

ISSUER COMMENT

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New Mexico (State of)

Voters approve constitutional amendment to increase education funding, a credit positive

On November 8, [New Mexico](#) (Aa2 stable) voters approved a ballot measure that would boost the annual distribution from the state's Land Grant Permanent Fund (LGPF) to 6.25% of its five-year average market value from 5.0% via a state constitutional amendment. The added distribution would flow to the state's general fund with 60% earmarked for early childhood education and 40% for public schools, specifically enhanced instruction for at-risk students, extending the school year and teacher compensation. The amendment needs congressional approval to take effect because the LGPF was established by federal law.

The new funding would bolster the state's efforts to improve education by approximately \$230 million (2.5% of fiscal 2022 general fund recurring revenue) annually over the next six years. This is credit positive because research shows that investments in education can reduce poverty and raise earnings, areas where New Mexico trails most other states.

Investments in education will help long-term economic growth

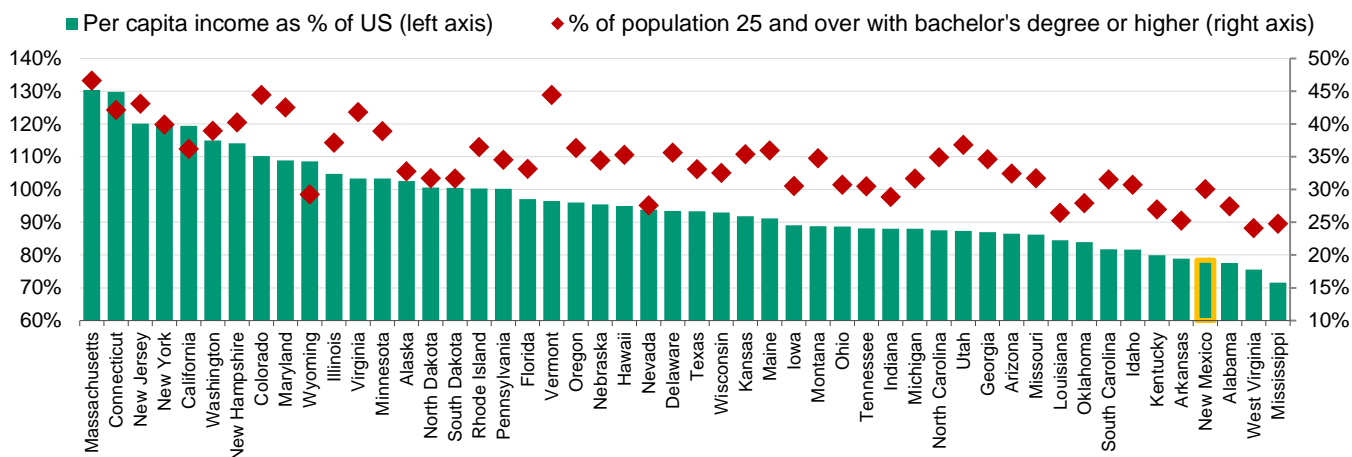
In recent years, New Mexico has made substantial efforts to boost education funding, in part to address a [2018 state court ruling](#) determining the state had failed to adequately fund education for at-risk students and, by extension, violated individuals' constitutional rights. Since the ruling, New Mexico has increased funding markedly for at-risk students, teacher salaries, instructional materials, and other education functions. The state's recurring appropriations for public schools has grown by \$1.2 billion (44%) between fiscal years 2018 and 2023 (ending June 30, 2023) despite ongoing enrollment declines. That funding bump is higher than the 35% increase in total general fund recurring appropriations over the same period.

New Mexico also created an Early Childhood Education and Care Department in 2019, which is working to ensure all young children have equitable access to high-quality early childhood opportunities. The 2020 legislative session established an Early Childhood Trust Fund and provided that excess oil and gas emergency school tax revenue on top of five-year averages be deposited in the fund if general fund reserves are at least 25% of recurring appropriations.

Tuesday's voter-approved constitutional amendment would provide more funds to improve education as New Mexico trails most states in [public education outcomes](#) and educational attainment. Generally, states with higher educational attainment tend to have higher resident income, a metric where New Mexico also lags behind (see Exhibit 1). As New Mexico seeks to diversify its economy and reduce its reliance on the oil and gas industry, improving education outcomes will help the state create opportunities for future growth.

Exhibit 1

States with higher education attainment typically have higher resident income profiles



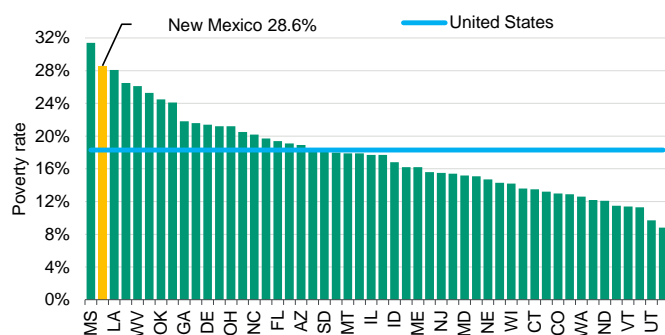
Data are for calendar year 2021. New Mexico also ranks the sixth lowest among all states in terms of percentage of population 25 and over with a high school degree or higher (2021 data).
 Sources: US Census Bureau American Community Survey and Moody's Investors Service

Increased investments in early childhood education would be especially important for New Mexico because it has a relatively high child poverty rate (see Exhibit 2). [Research by the National Center for Education Statistics](#) shows that living in poverty during early childhood is associated with below-average academic performance through high school and a below-average school completion rate. Research also shows that access to high-quality early childhood programs improves long-term education outcomes for at-risk students and helps narrow socioeconomic inequalities. In addition, initiatives to expand childcare programs may help parents enter or return to the workplace, boosting labor force participation. As seen in Exhibit 3, New Mexico's labor force participation rate remains below its pre-pandemic level and trails the national rate.

Exhibit 2

New Mexico has one of the highest child poverty rates among US states

Children under five living in poverty (2021)

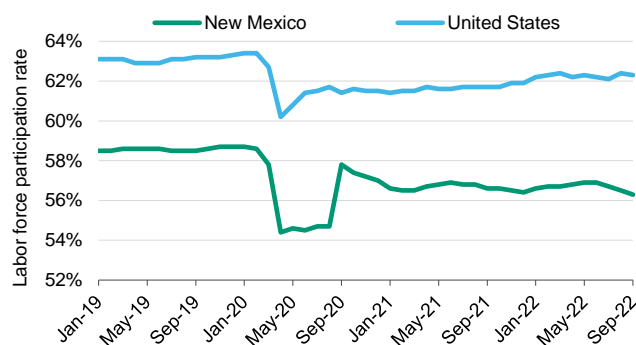


New Mexico had the third highest overall poverty rate (18.4%) among all 50 states as of 2021.

Sources: US Census Bureau American Community Survey and Moody's Investors Service

Exhibit 3

New Mexico's labor force participation rate trails the national rate and remains below its pre-pandemic level



Sources: US Bureau of Labor Statistics and Moody's Investors Service

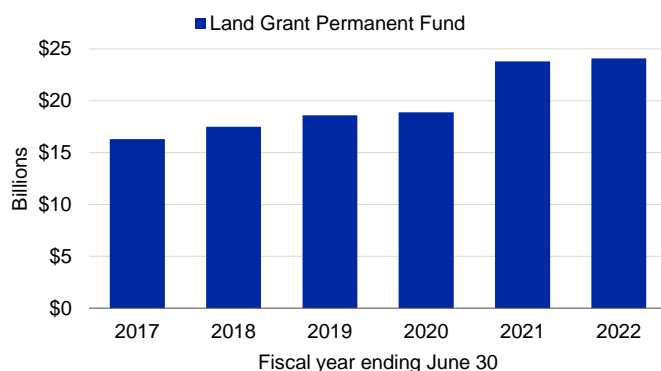
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Surge in energy revenue boosts Land Grant Permanent Fund

The Land Grant Permanent Fund, also known as the Permanent School Fund, derives revenue from leases and royalties on non-renewable natural resources, such as oil and gas, as well as returns on invested capital. As of fiscal year-end 2022, the LGPF had a market value of approximately \$24.1 billion, up \$7.8 billion (48%) from five years ago, aided by the state's increased energy production and the surge in energy prices. Basing distributions to the general fund on the five-year average of the fund's market value helps to smooth annual fluctuations in oil- and gas-related revenues and royalty contributions.

Exhibit 4

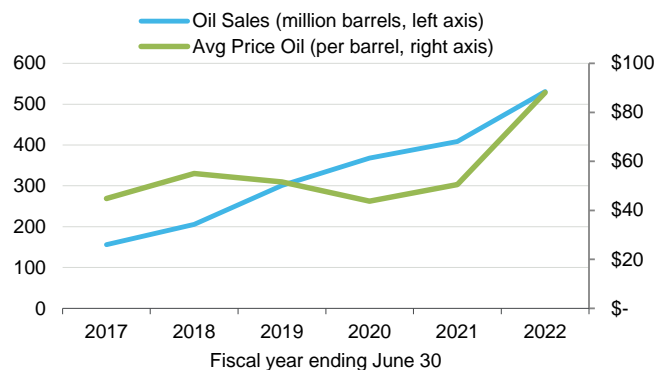
New Mexico's Land Grant Permanent Fund has grown significantly in recent years...



Sources: New Mexico State Investment Council and Moody's Investors Service

Exhibit 5

...benefitting from the state's increased energy production and recent high energy prices



Natural gas production and prices are also up in recent years.

Sources: State of New Mexico Department of Finance and Administration, New Mexico Taxation and Revenue Department and Moody's Investors Service

Increasing the LGPF distribution rate to 6.25% via the constitutional amendment would provide more revenue for education in the next 20 years. However, the increased distribution rate would limit the fund's growth and reduce nominal distributions in the long run. The state's [Legislative Finance Committee estimates](#) that by fiscal 2044, the 6.25% distribution from the corpus would be less than the distribution generated under the previous 5.0% rate. Positively, the constitutional amendment also provides a "safety valve" such that the distribution shall not occur if the five-year average of the LGPF falls below \$17 billion.

New Mexico's Early Childhood Trust Fund has similarly benefitted from record energy revenue, most recently with \$1.3 billion in fiscal 2022 "excess" oil and gas emergency school tax revenue deposited into the fund. Apart from the intended distribution from the LGPF, the ECTF will distribute the greater of \$30 million or 5% of the three-year average fund balance to the Early Childhood Education and Care Department starting in fiscal 2023. The state's Legislative Finance Committee projects that distributions from the ECTF will grow to over \$300 million in fiscal 2027 from \$30 million in fiscal 2023.

New Mexico's public education system has benefited when energy revenues surge, although the opposite occurred following the 2016 oil price crash when the state reduced education funding to balance its budget in 2017.

Moody's related publications

Sector Comment

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- » [Public K-12 School Districts and Community College Districts - New Mexico: Increased funding for New Mexico public K-12 and CCDs is credit positive but pension challenges remain](#), April 10, 2019

Credit Opinion

- » [New Mexico \(State of\): Update to credit analysis](#), September 12, 2022

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