



LFC Newsletter

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From the Chairwoman

Where the Rubber Hits the Road

In 2008, a national consultant told the Legislature New Mexico needed to extend the school year, among other things, to help improve student performance. The Legislature appropriated \$14 million to add another day's worth of hours, yet the average number of days in the school year is now smaller.

In 2018, the 1st Judicial District Court found, as part of the *Martinez-Yazzie* education sufficiency lawsuit, the state needed to invest more in evidence-based programs that extend learning time. The state invested hundreds of millions of dollars to allow for most schools to jump into the K-5 Plus extended school year and Extended Learning Time programs, yet participation in K-5 Plus—the more rigorous of the two and the one with the best track record—dropped.

For decades now, the Legislature has been taking extraordinary steps to improve education. Between 2012 and 2022, the general fund appropriation for public school support, the bulk of funding for public schools, grew from \$2.4 billion to \$3.8 billion. Yet, New Mexico's schools continue to lag the nation.

Highlighting the disconnect between intent and implementation, the Legislature has put its support solidly behind K-5 Plus, even as school districts and charter schools have balked. All of our data tells us K-5 Plus, which adds 25 days to the school year, profoundly improves student performance through high school, especially for students who struggle. Yet, more than a half billion dollars allocated to that program has been left on the table. The pandemic left teachers and other school staff exhausted and frustrated so their reluctance to work more days is, perhaps, understandable, but students also suffered through the pandemic and their learning loss needs attention.

It's time to do something different.

Options for extended learning are on the agenda for the committee's July meeting in Silver City. Now might be the time to add days to the base school year or to create additional incentives for schools to opt into the K-5 Plus program. Now might be the time for local school officials to let us know, if they aren't interested in extending the school year, what approach with a similar track record for success they are interested in.

We know additional learning time works when implemented properly. We need to figure out what must change to make it work for New Mexico's children.

Representative Patty Lundstrom
Chairwoman

Inflation, Supply Delays Add to Outstanding Capital

Outstanding capital funds could grow to near \$4 billion later this year as \$2.2 billion in appropriations for 1,400 new state and local projects start to come online, LFC analysts estimate.

In a [brief](#) prepared for the committee's June meeting, LFC staff finds a large volume of existing appropriations and supply chain interruptions are contributing to high outstanding balances across thousands of active projects, and the balances will grow when additional state and federal funding becomes available.

In the report that outlined potential solutions to the issues delaying progress on projects, staff repeatedly recommend more centralized project financing and management, which could ease access to funding for local governments and improve project management. Centralized management would be particularly useful in managing local projects because local agencies often lack the capacity or skills needed to manage big projects.

Dedicated funding, staff suggests,

could be set aside specifically for when rising construction costs and supply chain issues run up the costs of a project, which would prevent project managers from having to scale back plans to stay within the relatively inflexible capital outlay funding available.

In addition, legislators meeting during the next legislative session could consider prioritizing filling funding gaps for projects only partially funded, a "piecemeal funding" practice that allows a project to move forward before full funding is available but complicates project management and makes it more difficult to hire contractors.

The Legislature, which must review a large volume of requests in the short-timeframe of the 30- and 60-day legislative sessions, should also consider using a "readiness to process" checklist before appropriating funds and mandate local governments develop [infrastructure capital improvement plans](#) before submitting requests.

Staff are tentatively scheduled to present revised options to the committee in August.

Taxes Shift From Income to Sales, Energy

Tax changes over the last several years are expected to cut New Mexico income tax revenue by hundreds of millions of dollars a year, increasing the state's reliance on gross receipts and oil and gas taxes.

Ongoing state revenue from income taxes will be down \$93.5 million in the current budget year, mostly because of the elimination of taxes on social security benefits. The annual loss to recurring income tax will grow to \$403 million in FY24 and \$415 million in FY25, partly because of an exemption for military pensions, the creation of the child tax credit, and an expansion of tax credits aimed at low-income working families.

Notably, the Legislature since 2021 has also given nearly \$1.1 billion back to New Mexico residents through one-time rebates.

Changes to the gross receipts tax structure since 2019 have also reduced the revenue generated, with FY23 gross receipts tax revenue expected to be down \$45 million, and revenue

expected to decline by \$147 million in FY24 and \$157 million in FY25.

With the income and gross receipts tax changes, including the rebates, the state's reliance on income taxes is expected to decline in FY23 to an estimated 23 percent of the state's total income compared with the 30 percent that likely would have been generated without the changes.

Conversely, the state's reliance on gross receipts revenue is expected to grow to 33 percent from the 30 percent it likely would have been without the changes.

Like with gross receipts, the share of the state's revenues generated by direct taxes on the energy industry are expected to grow, from 19 percent to 21 percent.

LFC analysis indicates the tax changes benefited lower income New Mexicans more than those in upper income brackets, making New Mexico's tax structure more progressive. The tax burden borne by the top 5 percent increased slightly, while the burden borne by the other 95 percent dropped significantly.

Personal Income Tax Burden Falls on Upper Brackets

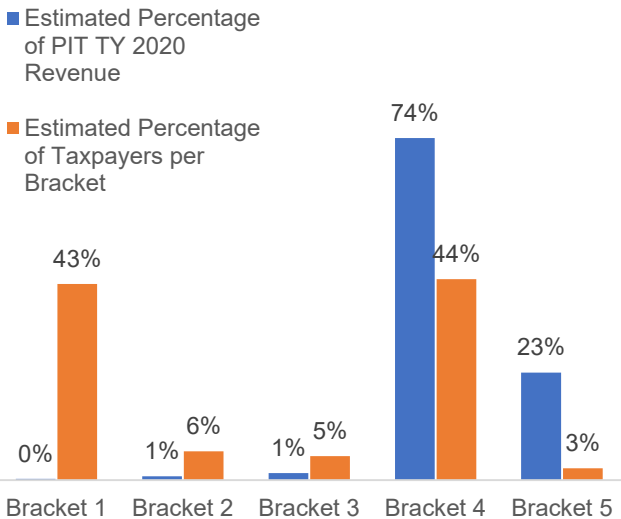
The almost half of New Mexico taxpayers who fall into the top two brackets of state personal income tax generate almost all personal income tax revenue, partly because the second highest income bracket is so broad it captures 44 percent of all taxpayers.

Taxpayers in the three lowest income brackets, capturing single filers earning less than \$16 thousand a year and joint filers earning less than \$24 thousand, generate 2 percent of personal income tax revenue. Taxpayers in the top bracket—individuals earning more than \$210 thousand and joint filers earning more than \$315 thousand—generate 3 percent of total personal income tax revenue.

The second highest bracket, for individuals earning between \$16 thousand and \$210 thousand and joint filers earning between \$24 thousand and \$315 thousand, generates 74 percent of PIT revenue.

Personal Income Taxpayers and Percentage of Revenue Generated by Bracket

(2021 Tax Rates Applied to 2020 Income Tax Data)



Note: Because of rounding, percentages do not add up to 100.

| For Single Filers: | | |
|--------------------|---------------------------|--------------------|
| Bracket # | If the taxable income is: | The tax is: |
| 1 | Not over \$5,500 | 1.7% |
| 2 | Over \$5,500 | 3.2% + \$93.50 |
| 3 | Over \$11,000 | 4.7% + \$269.50 |
| 4 | Over \$16,000 | 4.9% + \$504.50 |
| 5 | Over \$210,000 | 5.9% + \$10,010.50 |

On the Table

Pension Reforms Improve Fund Status

Changes to the education retirement fund since 2013 have improved the pension funds' financial position, with the expectation the fund will have enough assets to cover all obligations by 2054. Without the reforms, which included increased contributions from both employers and employees and reduced benefits, the fund would only be 20 percent funded in 2054.

NM Slow on Federal Abuse Prevention Grants

While 37 states have submitted plans that will allow them to tap into federal foster care grants for child maltreatment prevention, New Mexico was slow to apply because previous Children, Youth and Families Department leadership did not believe the grants covered prevention services. Child welfare systems are increasingly shifting to prevention approaches in part because of the enactment of the federal Families First Prevention Services Act, which allows states to use foster care money for prevention.

State Employees Get Childcare Centers

Childcare centers are set to open in two state office buildings in Santa Fe for the children of state employees. The centers will be run by private providers under an agreement with the State Personnel Office. The General Services Department will renovate the space, including adding a playground, and will offer the space to the provider for free. The centers, in the Lamy Building downtown and the Montoya Building midtown, will serve a total of about 45 children from 6 weeks to 12 years.

Pandemic Relief Funds Slated for Sports Fields

The Public Education Department has approved requests from the Taos, West Las Vegas, and Quemado school districts to use federal American Rescue Plan Act funds for sports fields. The department is justifying the decision by noting outdoor learning spaces are a considered a Covid-related need. Taos plans to use \$1.1 million of its \$7.6 million in ARPA funds on a new football field and track at Taos High School.

Empty Seats Cost CNM \$1 Million

Central New Mexico Community College estimates the cost of delivering courses less than 50 percent full was \$1 million during the 2021-2022 academic year. CNM says it is analyzing staffing levels because enrollment has not bounced back from the pandemic and more students are choosing online classes. Enrollment fell by 25 percent over the four years between fall 2017 and fall 2021, the school reports, while the number of instructors fell by 10 percent.

General Fund Investment Pool Hits Record

The state general fund investment pool managed by the State Treasurer had a record balance of \$10.6 billion at the end of June, 135 percent more than it did the same month a year ago. The high balance in the investment fund reflects larger-than-normal tax receipts and oil and gas revenue.

Transitions

Tiffany Wynn, division director for Policy, Research, and Quality Initiatives, has resigned from the Early Childhood Education and Care Department.

Gina DeBlasie is the new health policy advisor in the Governor's Office. DeBlasie spent the last decade as chief operating officer for the senior home healthcare company InnovAge.



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