



LFC Newsletter

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Legislative Finance Committee

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From the Chairman **No Waiting**

Considered a model for the equitable distribution of school funding when implemented 40 years ago, New Mexico's state equalization guarantee still does a pretty good job of distributing education dollars. But pretty good is not good enough.

Over the past eight years, three different studies have concluded the New Mexico formula – an enrollment-driven calculation with weighted factors for school and district size, students' special needs and other factors – needs to be replaced or revised. Of greatest concern, the three studies by the American Institutes of Research, Syracuse University and the Legislative Finance and Education Study committees noted the formula does not cover the extra cost of educating the children most at risk of failing.

Legislators during the 2014 session passed a proposal that gave greater weight to the funding factor for at-risk students and increased funding to cover the change. The formula change survived but companion funding of \$15.2 million was vetoed by the governor.

It's common knowledge that New Mexico tends to be at the bottom of rankings of public education success. However, while most New Mexico third-graders without income and language barriers are proficient in reading, the proficiency rate drops dramatically when those students live in poverty and are learning English. For Hispanics, about a quarter of low-income English-language learners are proficient while the proficiency rate jumps to more than 70 percent for those without those issues.

We cannot expect to build better schools or a better future for our state until we address that achievement gap. And, while a lawsuit challenging the funding formula is already working its way through the court system, we can't wait for that legal challenge to be resolved before we act.

Over the last 10 years, the Legislature has increased total spending on public schools by more than 36 percent, but performance on most measures has improved only slightly or remained flat. We need to do everything we can to ensure future funding increases count and clearly that must include doing more for at-risk students. Now.

*Representative Luciano "Lucky" Varela
Chairman*

Energy Industry Boom Misses Natural Gas

The oil production surge testing the capacity of southeastern New Mexico communities and feeding strong general fund revenues has failed to trigger a similar surge in the natural gas industry, leaving San Juan Basin out of the boom.

An overview of the San Juan Basin energy industry is among the presentations scheduled for the committee's July hearings in Farmington. The agenda includes a review of the energy economy outlook with a senior economist from Conoco at 8:30 a.m. on July 9 and the San Juan Basin overview at 1 p.m. the same day.

The San Juan Basin discussion includes two panels, one with energy executives and one with experts from state agencies, New Mexico Tech, and Los Alamos National Laboratory that will cover fracking and the use of brackish and recycled water during production.

The San Juan Basin is a strong producer of natural gas, responsible for 63 percent of the state's production between FY09 and FY13, LFC analysis shows.

However, natural gas production is in a decline statewide and particularly in

the San Juan Basin, where production dropped almost 20 percent between FY09 and FY13. Statewide, production dropped about 15 percent.

Oil production jumped 50 percent in that same period.

A nationwide glut in natural gas, triggered by technological improvements that allowed extraction of previously unavailable reserves, has pushed gas prices and production down, LFC analysis says.

New Mexico prices dropped from \$5.61 per thousand cubic feet in FY09 to \$4.37 in FY13. However, New Mexico also benefits from production of natural gas liquids, byproducts of the production of raw natural gas. In FY13, the natural gas liquids premium was 76 cents per thousand cubic feet.

Oil and gas producers in the San Juan Basin, which produced just 3 percent of the state's oil between FY09 and FY13, are looking to the Mancos shale formation to boost their oil output.

LFC staff say it is likely the energy industry will invest significantly in Mancos formation wells because advances in hydraulic fracturing and horizontal drilling have led to increased shale oil production nationwide.

Credentials Bad Predictor of Teacher Effectiveness

A study of the effectiveness of New York City math teachers found a teacher's initial credential – whether the teacher had a traditional certificate, no certificate, or alternative certificate – had little impact on the teacher's success with students, with the exception of instructors from Teach for America, a Harvard-based researcher says.

Thomas Kane told committee members during June hearings that Teach for America instructors in the New York study were more effective, though only slightly.

Whether the teaching student attended a selective college, took more math courses, or scored higher on certain testing also had little to do with the teacher's success, he said. Teaching experience helped but extra coursework while the

student was getting that experience hurt.

Kane said teachers improved significantly after the first year and generally continue to improve over the first three years. However, teachers who perform poorly in their first year typically continue to lag behind in effectiveness.

Tenure should not be automatic after a teacher's probationary period, pre-service programs should include classroom experience, and student teachers who are ineffective in the classroom should be weeded out, Kane concluded.

Echoing other studies, Kane said his research shows an effective teacher can significantly improve student test scores, with average students working with an effective teacher scoring 20 percentage points better than average students working with an ineffective teacher.

Oil Production Soars, Fuels State Revenues

New Mexico oil production has exploded since the recession, more than doubling in the last six years and with almost all of it coming from the Permian Basin in the southeast corner.

The volume of oil produced statewide grew 16 percent in FY12 and 17 percent in FY13. Estimated growth in FY14 is supposed to match FY13 at 17 percent.

The growth in oil volume and strong oil prices (\$89.88 in FY12, \$85.97 in FY13, and \$95.87 so far in FY14) are the biggest contributors to stronger-than-expected state revenues, LFC analysis shows.

Oil and natural gas, and other extractive industries to a lesser extent, contribute to state revenues primarily through severance taxes, royalties on oil leases on state land, gross receipts taxes and personal income taxes.

Each \$1 per barrel increase in the price of oil represents about \$6 million more for the general fund.

The surge in royalties on oil and gas severed on state land has had a significant impact on the land grant permanent fund as well, with that fund growing from \$14 billion to \$18 billion over the last few years.

Oil Volume and Price



*Projected

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On the Table

Job Count Down

The number of jobs in New Mexico dropped 0.1 percent in May compared with a year ago, a loss of 600 jobs, the Workforce Solutions Department reports. The financial and retail trade sectors each added 2,000 jobs while government jobs dropped by 2,500.

Back Pay Fixed, Pension Work Continues

The salaries for the union employees covered under the back-pay lawsuit have been fixed and pay for eligible employees went up with the June 27 paycheck. Three-quarters of employees received raises between 13 cents and 50 cents per hour. The Department of Finance and Administration has also provided agencies with their back-pay obligations and agencies have encumbered funds from their FY14 budgets to cover the cost. A few agencies are expected to need supplemental or deficiency appropriations partly because of statutory restrictions on some funds. The state will issue checks for the back pay in August. The Public Employee Retirement Association estimates it will take another six months to manually adjust pension benefits.

NM #2 for Overdoses

New Mexico had near the highest rate of drug-overdose deaths in 2010, the Centers for Disease Control reports. While New Mexico has a history of heroin-related deaths, the latest figures show deaths related to opioid-based prescription drugs now dominate. The state has announced the Medicaid program will now pay for Naloxone or Narcan, which can be used to revive a drug-overdose victim.

Health Shifts Funds to Facilities

The Department of Health has shifted \$1.2 million from contractual services to personnel to cover new hires and raise salaries in the Facilities Management Program. The reclassification of positions by the State Personnel Office is making it easier for the health facilities to hire, decreasing the need for contract employees.

Threatened Status Draws Offset Funds

Since the May listing of the Lesser Prairie Chicken as a threatened species, 160 energy companies have enrolled 9 million acres across New Mexico and four other states and committed \$43 million for habitat conservation for the bird. The program allows the companies to continue oil and gas production under certain restrictions in exchange for funds to mitigate the industry's impact on prairie chicken habitat.

Transitions

The LFC has hired Caroline Malone as a fiscal analyst. Malone is a Taos High School graduate who recently earned degrees in economics and politics and international relations from Scripps College. LFC also has hired two interns for the summer: Trevor Schmitt, a University of New Mexico graduate who just completed two years with Teach for America in South Carolina, and Clint Elkins, a Grants native with a master's in finance from New Mexico State University.