



LFC Newsletter

A publication of the **Legislative Finance Committee**

Representative Patricia Lundstrom, Chairwoman
Senator George Muñoz, Vice Chairman
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Volume 22 Issue 07-10

January-April 2022

From the Chairwoman **Bold Ideas**

Tax reform, a seemingly perennial topic in New Mexico, will certainly come up again this interim, the period between legislative sessions that lends itself to more in-depth conversations than are possible during the 30 or 60 days legislators meet as a whole. While conversations on tax reform have yet to result in a comprehensive plan that wins the support of a majority of the state's 112 lawmakers, bit by bit, we are reshaping the state's tax structure into one that better serves New Mexicans and New Mexico businesses.

This year, that conversation should include the idea of eliminating or greatly reducing the rates of the personal income tax. I can almost hear the collective gasp, but consider this:

The fastest growing states and communities have no income tax and, hoping to gain an edge in the competition to attract businesses, more states are going that direction. Mississippi legislators are considering a plan to cut its top rate to 4 percent by 2026, Louisiana cut its top rate to 4.25 percent last year, and Arkansas will take its top rate down to 4.9 percent by 2025.

Businesses are attracted to tax stability. More than the periodic tax rebates popular among individuals, businesses want to know what they're working with long term. They want a clear picture of what the tax environment will be next year and the year after that. While the personal income tax doesn't directly affect the taxes paid by a business, it does affect its owners and employees and influences their decision on where to locate.

New Mexico's tax environment is getting more stable, providing room for reform efforts. While revenues are still buffeted by the roller coaster energy industry, the Legislature has taken steps to stabilize long-run planning, with the creation of a more robust rainy-day fund and a commitment to leave hefty balances in reserves. That greater stability allows us to build budgets and tax reform on a more reliable foundation.

The idea of reducing or eliminating personal income taxes is not without its challenges. At about \$2 billion a year, revenue from the personal income tax makes up a quarter of the general fund and a third of the three-legged stool that supports state revenues. The state can't eliminate the tax without making up at least some of the revenue somewhere else.

But that's the advantage of the interim; lawmakers have time to consider challenging topics, and this year's interim discussion of tax reform, when the topic inevitably comes up, can include a consideration of the personal income tax.

Even if it makes some people gasp.

Representative Patty Lundstrom
Chairwoman

APS Funding Grows but Performance Still Lags

With dropping enrollment and lagging student performance, Albuquerque Public Schools must right-size its staff at the same time it improves practices, LFC evaluators conclude.

In a program evaluation scheduled to be presented to the committee at 9 a.m. April 27, committee staff reports enrollment in the state's largest school district dropped by nearly 17 percent in the last decade, to 72.5 thousand, while per-pupil funding grew by 49 percent to \$9,919.

Staff notes APS has a quarter of public school students statewide and accounts for a similar percentage of the budget, making it the driver in funding, enrollment, and performance trends.

Despite more funding for fewer students, student performance remains low – only 20 percent of APS students were proficient in math in 2019 and just 31 percent were proficient in reading, the report says.

In addition, the gap in achievement between low-income students and their more affluent peers is greater in Albuquerque public schools than the state average, and high school graduation

rates, while improving, continue to lag national averages. College-going rates among graduates are also declining.

Data from mid-year assessments in elementary schools indicates the pandemic has exacerbated these challenges, as more students and teachers left the district and chronic absenteeism increased. APS staff research found lower academic proficiency and growth than before the pandemic.

The report recommends the district consider extended learning approaches, in part to help make up for learning loss during the pandemic, and improved professional development in its efforts to improve student performance. It further recommends APS find a way to ensure more of its most effective teachers work in low-income schools.

The district has millions of dollars in untapped state and federal dollars for extended learning and other initiatives, according to the report.

LFC staff notes the district, hit with a procurement controversy last year, must strengthen its oversight procedure and should consider broadening the responsibilities of the internal audit unit.

Little Improvement in Agency Grades

The latest quarterly report cards on agency performance show little improvement on key measures, LFC staff report, and few agencies have formal plans for addressing shortcomings.

The report, scheduled to be presented to the committee at noon April 27, notes performance assessments are taking a bigger role in budget development through the use of the LegisStat model, which uses data-driven conversations between the committee and state agencies to identify issues and develop solutions.

Among the findings for the second quarter of the 2021-2022 fiscal year:

- Although test data from the 2020-2021 school year is very limited, the information available suggests math proficiency among students might have fallen by as much as 10 percent during the pandemic.
- From 2010 to 2020, enrollment at New Mexico colleges fell by 27 percent, more than double the 11 percent decline experienced nationally. The

college-going rate of graduating high school students fell by 61 percent between 2010 and 2018.

- Enrollment in the Childcare Assistance subsidy program for FY22 is down 16 percent from FY20 levels, from an average of 20 thousand to an average of 17 thousand children, even though the state continues to cover the full cost of care for qualifying parents, an increase in the benefit adopted at the start of the pandemic.
- Caseloads for judicial agencies – courts, prosecutors, and public defenders – continue to decline year-over-year, an indication cases were not backlogged by the public health closures.
- Inmate populations are still dropping, partly due to fewer offenders returning to incarceration because of technical parole violations, according to the Corrections Department. However, the agency continues to struggle with high vacancy rates among correctional officers.

Change in Revenue and Spending Rarely Align

Growth in general fund revenue is estimated at 8.4 percent for FY23, the budget year that starts July 1, while appropriations authorized during the legislative session are expected to boost general fund spending by 13.8 percent.

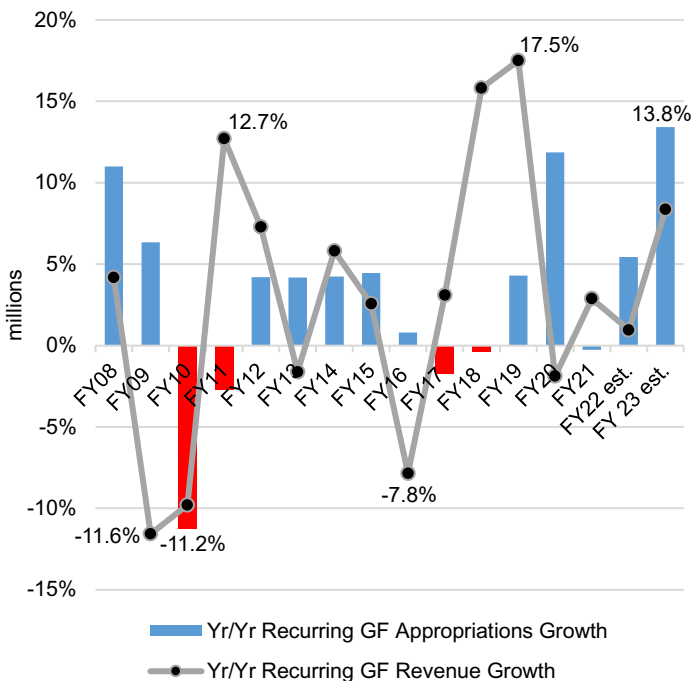
A look at the ups and downs of general fund appropriations and revenue that will be in the LFC *Post-Session Review*, scheduled for release later this month, shows the two trends rarely line up, with the extraordinary revenue growth of 17.5 percent in FY19 paired with moderate spending growth of 4.3 percent. Staff analysts note the pattern suggest the state budgets reactively, with spending lagging increases and decreases and conclude revenue instability challenges long-term planning.

Notably, the FY19 revenue growth reflects growth over FY18, a year with significant growth itself of almost 16 percent over FY17. General fund revenue grew from about \$6 billion to \$8 billion between FY17 and FY18.

While spikes in revenue growth over the last decade and a half have often been the result of a boom in the oil industry, spending levels are not only a reflection of available funds but also of the health of fund reserves and the availability of federal stimulus money, a significant factor during the Great Recession in 2008 and the current pandemic.

In the last 16 years, the state has faced three financial crises substantial enough to prompt special legislative sessions specifically to maintain budget solvency: during the Great Recession, the collapse of oil prices in 2014-2016, and the Covid-19 pandemic.

Recurring General Fund Revenue and Appropriations Annual Change



Source: LFC Files

LFC Newsletter

2021-2022 Fiscal Year, Months 07-10

Published monthly in the interim by the Legislative Finance Committee.
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On the Table

Transportation Project Costs Up 20-50%

Recent road project costs have come in 20 to 50 percent above initial estimates because of inflation and supply chain issues, the Transportation Department reports. High gas prices have had a particularly hard impact, with prices up \$1 per gallon since projects were bid. The department said the \$20 million provided by the Legislature for overruns is unlikely to cover all cost increases.

Assistance Caseloads Up

The Human Services Department reports 957,659 individuals received Medicaid in January 2022, a 5.1 percent increase from one year ago and a 0.3 percent increase from December. The Supplemental Nutrition Assistance Program (food stamps) caseload in January 2022 was 289,392, an 11.1 percent increase from one year ago but essentially flat with December. The Temporary Assistance for Needy Families caseload was 13,240 in January 2022, an increase of 4.3 percent over January 2021 and 1.1 percent over December.

No-Test Teacher License Option Considered

The deans and directors for New Mexico colleges of education report the Professional Practices and Standards Committee is considering proposals to replace some teacher licensure testing requirements with a portfolio review process. While the change could increase the number of licensure candidates, a 2012 LFC evaluation found teachers who failed the licensure tests at least once had students with lower achievement levels.

Transitions

The Education Commission of the States has appointed Sunny Liu, senior LFC analyst, to serve on the steering committee of the Legislative Education Staff Network.

LFC has hired seven new employees recently. The new analysts are Ginger Anderson, who has a background in governmental and nonprofit work and is completing her master's in social work at NMHU; David Saavedra, a recent graduate of the public administration master's program at the University of New Mexico and the former president of the UNM graduate student association; Sarah Helms, who is finishing her master's of fine arts from the University of California Riverside and has experience in international nongovernmental agencies and creative writing; and Joseph Simon, former Legislative Education Study Committee analyst.

In the Evaluation Unit, the new staff members are John Campbell, a private attorney with a law degree from UNM who worked for the Senate Finance Committee this past session; Kathleen Gygi, most recently a program and data evaluator for Project ECHO with a Ph.D. in human-centered design and masters in technical communication from University of Washington; and Rachel Mercer Garcia, a former LFC staff member who has since worked extensively in education, earned a masters in education from the Broad Center, and is working on her doctorate in education and organizational leadership from the University of Southern California.

In addition, Cally Carswell, formerly an LFC evaluator, is the new capital outlay fiscal analyst.

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