

Revenue Diversification and Education Funding: *Supporting our Students with Equitable Tax Policy*

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Our mission is to champion public policies that improve the well-being of New Mexico's children, families, and communities.



Why NM Voices works on tax policy

1. Adequate, reliable revenues are necessary to support the programs that matter most to kids and families
2. Tax policy can also be a powerful tool to help advance equity and well-being in New Mexico



If we want to successfully create opportunities for kids through a great education system, then we need to ensure we have the adequate revenues, and that having enough money for books, for school counselors, and for teacher pay isn't subject to fluctuating revenues.

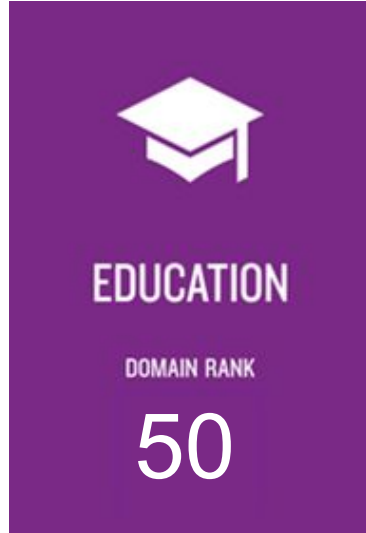


Today, we'll go over:

- What the data tells us
- Recent progress in education & funding
- Education recommendations
- Tax and budget + education policy
- The need to diversify revenues
- Tax and budget recommendations



2022 KIDS COUNT rankings



50th overall *using data ranging from 2016-2020*



Before the pandemic hit, NM was on a path to prosperity

In 2019 and 2020:

- Improved fairness in our tax code
- Raised important revenue
- Increased funding for important programs and services
- Extended relief and protected health and safety of workers



COVID-19 created new challenges

- 18% of households with children have little to no confidence in ability to pay their next housing payment on time
- 32% report children aren't eating enough because food is unaffordable
- 48% are having difficulty paying for usual household expenses
- In 2020, NM saw a 13% increase in rates of child anxiety and depression compared to 2016



Progress in early education and K-12

- Established ECECD and Early Childhood Trust Fund
- Expanded eligibility for Child Care Assistance
- *Martinez/Yazzie* response led to significant K-12 funding increases since 2019
- Voters approved additional funding from the Land Grant Permanent School Fund



Progress in higher education

- Restored and increased College Affordability Fund
- Fully funded the Legislative Lottery Scholarship
- Enacted the Opportunity Scholarship Act



Unmet education needs remain

- Increase support for ECE programs
- Increase support for Native American, low-income, and ELL students and students with disabilities
- Increase funding for school-based health centers, community schools, and mental and behavioral health services
- Ensure funding levels allow full implementation of IEA, HEA, BEA, and BMEA



The Early Childhood Trust Fund & Land Grant Permanent Fund

- Keep the new Early Childhood Trust Fund intact for early childhood programs.
- Use the new distribution from the Land Grant Permanent Fund to expand and improve ECE and K-12 programs, not to supplant the General Fund.



Challenges still remain, and moving forward requires stable, sustainable revenue to support our kids' educational needs.



Past revenue shortages have short-changed education funding

Budget cuts prior to 2019 resulted in:

- 50th in the nation in educational outcomes.
- 14% cut in inflation adjusted per-pupil K-12 spending from 2008-2018.
- Near the bottom in educator pay.
- Educator and teacher shortages.
- Recommended staff ratios for student mental & behavioral health services not met.
- *Yazzie/Martinez* lawsuit that highlighted chronic underfunding and racial and ethnic disparities.

Important progress has been made recently to address these issues, but work remains.



Let's talk taxes!

Adequacy and equity in New Mexico's tax code



We tried - and failed - to cut our way to prosperity

Major actions pre-2019

- Personal income taxes: big personal income tax cuts in 1981 and 2003 mostly for the very wealthy
- Wealth taxes: elimination of estate tax in 2001 + major opposition to wealth taxes
- Corporate income taxes: tax cuts mostly for big businesses in 2013
- Gross receipts taxes: tax breaks for different groups, services, and products



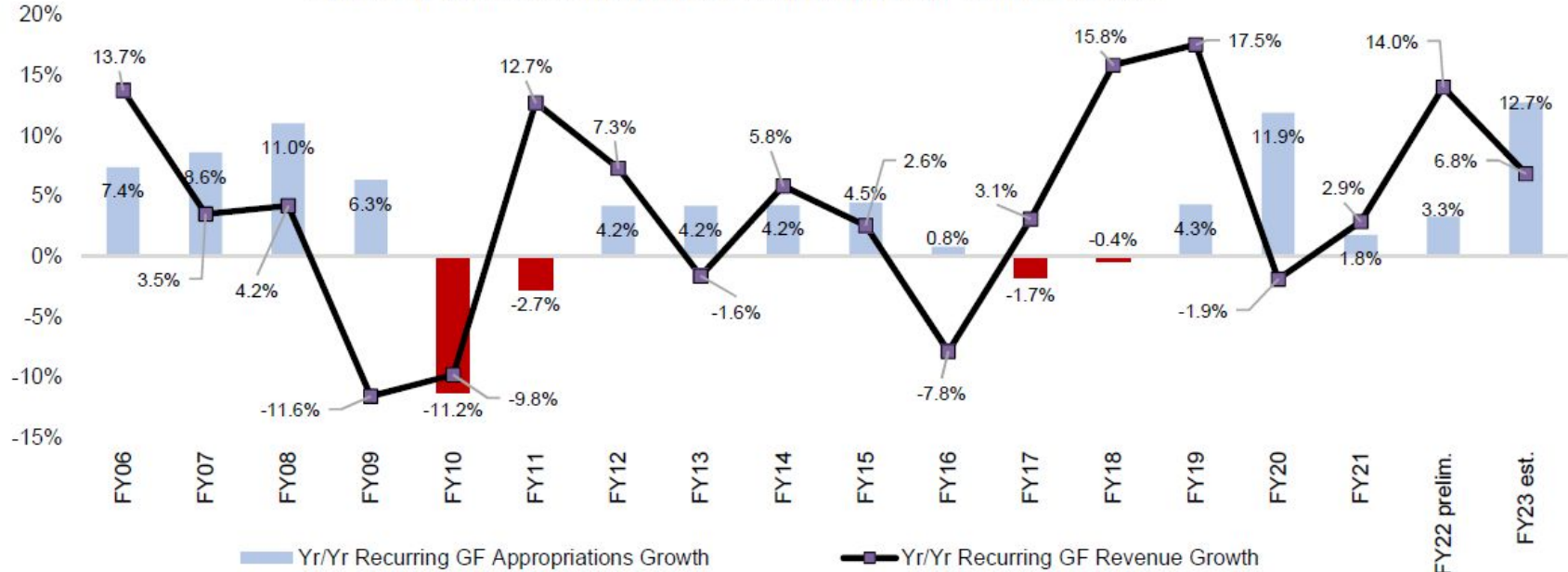
Tax cuts harmed adequacy and equity

1. Inability to fund crucial programs
2. Inequitable and unbalanced tax system
3. Over-reliance on oil and gas industry's volatile revenues



Our revenues - and our ability to budget sustainability - fluctuate dangerously

Recurring General Fund Revenue & Appropriation Annual Growth



Source: LFC Files



Revenue fluctuation is hard to estimate and plan for

- 2017: revenue shortage caused major cuts
- 2019: 75% of revenue *surplus* tied to O&G
- 2020: 70% of projected revenue *decline* tied to O&G
- 2022: 66% of projected revenue *surplus* tied to O&G rebound
- \$1 change in price of oil has a \$27 million impact

Revenue instability harms your ability to budget consistently and meet our educational needs.



Over-reliance on oil and gas revenue limits educational progress

- O&G revenues account for 33% of K-12 funding
- Yet the industry is in a long-term decline

Volatility and decline put our education system at risk.



You've made important tax policy progress

- More racially and ethnically equitable
- Better for families
- More progressive
- More and more diversified revenue streams



Recent Tax Policy Wins for Families

Legislative Tax Changes	Additional annual benefit to families (in millions)	Total 5-year additional benefit (in millions) (FY20-FY25)
Increased the WFTC from 10% to 17% of federal EITC (HB 6, 2019)	\$41	\$238
Increased the WFTC to 25%, included filers with ITIN & under 25 (HB 291, 2021)	\$49	\$146
Created a dependent deduction (HB 6, 2019)	\$28	\$165
Expanded Low-Income Comprehensive Tax Rebate (HB 291, 2021)	\$51	\$202
Created a Child Tax Credit (HB 163, 2022)	\$74	\$149
One-time Income Tax Rebate (SB 1, 2021)	\$109*	\$109
One-time Income Tax Rebate (HB 163, 2022)	\$312*	\$312
One-time Income Tax Rebate (HB 2, 2022 Special Session)	\$678*	\$678
Total	\$1,342	\$1,999

*Non-recurring

Note: While the income tax rebates are one-time, the other legislative tax changes are recurring and the effective tax year ranges during this five-year time period. For policies already in statute - like the WFTC and LICTR - the annual benefit shown here is the additional benefit as a result of the legislative change. See specific policy for more information on total benefit and the effective tax year.

Source: New Mexico Legislative Finance Committee (LFC), 2022

Tax policy recommendations to support educational outcomes



Improving tax credits for families will drive economic equity and support student educational success.



Increase the Child Tax Credit

- At present, all families will receive a CTC of up to \$175/child
 - Recommend increasing to \$400-\$600/child for families most in need
- Linked to improvements in health, education, & economic outcomes
- 75% of the benefit goes to families of color
- Will reduce child poverty
- Cost: \$100 million



Stable, sustainable, and diversified revenue builds the foundation for a strong education system.



Build fair, sustainable, and adequate revenue streams

- Raise the personal income tax for the state's highest earners
- Repeal the capital gains deduction
- Increase the corporate income tax for large corporations and enact a corporate minimum tax
- Repeal ineffective GRT tax breaks to broaden the base to lower the rate
- Targeted alcohol and tobacco taxes to fund behavioral health programs



Thank you!

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