



LFC Newsletter

A publication of the Legislative Finance Committee

Senator George Muñoz, Chairman
Representative Nathan Small, Vice Chairman
Charles Sallee, Director

Volume 24 Issue 05

November 2023

From the Chairman Vision

New Mexico's current, extraordinary revenues can make it easy to forget that, not that long ago, state legislators had to repeatedly make deep cuts to keep the state afloat. First, we were hit by the 2008 Great Recession, then by plummeting oil and gas prices around 2014, and finally by the pandemic and saturated oil market of 2020.

What a different world we live in today: two years of historic revenues—driven by flourishing oil and gas production that even low prices can't discourage—means we literally have money to spare.

But not to waste.

The financial tide has turned, but much like it does during years of low revenue, New Mexico will need strong leadership during these years of plenty. Self-control and vision must be the ideals we hold as we plan for the future.

As a reminder, last year one such opportunity was squandered when we sought to utilize the state's revenues on a billion dollar tax package that was selectively vetoed. This year we will take deliberate action. We must first seek to fill up our trust funds so that they are self-sustaining and can serve as a guaranteed revenue source for critical state priorities into the future. For example, we can use today's bounty to capitalize the land of enchantment legacy fund to support our natural resource agencies, while simultaneously appropriating more funding into the opioid settlement fund to support our substance abuse interventions and treatment efforts. These are just two of a multitude of examples of how we can use today's bounty to deliver for all New Mexicans for generations to come. Take a second to imagine the quality of life our children and grandchildren can have when we invest in our people, our resources, and our own financial security in a targeted and deliberate way.

I know the temptation is to spend it all now, but if we want New Mexicans to benefit in the long term, we must make very judicious spending decisions guided by a strong vision of where we want to be in five, 10, or 20 years. For example, any tax changes we seek must be targeted to avoid jeopardizing our fragile revenue sources that are enabling us to invest in programs that change lives. Simultaneously, we must leverage the power of compound interest every opportunity we get through the creation of expendable trusts that will allow us to pilot new ideas and ensure we don't find ourselves in a situation where we once again have to make cuts of the services our people need to prosper.

We have a once-in-a-lifetime opportunity to shift New Mexico toward a better future. And we will, if we are informed by the hard choices of the past and driven by a clear vision of the future.

Senator George Muñoz
Chairman

Questions Emerge Over Public School Funding

Development of the public school budget for FY25 will be complicated by declining enrollment, special education staff vacancies, the need to improve student performance, and a special extended school day program set up by the administration with temporary funds, LFC analysis indicates.

LFC staff will outline issues related to public school and higher education funding for the fiscal year that starts July 1 during a committee hearing scheduled for 10 a.m. on November 14.

Staff report lawmakers should consider, among other issues, whether and how to fund a program created by the Public Education Department that pays schools more if they add more hours to the school day.

PED used a one-time \$60 million appropriation from the public education reform fund to start the "out-of-school time" program this year, but the reform fund will only have \$55 million in FY25 and is also used for other programs.

Legislators earlier this year adopted the K-12 Plus factor in the funding formula that increases funding for school districts that add days to the school

year, but not time to the school day.

Staff analysis suggests declining enrollment will also be an issue during public school budget discussions because the formula is based on the number of students falling into different categories multiplied by a cost differential.

While public school funding has grown nearly 50 percent since FY19 and is now \$4 billion a year, enrollment has dropped 6 percent and has never recovered to prepandemic levels.

Nearly half of the \$1.9 billion increase in funding since FY19 is attributable to teacher compensation, but schools still struggle with high teacher vacancies, especially in special education, although teacher salaries are now the best in the region and more candidates are completing teacher preparation programs.

Despite the substantial investment, student proficiency in reading and math has remained stubbornly low, although multiple changes in the test administered and pandemic-related interruptions to testing affect the reliability of the data.

Construction Costs Impact Housing Funding

The state has invested tens of millions of dollars into making housing more affordable but rising construction costs are constraining how far the money can go, LFC analysis shows.

In an [LFC hearing brief](#) presented to the committee in October, staff report the Mortgage Finance Authority's per unit costs have increased 43 percent for new construction and 56 percent for acquisition and rehabilitation over the last five years.

While growth in the cost of residential building materials has slowed since 2021, prices and the availability of cement, steel, and certain other materials continue to fluctuate.

Construction costs are also being driven higher by increased regulations and higher interest rates, insurance costs and labor costs, the brief says.

An LFC [Policy Spotlight on homelessness and affordable housing](#) released earlier this year noted, while the Legislature appropriated almost \$40

million to the state housing trust fund in 2023, \$20 million to Albuquerque, and lesser amounts to other programs, federal funding for programs administered by local governments dwarfs state spending, with rental assistance vouchers alone totaling \$90 million.

State funds often fill the gaps when federal funding falls short of need, the report says. It cites as an example, the state Linkages permanent supportive housing program for people with severe mental illnesses, which complements federally funded permanent supportive housing grants administered by the New Mexico Coalition to End Homelessness.

According to the hearing brief, for FY24, the Mortgage Finance Authority has allocated \$8.5 million for down payment assistance, \$3.4 million for affordable mortgages, \$1.5 million for emergency repairs and rehabilitation, \$2 million for home purchase assistance, and \$22 million for rental and single-family property development.

Personnel Spending Falls Millions Short of Budget

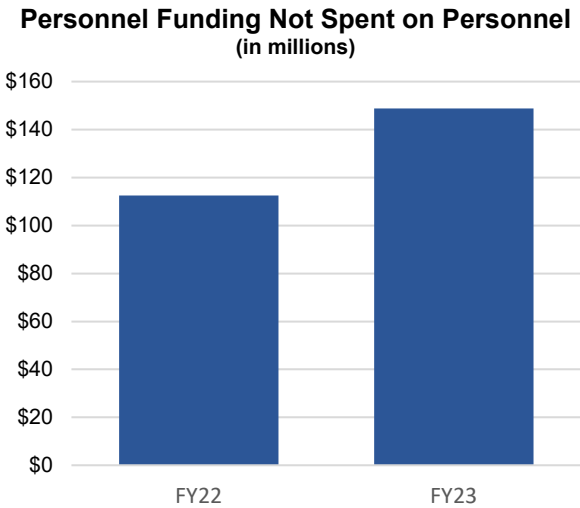
Actual spending on state agency personnel in FY23 was almost \$150 million less than the \$2.16 billion appropriated, resulting in “vacancy savings” equal to just under 7 percent of the statewide personnel budget, LFC staff analysis shows.

The leftover personnel funds, which many agencies transferred to other spending categories, totaled \$36 million more than the \$113 million in vacancy savings in FY22. The \$113 million was 6 percent of FY22 personnel budget of \$1.9 billion.

High turnover and an increasing number of positions within state agencies have led to continued high vacancy rates, according to the LFC’s [latest performance report card](#) on the state personnel system.

In FY23, state agency headcounts were roughly flat with the number reported in FY19 but the total number of authorized positions were up 5 percent.

In addition, while the state is attracting more workers outside of state government, fewer employees are completing their probationary periods. The State Personnel Office reports more than 3,100 external hires in FY23, up one-third from the number in FY21, but only 63 percent of new hires are completing their probationary period, down from 71 percent in FY21.



LFC Newsletter

2023-2024 Fiscal Year, Month 5

Published monthly in the interim by the Legislative Finance Committee.

Editor - Helen Gaussoin

Questions, comments: 505-986-4550

www.nmlegis.gov/Entity/LFC/Default

Please contact Adreena Lujan at adreena.lujan@nmlegis.gov if you would prefer to receive this newsletter electronically.

On the Table

NM House Price Up but Less Than Others

The increase in the median price of a New Mexico house was the largest its ever been based on available U.S. Census Bureau information but the year-over-year increase was lower than in all other states in the southwest region, The median New Mexico house price increased by 14 percent in 2022 compared with 2021, according to the data, but the price increased by 21 percent in Arizona, 18 percent in Oklahoma, 17 percent in Texas, and 16 percent in Colorado. Since 2019, the median price of a home increased by 42 percent on average in the five-state southwest region. In New Mexico, the median price increased by 40 percent.

Targeted Investments Lose Money

Severance tax fund investments targeted at stimulating New Mexico economic activity lost money over the last year, with an internal rate of return (a measure of investment gain) of negative 8.7 percent, the State Investment Council reports. Among all New Mexico investments in 2023, 16 funds reported net gains, while 16 funds reported net losses. As of March 31, 2023, 117 companies in New Mexico have received investments totaling \$518.4 million from the program, including \$384.4 million from the severance tax fund, and have generated 4,611 jobs.

Millions go to Local Water Systems

The New Mexico Finance Authority approved six new loan package from the drinking water state revolving fund at its October meeting. With those approvals, the fund is fully committed. The new awards include:

- \$15 million to the city of Farmington for water treatment plant construction,
- \$12 million to the city of Alamogordo for water system transmission lines, and
- \$15.3 million to the city of Las Cruces for well pipeline and system improvements.

Healthcare Enrollment Up

Enrollment in BeWellNM, New Mexico’s healthcare exchange under the federal Affordable Care Act, is up 27 percent year-over-year as of September 2023, according to a presentation at the Marketplace Stakeholder Advisory Committee meeting. Enrollment accelerated after the state’s Medicaid program began disenrolling clients with the end of the federal public health emergency, but enrollment also grew during the last open enrollment period at the end of last year. More people are also enrolling in the more generous plans on the marketplace, with those enrolled in the gold plan comprising about 25 percent of enrollees in 2021 and about 73 percent in 2023. Much of the trend is likely due to subsidies provided as a part of the state healthcare affordability fund, created in 2021.

Abuse Prevention Spending Drops

Children, Youth and Families Department spending on preventive services in the Protective Services Program dropped 77 percent between FY22 and FY23, after more than doubling from \$1.5 million to \$3.4 million between FY19 and FY23. Overall, prevention services accounted for roughly 3 percent of spending in Protective Services in FY23.

Transitions

LFC has hired two new staff members. Emily Hilla has a bachelor’s degree in political science from University of Denver, is a New Mexico Davis Scholar, and was most recently at the Children, Youth and Families Department. She will be the analyst for the general government block. Samuel Lesemann has an master’s in public policy from the University of Virginia and was most recently at the Joint Legislative Audit and Review Commission in Virginia. He will be working as a program evaluator.

Regulation and Licensing Department Deputy Director Clay Bailey has been named acting superintendent with the retirement of former Superintendant Linda Trujillo