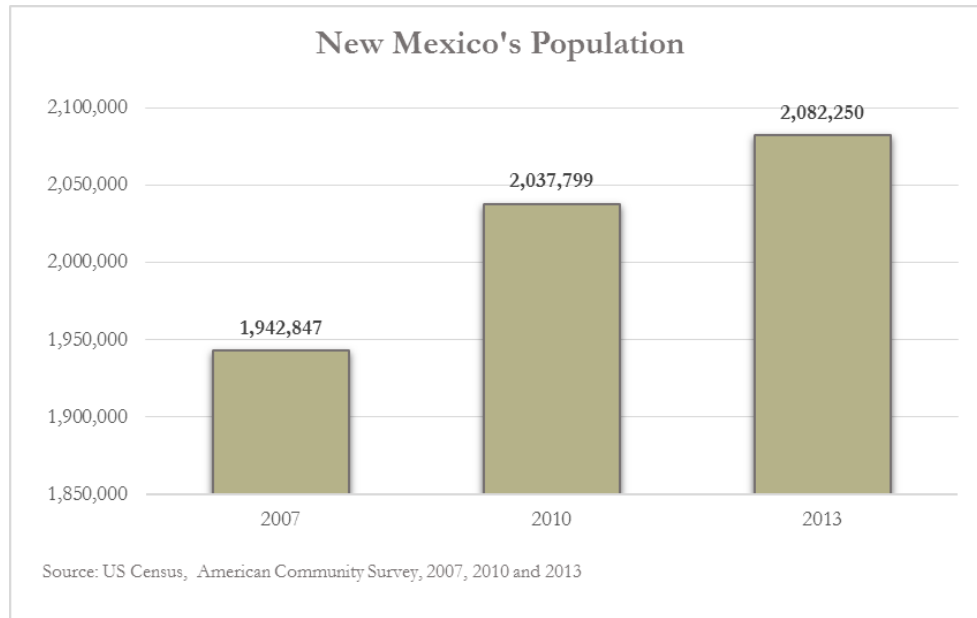




The behavior of New Mexico's population growth in recent years predicted the decline in population that occurred in 2014. From 2011 to 2013, the yearly population growth rate was smaller compared with the previous year.



The American Community Survey (ACS) is an ongoing survey of the U.S. Census that provides information between the decennial censuses. The three-year population estimates for 2007, 2010 and 2013 show an increase in New Mexico's population. However, growth indexes for the state compared negatively with the U.S. as a whole. In other words, New Mexico is not growing in the same rate as that of the U.S.



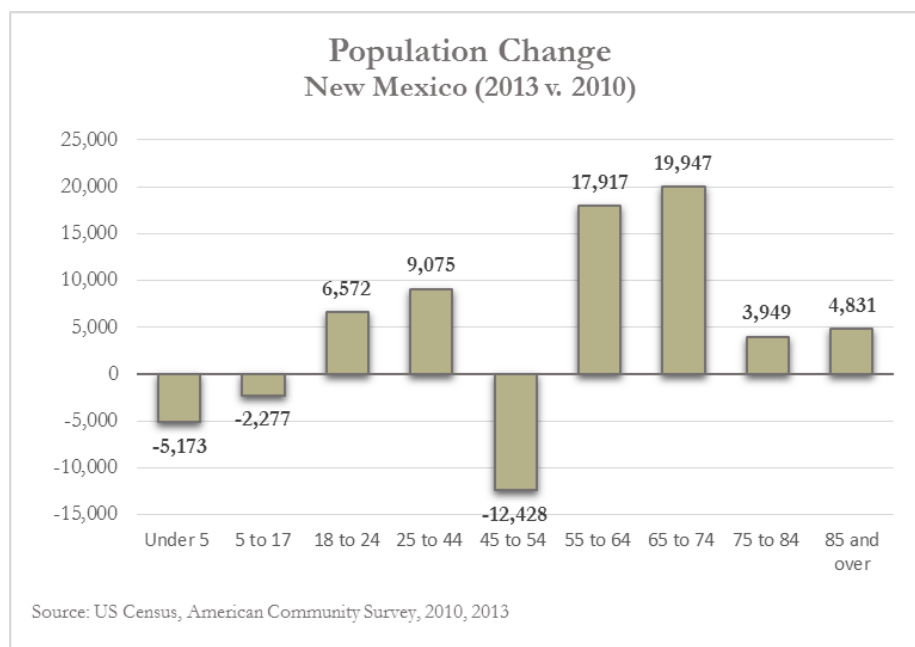
The second demographic trend is that New Mexico's population is aging. This is due to both decreasing birth rates and emigration. From 2007-2013, the state's birth rate per 1,000 residents has decreased from 15.4 to 12.5.<sup>8</sup> Additionally, emigration can be partially explained by 2014 government budget cuts. For example, these budget cuts affected Los Alamos Laboratories, one of New Mexico's largest employers, causing the working age population to emigrate. Decreased government funding also leads to a decrease in private firms being hired by the government and decreased infrastructure projects, both of which decrease employment and benefits, which are disincentives for employees to stay in their jobs.

In 2013, the biggest demographic group of New Mexico's population was between 25 and 44 years old (25%) and between 5 and 17 years old (18%). Despite the number of people between 5 and 17 years old, the population under 17 years decreased by 7,500 people between 2007 and 2013, mainly due to the decrease in children under 5 years old. The decrease in population in the lower cohorts of age is expected to continue in the future. By contrast, during the same time period, the state's population between 55 and 74 years old increased by 37,864 people.

<sup>8</sup><https://ibis.health.state.nm.us/query/result/birth/BirthPopCnty/BirthRate.html>

| Age Distribution<br>(NM v. USA - 2013) |                          |               |                          |               |
|--|--------------------------|---------------|--------------------------|---------------|
| <u>Age</u>                             | <u>US<br/>Population</u> | <u>US (%)</u> | <u>NM<br/>Population</u> | <u>NM (%)</u> |
| Under 5 years                          | 20,087,150               | 6.4%          | 139,511                  | 6.7%          |
| 5 to 17 years                          | 53,670,355               | 17.1%         | 370,641                  | 17.8%         |
| 18 to 24 years                         | 31,386,172               | 10.0%         | 212,390                  | 10.2%         |
| 25 to 44 years                         | 82,859,495               | 26.4%         | 520,563                  | 25.0%         |
| 45 to 54 years                         | 44,254,503               | 14.1%         | 276,939                  | 13.3%         |
| 55 to 64 years                         | 38,604,992               | 12.3%         | 266,528                  | 12.8%         |
| 65 to 74 years                         | 23,853,491               | 7.6%          | 170,745                  | 8.2%          |
| 75 to 84 years                         | 13,182,192               | 4.2%          | 89,537                   | 4.3%          |
| 85 years and over                      | 5,963,373                | 1.9%          | 35,398                   | 1.7%          |
| <b>Total</b>                           | <b>313,861,723</b>       | <b>100%</b>   | <b>2,082,250</b>         | <b>100%</b>   |

Source: US Census, American Community Survey 2013



New Mexico has a diverse population. The state has a high percentage of Hispanics/Latinos, including descendants of Spanish colonists. New Mexico also has one of the highest percentages of Native Americans in the U.S. In 2013, Native Americans represented 9.1% of the state's population. It is important to point out that since 2000, race questions in the Census have allowed responses that include a person belonging to multiple races. Hispanics and Latinos are not considered specific "races"; therefore, they are distributed among the different race categories. Regardless, in 2013, 47.3%



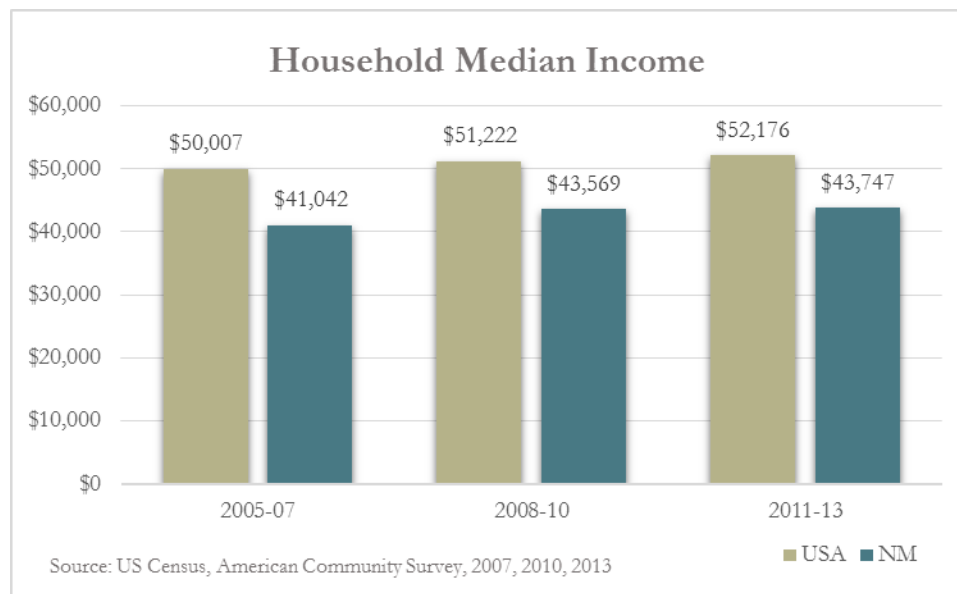
of New Mexico residents reported being Hispanic or Latino compared with 17.1% in the U.S. as a whole.

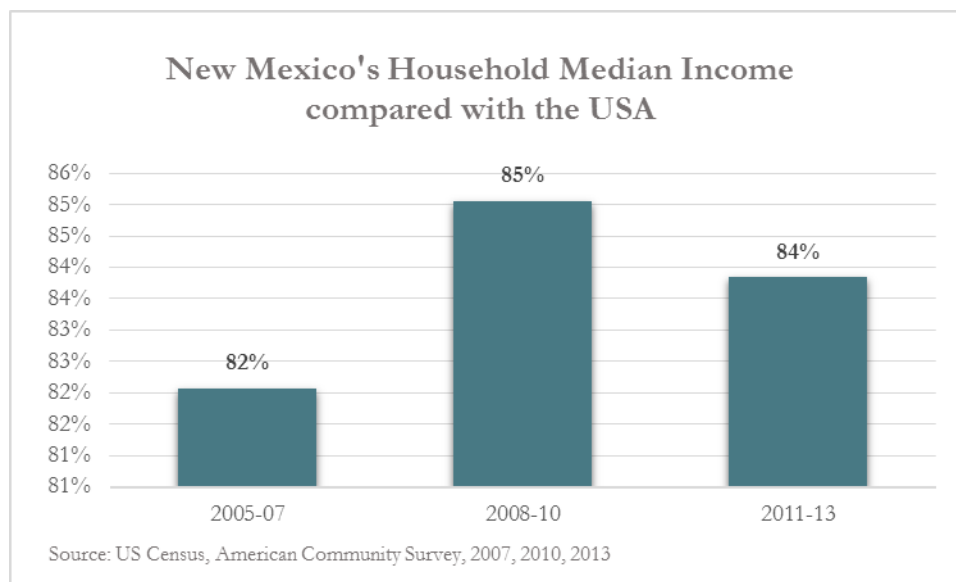
| <b>Racial Composition</b><br>(NM v. USA - 2013) |                          |               |                          |               |
|---|--------------------------|---------------|--------------------------|---------------|
| <u>Age</u>                                      | <u>US<br/>Population</u> | <u>US (%)</u> | <u>NM<br/>Population</u> | <u>NM (%)</u> |
| White   | 231,629,952              | 73.8%         | 1,517,960                | 72.9%         |
| Black or African                                | 39,546,577               | 12.6%         | 43,727                   | 2.1%          |
| American Indian                                 | 2,510,894                | 0.8%          | 189,485                  | 9.1%          |
| Asian   | 15,693,086               | 5.0%          | 27,069                   | 1.3%          |
| Native Hawaian                                  | 627,723                  | 0.2%          | 2,082                    | 0.1%          |
| Other race                                      | 14,751,501               | 4.7%          | 235,294                  | 11.3%         |
| Two or more race                                | 9,101,990                | 2.9%          | 66,632                   | 3.2%          |
| <b>Total</b>                                    | <b>313,861,723</b>       | <b>100.0%</b> | <b>2,082,250</b>         | <b>100.0%</b> |

Source: US Census, American Community Survey 2013

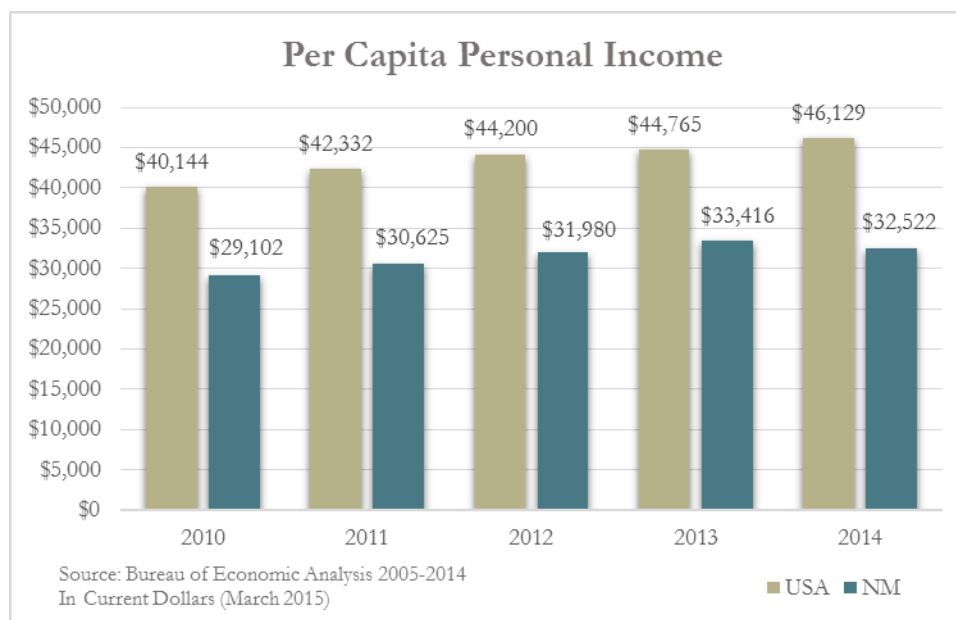
## Income

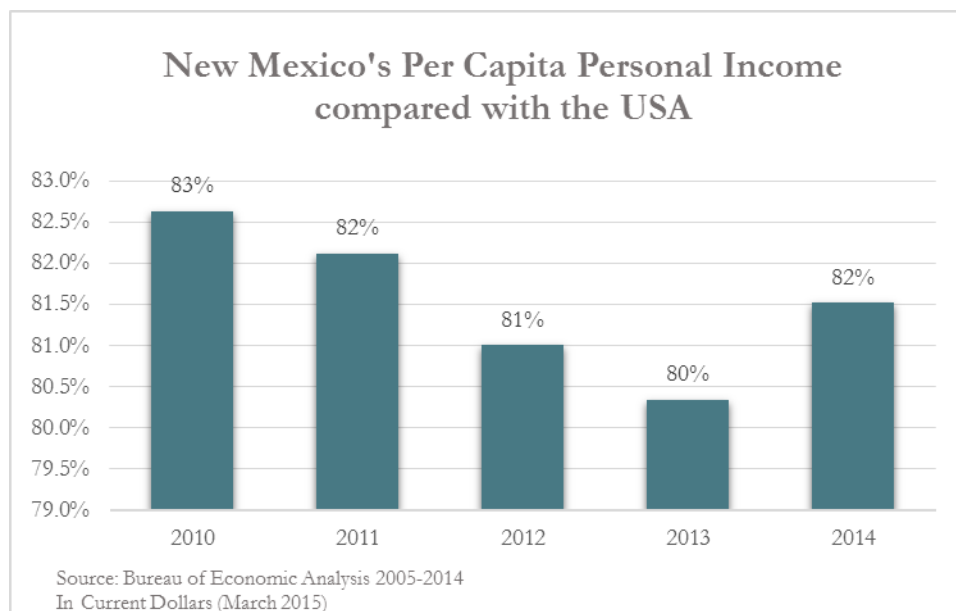
Income is an indicator of economic well-being. When income data is analyzed, it is clear that New Mexico's population is poorer than the U.S. as a whole. According to the Census, in 2013, New Mexico's household median income (\$43,747) was 84% of the nation's median income. Median income is defined as the income that is found in the middle of all incomes reported. Median income in New Mexico represented 82% of the nation's figures during 2005-2007, increased to 85% during 2008-2010 and decreased slightly to 84% during 2011-2013.





New Mexico's per capita personal income (defined as the total income from all sources divided by the population) also ranked lower in comparison with the U.S. as a whole. In 2010, New Mexico's per capita personal income was 83% of the U.S. average, while it decreased to 82% in 2014. These figures demonstrate that on average, New Mexico residents make less compared with the average person nationwide.





When household income distribution is analyzed, it is observed that New Mexico has more households with lower incomes than the U.S. as a whole. For example, 30% of New Mexico households have yearly incomes of \$24,999 or less, compared with 25% nationwide. This is consistent with New Mexico's lower median income and per capita income when compared nationwide.

| <b>Household's Income Distribution</b> |                      |             |                      |             |
|--|----------------------|-------------|----------------------|-------------|
| New Mexico v. USA (2013)               |                      |             |                      |             |
|  | <u>US Households</u> | <u>US %</u> | <u>NM Households</u> | <u>NM %</u> |
| Less than \$10,000                     | 8,692,140            | 8%          | 76,203               | 10%         |
| \$10,000 to \$14,999                   | 6,394,344            | 6%          | 51,447               | 7%          |
| \$15,000 to \$24,999                   | 12,631,131           | 11%         | 98,962               | 13%         |
| \$25,000 to \$34,999                   | 11,967,794           | 10%         | 86,809               | 11%         |
| \$35,000 to \$49,999                   | 15,760,268           | 14%         | 107,746              | 14%         |
| \$50,000 to \$74,999                   | 20,766,581           | 18%         | 127,972              | 17%         |
| \$75,000 to \$99,999                   | 13,778,262           | 12%         | 83,295               | 11%         |
| \$100,000 to \$149,999                 | 14,652,992           | 13%         | 78,480               | 10%         |
| \$150,000 to \$199,999                 | 5,540,382            | 5%          | 27,773               | 4%          |
| \$200,000 or more                      | 5,547,410            | 5%          | 21,564               | 3%          |
| Total                                  | <b>115,731,304</b>   | <b>100%</b> | <b>760,251</b>       | <b>100%</b> |

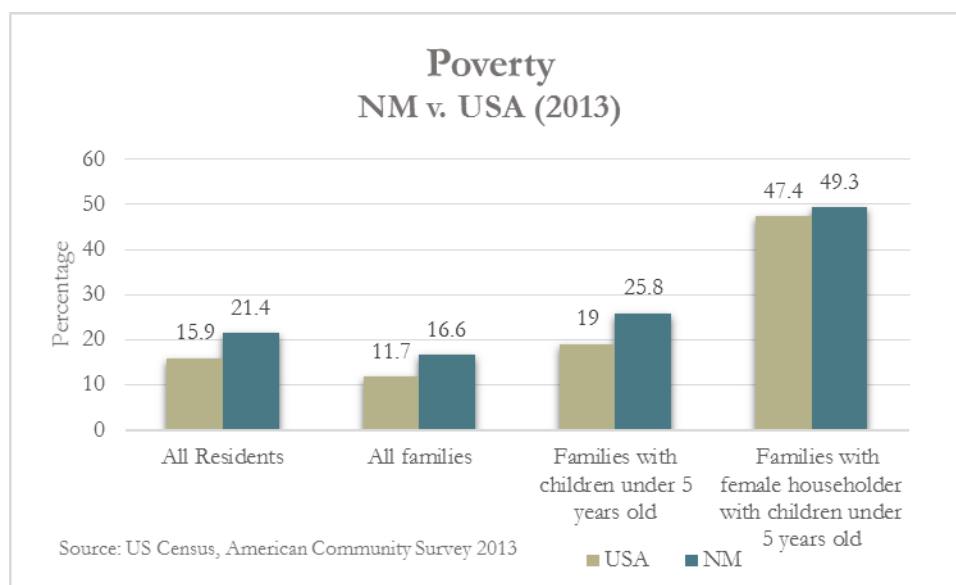
Source: US Census, American Community Survey 2013

## Poverty Level

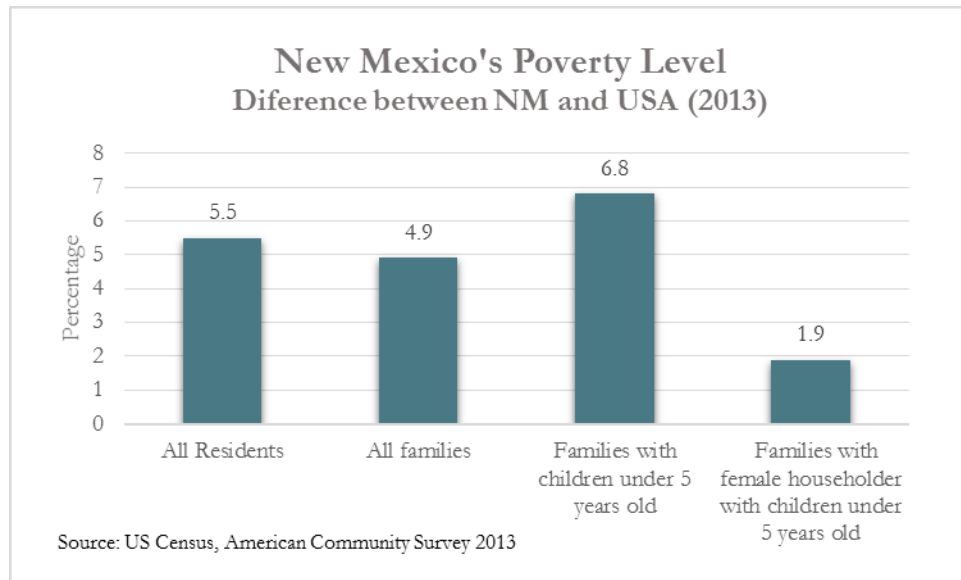
New Mexico's population is poorer than the rest of the nation. According to the Census, in 2013, New Mexico's poverty level was 21.4%, which was 5.5 percentage points higher than the nation's

15.9% average. This difference was even bigger when considering families with children under the age of five (6.8 percentage points higher in the state than nationwide). Single women with children are the poorest segment of the population not only in New Mexico, but also nationwide.

The percentage of people who are living below the poverty level is calculated by the Census Bureau. The agency establishes income thresholds that vary by family size and composition to determine who is living in poverty. If a family's total income is less than the established poverty threshold for the same family composition, then that family and every individual in it are considered living in poverty. The official poverty thresholds do not vary geographically, but they are updated for inflation using the Consumer Price Index. The official poverty definition uses income before taxes and does not include capital gains or non-cash benefits such as public housing, Medicaid and food stamps.

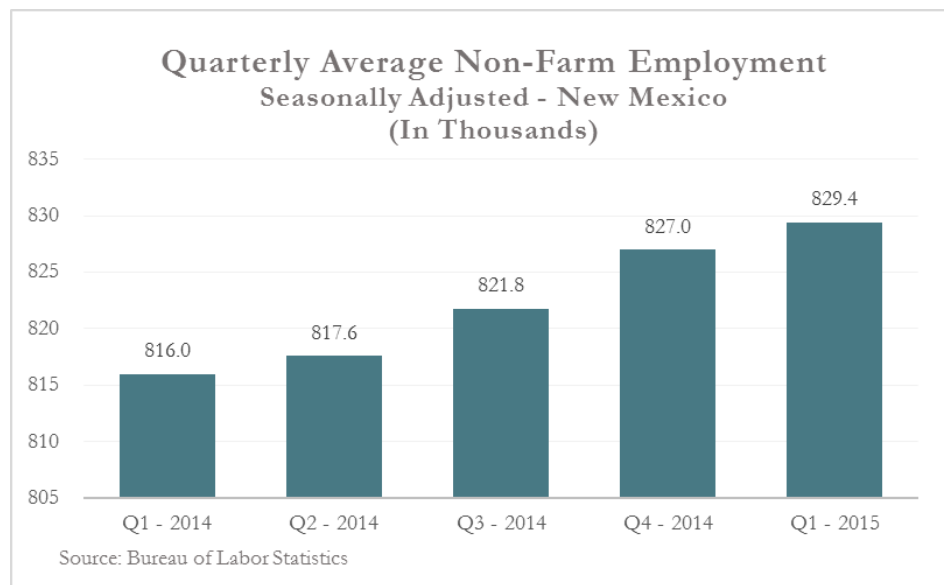


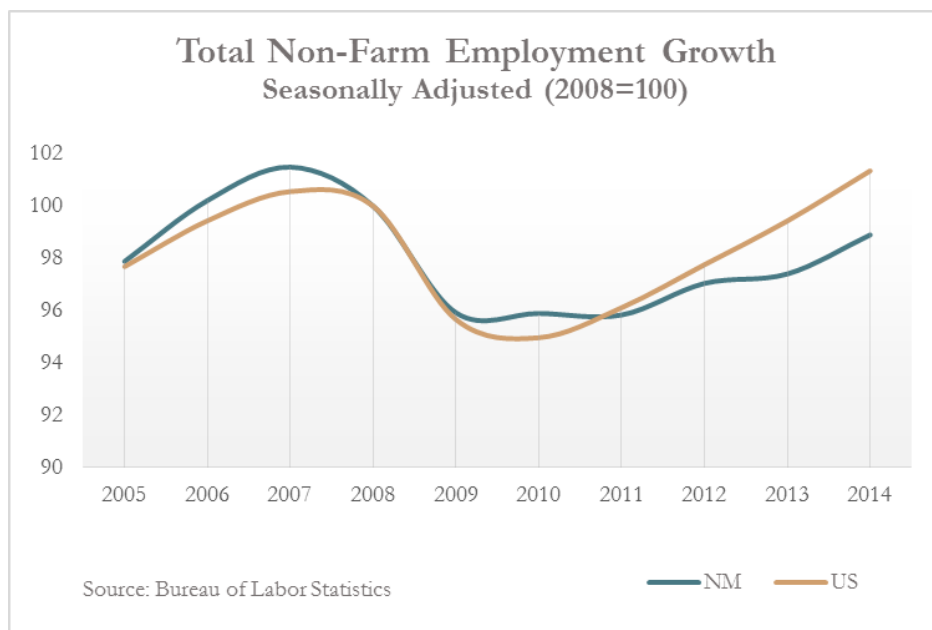
The graph below represents the difference in poverty level between New Mexico and the U.S. as a whole. This number was arrived at by subtracting the percentage of people living in poverty in the U.S. from New Mexico, thereby providing the percentage point difference.



## Employment

New Mexico's employment levels went down after the 2009 recession, but are showing signs of recovery. Total non-farm employment has increased since 2012 and has shown an increase in the last five quarters (including the first three months of 2015). Nevertheless, the state's current employment remains 2.1% below pre-recession 2009 levels (93.8% versus 95.9%) and is behind the employment growth observed nationwide. This behavior is observed in the second graph below.





The state's employment distribution by industry has not changed much since 2005. Government (local, state and federal) is still the main employer in New Mexico; two of the largest employers in the state are the federal technology labs at Los Alamos National Library and Sandia National Laboratories. They are followed by Education and Health Services and Professional and Business Services. In 2014, Mining and Logging only represented 3.4% of the state's employment.

Employment expansion could occur in the renewable energy sector. Through the development of renewable energies such as solar and wind power, jobs would be created in several sectors such as manufacturing, construction, engineering, electricity and energy, and operation and maintenance, just to name a few. The American Council on Renewable Energy found a total of 1,128 megawatts currently installed in the state,<sup>9</sup> while Los Alamos National Library in 2010 found the total developable renewable capacity by 2030 exceeds 5,200 megawatts.<sup>10</sup> This means there is a large amount of unused resources in New Mexico that could be developed, which would increase employment opportunities for the population. Through the development of renewable energy, New Mexico would be creating jobs in several sectors including manufacturing, construction, engineering, electricity and energy, and operation and maintenance, among others.

<sup>9</sup><http://www.acore.org/files/pdfs/states/NewMexico.pdf>

<sup>10</sup>[http://nmreta.com/images/stories/pdfs/collector\\_report\\_current.pdf](http://nmreta.com/images/stories/pdfs/collector_report_current.pdf)

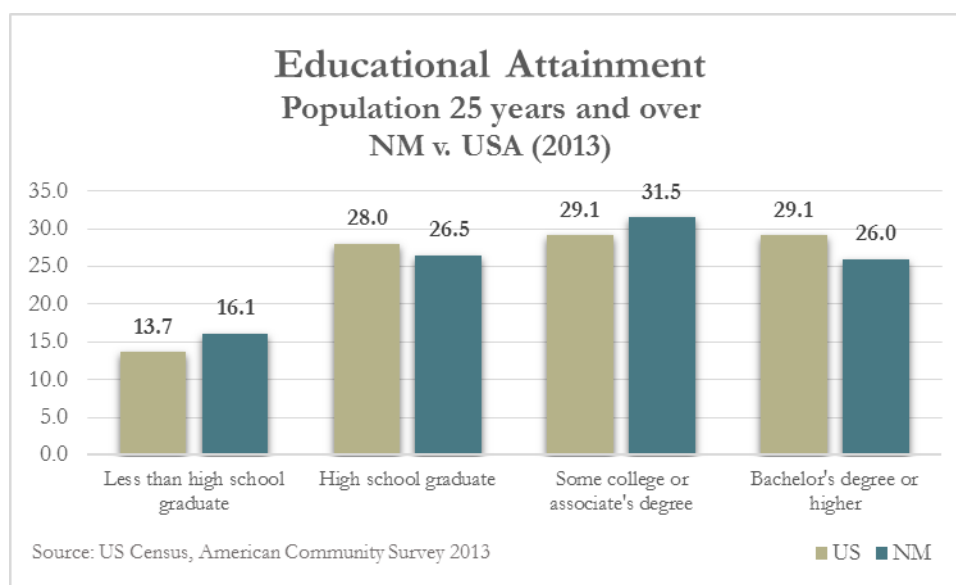
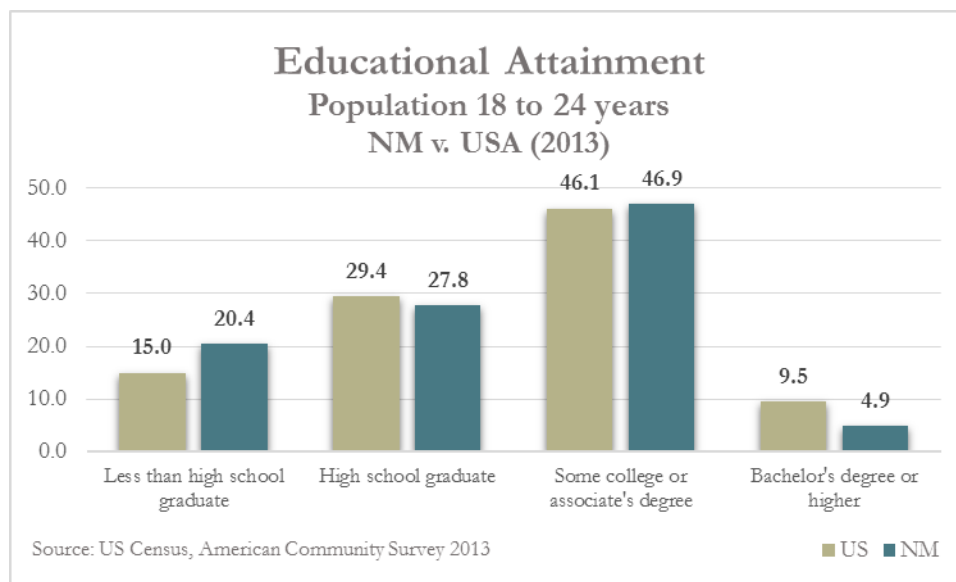
| Employment by Industry Distribution<br>New Mexico |                         |                                    |                         |                                    |
|---|-------------------------|------------------------------------|-------------------------|------------------------------------|
| <u>Industry</u>                                   | <u>2005</u><br><u>%</u> | <u>2005</u><br><u>In Thousands</u> | <u>2014</u><br><u>%</u> | <u>2014</u><br><u>In Thousands</u> |
| Mining and Logging                                | 2.1%                    | 16.9                               | 3.4%                    | 27.8                               |
| Construction                                      | 6.9%                    | 54.4                               | 5.3%                    | 42.6                               |
| Manufacturing                                     | 4.5%                    | 36.1                               | 3.5%                    | 28.2                               |
| Wholesale Trade                                   | 2.9%                    | 22.7                               | 2.7%                    | 21.7                               |
| Retail Trade                                      | 11.8%                   | 93.6                               | 11.5%                   | 92.6                               |
| Transportation and<br>Utilities                   | 2.9%                    | 23.3                               | 3.0%                    | 24.0                               |
| Financial Activities                              | 4.4%                    | 34.9                               | 4.1%                    | 33.4                               |
| Professional and<br>Business Services             | 11.7%                   | 92.7                               | 12.3%                   | 99.3                               |
| Education and Health<br>Services                  | 13.2%                   | 104.9                              | 15.8%                   | 127.5                              |
| Leisure and Hospitality                           | 10.6%                   | 83.8                               | 11.2%                   | 90.6                               |
| Other Services                                    | 3.7%                    | 29.1                               | 3.5%                    | 28.5                               |
| Local Government                                  | 13.0%                   | 102.8                              | 12.8%                   | 103.8                              |
| State Government                                  | 8.6%                    | 68.4                               | 7.2%                    | 58.7                               |
| Federal Government                                | 3.8%                    | 30.0                               | 3.6%                    | 29.5                               |
| Government Total                                  | 25.4%                   | 201.2                              | 23.7%                   | 191.9                              |
| <b>Total</b>                                      | <b>100.0%</b>           | <b>793.7</b>                       | <b>100.0%</b>           | <b>808.2</b>                       |

Source: Bureau of Labor Statistics

## Educational Attainment

High education levels are often related to a better quality of life for people and their families. This is because with a higher education, people have more opportunities for employment, which means they are more likely to have a higher income, more likely to be health conscious and less likely to be incarcerated.<sup>11</sup> When educational attainment is examined for New Mexico, it is observed that it compares negatively to the rest of the U.S. Among New Mexico's population between 18 and 24 years old, only 27.8% have graduated with a high school diploma, compared with 29.4% nationwide. The same pattern can be seen among those with a bachelor's degree or higher (4.9% in New Mexico versus 9.5% nationwide). The same trends are repeated among people 25 years and older.

<sup>11</sup>[http://www.collegeboard.com/prod\\_downloads/press/cost04/EducationPays2004.pdf](http://www.collegeboard.com/prod_downloads/press/cost04/EducationPays2004.pdf)





## VII. BENEFITS OF EARLY CHILDHOOD EDUCATION

While a discussion of the benefits of early childhood education is outside the scope of this work, it must be stressed that participation in high-quality early-childhood development programs has been shown to have the following positive effects:

- Reduce criminal behavior and delinquency as an adult;
- Reduce the need for public welfare expenditures later in life;
- Reduce grade repetition, juvenile delinquency and drug abuse;
- Increase high school graduation rates and educational attainment; and
- Increase labor-force participation rates.

Investing in young children promotes social and economic productivity, fairness and social justice. Thus, early interventions targeted toward disadvantaged children have much higher returns than later-in-life interventions (e.g. reduced pupil-teacher ratios, public job training, rehabilitation programs for juvenile offenders and adult inmates, and tuition subsidies). Yet, studies have shown that our society over-invests in remedial skill programs at later ages and under-invests in the important early years.<sup>12</sup>

As stated in the Analysis of Transferring Resources from New Mexico's Land Grant Permanent Fund to Early Childhood Education Report, Advantage's prior report, the advancement in studies related to economic development in recent years has demonstrated a high correlation between education and economic growth.<sup>13</sup> The groundbreaking work of Nobel Prize Laureate James J. Heckman, of the University of Chicago, with a consortium of economists, psychologists, statisticians and neuroscientists, shows that early childhood development directly influences the education, economic, health and social development for individuals and society. Investing in early childhood education reduces deficits, strengthens the economy and is a key driver of success in school and life.

By increasing access to prenatal care, New Mexico is saving money for every child not admitted to a hospital's Neonatal Intensive Care Unit (NICU). In dollars and cents, every healthy newborn who is

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<sup>12</sup>Heckman. Skill Formation and the Economics of Investing in Disadvantaged Children. *Science* (2006) vol. 312 (5782) pp. 1900-1902.

<sup>13</sup> The Impact of Education on: The Economy; Alliance for Excellent Education Fact Sheet, November 2003.

not admitted to a NICU represents savings for New Mexico of approximately \$43,333 to \$45,000.<sup>14</sup> This cost does not include expenditures to treat chronic health conditions as a result of premature births and low birthweight.

New Mexico is lagging in several factors that are analyzed by the annual Annie E Casey Foundation “National Kids Count” reports on children’s well-being, resulting in its 49 out of 50 ranking in the U.S in 2015. New Mexico has an 8.9% incidence of low birthweight babies, 18% of homes where the head of household does not have a high school diploma and 29% of children living in poverty.

New Mexico is also doing very poorly in statistics regarding high school students. For example, 10% of teenagers in New Mexico are neither working nor in school, which is one of the highest percentages in the U.S. New Mexico also has one of the highest teen birth rates nationwide at 43 births per 1,000 teens (ages 15 to 19).<sup>15</sup>

Regarding educational attainment alone, in dollars and cents, there is a 49.3% salary differential between a New Mexican resident with a high school degree versus one without. The average salary of a New Mexican resident with a high school degree is \$25,637 year, while a person who is not a high school graduate earns \$17,168 a year.<sup>16</sup>

The academic performance of New Mexico’s children also stood low in comparison with the national average, based on data from the National Kids Count<sup>17</sup> and reports by the Alliance for Excellence Education.<sup>18</sup> One such area of low academic performance is fourth-grade reading levels, as they are very low compared with the U.S. average (21% proficient in New Mexico compared with the 34% national average), according to 2013 figures. This same pattern was also observed in later years of schooling.

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<sup>14</sup> According to published reports, the average NICU stay is 16 days and the average NICU cost is about \$43,333 to \$45,000. As cited by the New York Times, “In Search of Cuts, Health Officials Question NICU Overuse,” The Texas Tribune, by Emily Ramshaw, March 19, 2011; and “Children’s TeleICU –The Most Sophisticated in the U.S. – Finds its First Partner Hospital, D Healthcare Daily, by Steve Jacob, Oct. 21, 2013.

<sup>15</sup><http://www.aecf.org/m/resourcedoc/aecf-2015kidscountdatabook-2015.pdf>

<sup>16</sup> Data on median earnings of New Mexico residents ages 25 and older, 2012 American Community Survey, one-year estimates, U.S. Census Bureau.

<sup>17</sup><http://datacenter.kidscount.org/>

<sup>18</sup>Alliance for Excellence Education webpage.<http://all4ed.org/state-data/new-mexico/>



|      |                        | Fourth Grade Reading Levels |               | Eighth Grade Reading Levels |               |
|------|------------------------|-----------------------------|---------------|-----------------------------|---------------|
| Year | Proficiency            | New Mexico                  | United States | New Mexico                  | United States |
| 2007 | Below proficient       | 76%                         | 68%           | 83%                         | 71%           |
|      | At or above proficient | 24%                         | 32%           | 17%                         | 29%           |
| 2009 | Below proficient       | 80%                         | 68%           | 78%                         | 70%           |
|      | At or above proficient | 20%                         | 32%           | 22%                         | 30%           |
| 2011 | Below proficient       | 79%                         | 68%           | 78%                         | 68%           |
|      | At or above proficient | 21%                         | 32%           | 22%                         | 32%           |
| 2013 | Below proficient       | 79%                         | 66%           | 78%                         | 66%           |
|      | At or above proficient | 21%                         | 34%           | 22%                         | 34%           |

Source: Kids Count Data Center

Students need strong literacy skills to succeed in today's knowledge-based economy, yet very few of the state's eighth-grade students read at a proficient level (22% in New Mexico compared with 34% of the national average). Moreover, New Mexico has one of the worst high-school graduation rates in the U.S., graduating a mere 70% of its students, while the national average is a significantly higher 80%. Not surprisingly, very few of the state's high school graduates enter college with the knowledge and skills necessary to succeed. These important abilities include reading comprehension, writing and mathematical skills, critical thinking, independent study skills and understanding the norms of college life. As a result, many college students must frequently take remedial courses, costing them time and money that could be better used in pursuing a degree. To be more precise, New Mexico's "college readiness" rate has been estimated at 17%, much lower than the 26% national average.<sup>19</sup>

<sup>19</sup>Alliance for Excellence Education webpage. <http://all4ed.org/state-data/new-mexico/>