

# Mid-Session Legislative Review

Charles Sallee, Deputy Director, LFC  
*New Mexico School Board Association*  
February, 2017

# Overview



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

- ▶ Fiscal Issues Entering the Session
- ▶ Solvency
- ▶ HB 2 (Budget) & HB 202 (Tax Reform)
- ▶ Strategic Challenges
  - Funding Formula & Accountability
  - Use of Resources/What Works
  - Alignment with Early Childhood and Higher Education Systems

# Fiscal Issues Entering the Session

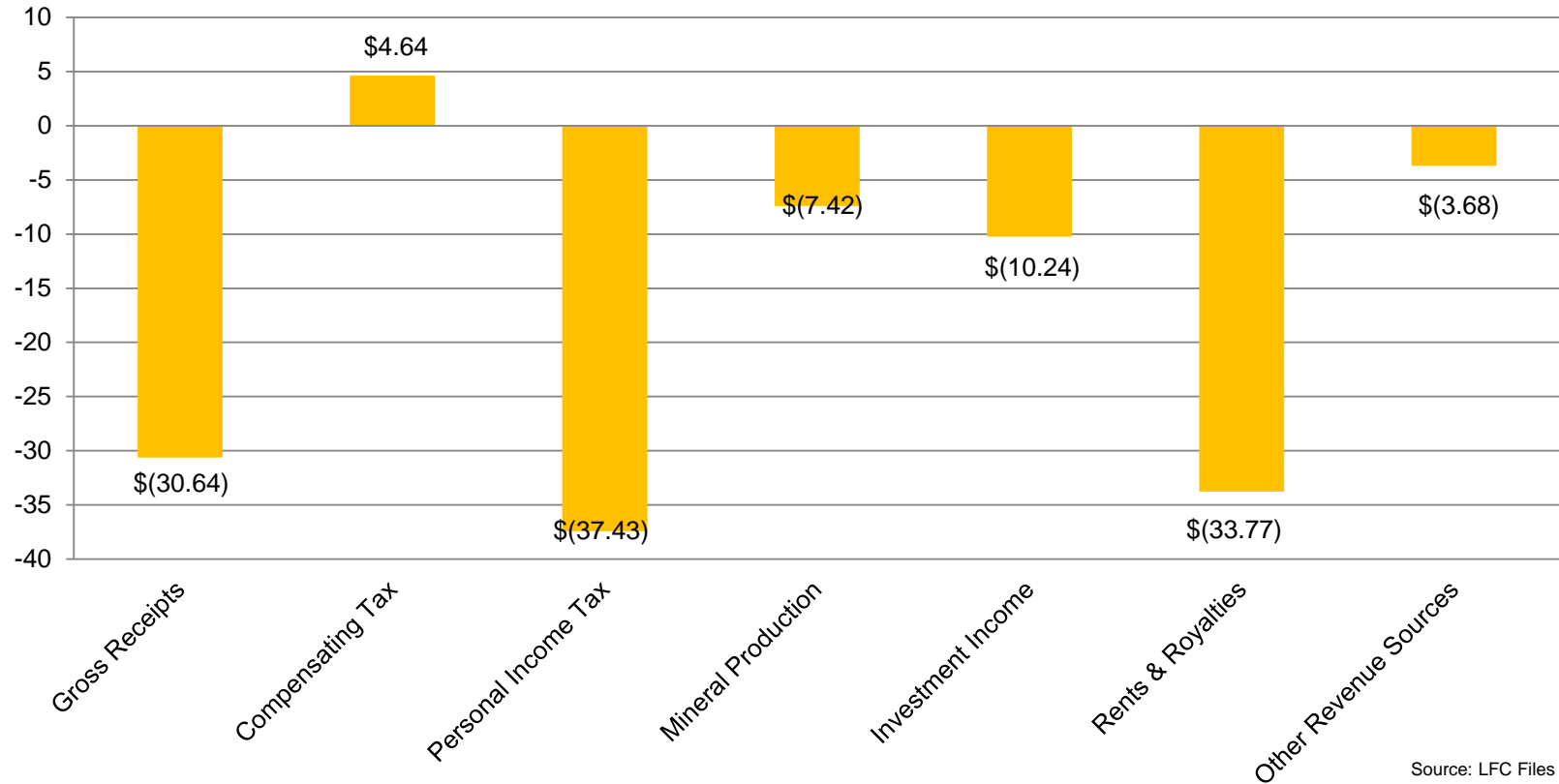


NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

- Significant reductions in expectations for employment, wage and salary, and state economic growth
- December revenue estimates for FY17 and FY18 were each down about \$130 million from adjusted August forecast and down \$866 million from December 2015 forecast
- FY17 revenues projected to fall below appropriations by \$237.9 million
- Historically low reserves
- Solvency again should be first order of business for the 2017 legislative session
- Recurring spending reductions raise constitutional issues and service delivery is threatened

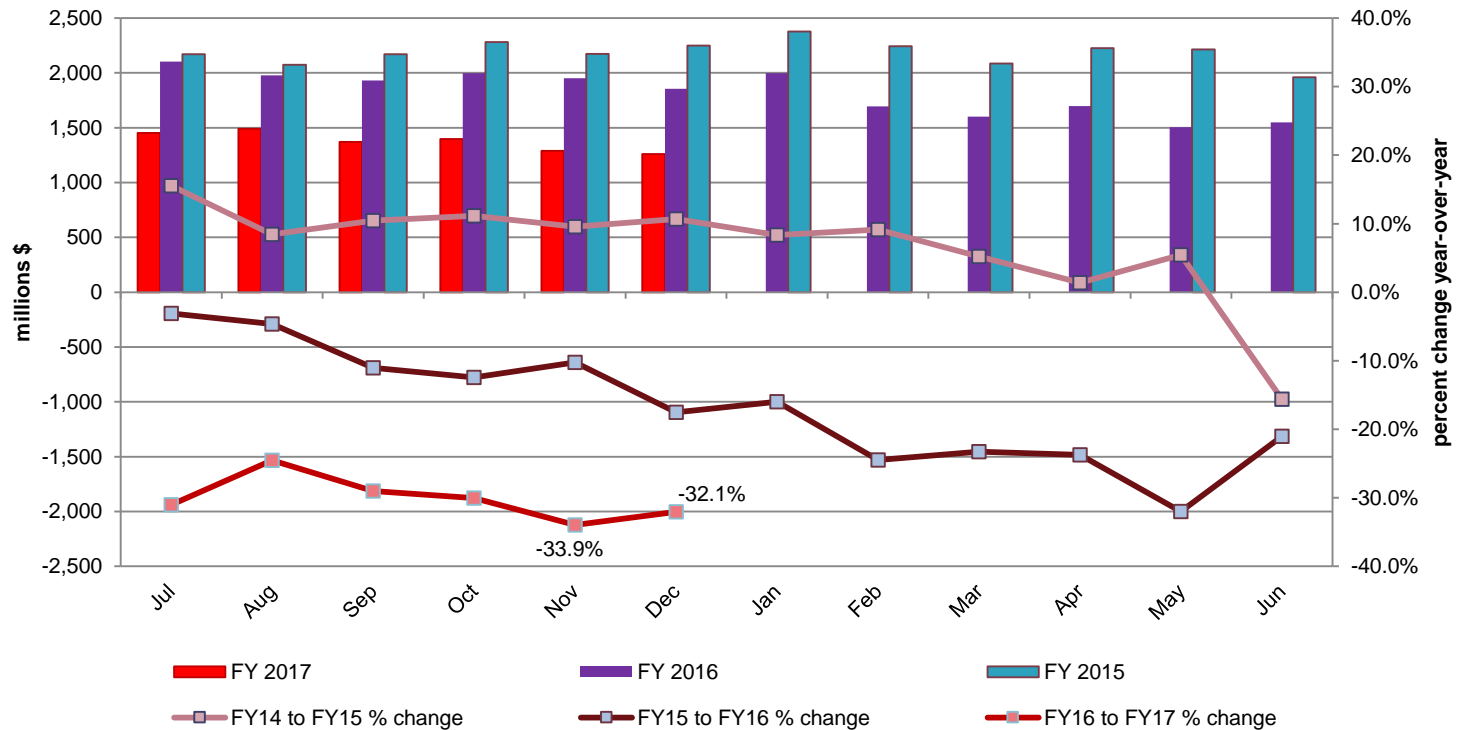
# FY17 Q1 revenue collections are down in all major categories

September YTD Revenue Collections –  
FY17 versus FY16 (in millions \$)



# Consistent negative growth in general fund investment pool end-of-month balances since May 2015

## State General Fund Investment Pool Balances



Source: State Treasurer's Office

September through November were each worse than the month before, but December improved slightly for percent decline

**General Fund Financial Summary:  
December 2016 Consensus Revenue Estimate**  
(in millions of dollars)

| December 16, 2016   |  | Preliminary<br>FY2016 | Estimate<br>FY2017 | Estimate<br>FY2018                   |
|---|--|-----------------------|--------------------|--------------------------------------|
| <b>APPROPRIATION ACCOUNT</b>  |  |                       |                    |                                      |
| <b>REVENUE</b>  |  |                       |                    |                                      |
| Recurring Revenue   |  |                       |                    |                                      |
| August 2016 Recurring Revenue Forecast Adjusted for Special Session Action  |  | \$ 5,672.1            | \$ 5,731.0         | \$ 6,056.4                           |
| December 2016 Revenue Forecast  |  | \$ 36.7               | \$ (130.8)         | \$ (127.3)                           |
| Total Recurring Revenue   |  | \$ 5,708.8            | \$ 5,600.2         | \$ 5,929.1                           |
| Nonrecurring Revenue  |  |                       |                    |                                      |
| January 2016 Nonrecurring Revenue Update                                    |  | \$ 3.3                | \$ -               | \$ -                                 |
| 2016 Session Nonrecurring Revenue Legislation (HB311)                       |  |                       | \$ 74.3            | \$ -                                 |
| 2016 Special Session Nonrecurring Revenue Legislation (SB2, SB8)            |  | \$ -                  | \$ 127.0           |                                      |
| Total Nonrecurring Revenue  |  | \$ 3.3                | \$ 201.3           | \$ -                                 |
| <b>TOTAL REVENUE</b>  |  | <b>\$ 5,712.1</b>     | <b>\$ 5,801.5</b>  | <b>\$ 5,929.1</b>                    |
| <b>APPROPRIATIONS</b>   |  |                       |                    |                                      |
| Recurring Appropriations  |  |                       |                    |                                      |
| General Appropriation   |  | \$ 6,234.7            | \$ -               | New Money<br>in FY18 is<br>-\$103.41 |
| 2016 Legislation & Feed Bill  |  | \$ 6.2                | \$ 6,228.3         |                                      |
| 2016 Legislation FY16 Sanding   |  | \$ (31.0)             |                    |                                      |
| 2016 Special Session Recurring Appropriation Reductions (SB9, not inc. G-1) |  | \$ -                  | \$ (150.1)         |                                      |
| DFA Adjustment to Book SB8 as Reduced Appropriation                         |  |                       | \$ (56.0)          |                                      |
| 2017 Legislation & Feed Bill  |  |                       | \$ 10.3            |                                      |
| Total Recurring Appropriations  |  | \$ 6,209.9            | \$ 6,032.5         |                                      |
| Nonrecurring Appropriations   |  |                       |                    |                                      |
| 2016 Legislation & Prior Year Appropriations                                |  | \$ 97.2               | \$ 1.3             | No new<br>money<br>in FY18           |
| 2016 Special Session Nonrecurring Appropriations (SB6, SB9)                 |  |                       | \$ 2.5             |                                      |
| 2017 Session Nonrecurring Appropriations                                    |  |                       | \$ 3.1             |                                      |
| Total Nonrecurring Appropriations   |  | \$ 97.2               | \$ 6.9             |                                      |
| <b>TOTAL APPROPRIATIONS</b>   |  | <b>\$ 6,307.1</b>     | <b>\$ 6,039.4</b>  |                                      |
| Transfer to (from) Reserves   |  | \$ (595.0)            | \$ (237.9)         |                                      |

Down ~\$130M from Aug est.

New Money  
in FY18 is  
-\$103.41

No new  
money  
in FY18

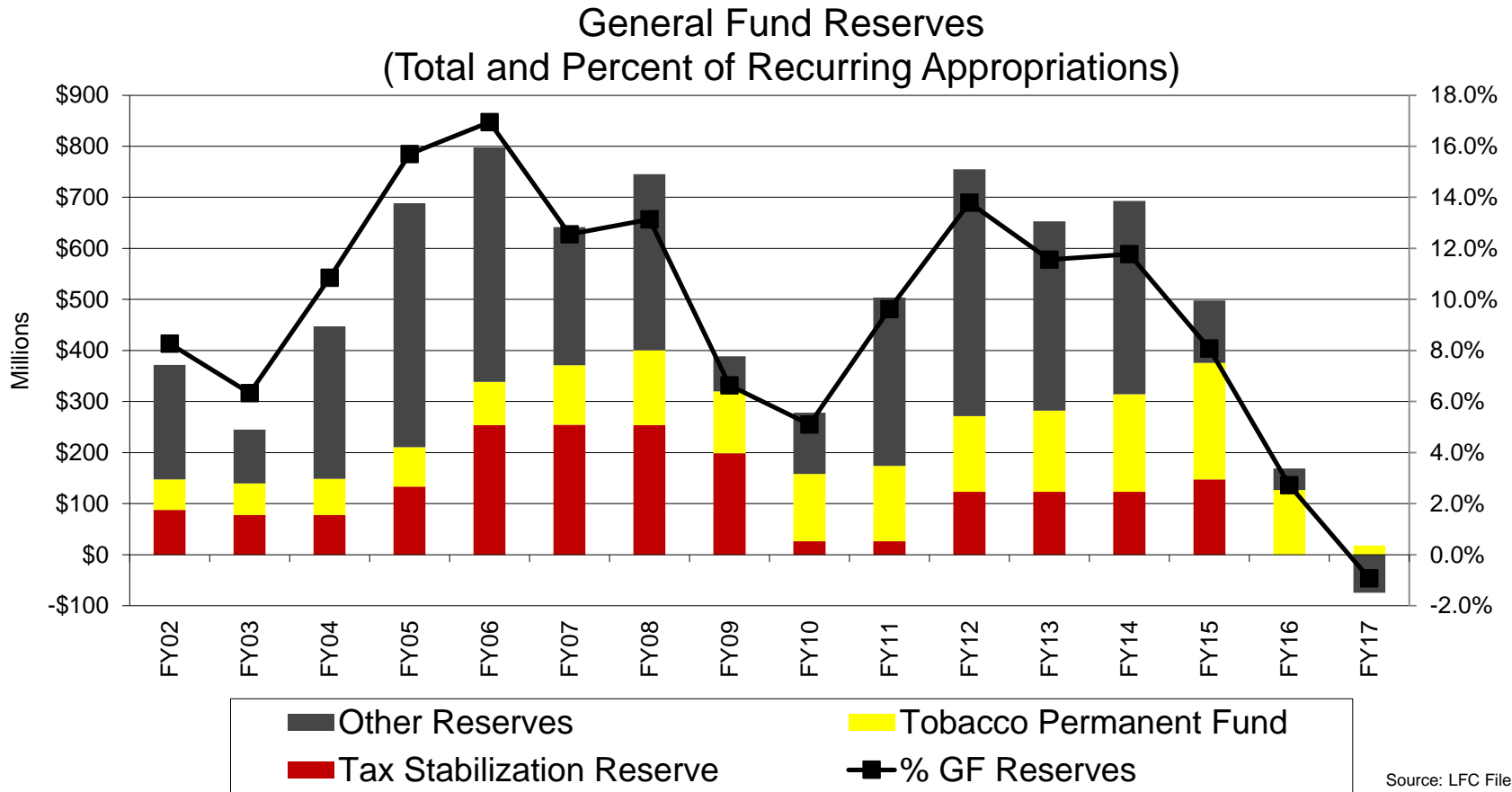
| <b>GENERAL FUND RESERVES</b>  |           |              |                  |
|---|-----------|--------------|------------------|
| Beginning Balances  | \$        | 713.1        | \$ 145.6         |
| Transfers from (to) Appropriations Account  | \$        | (595.0)      | \$ (237.9)       |
| Revenue and Reversions  | \$        | 105.9        | \$ 62.1          |
| Appropriations, Expenditures and Transfers Out  | \$        | (78.4)       | \$ (55.3)        |
| <b>Ending Balances</b>  | <b>\$</b> | <b>145.6</b> | <b>\$ (85.5)</b> |
| <i>Reserves as a Percent of Recurring Appropriations</i>  |           | 2.3%         | -1.4%            |
| <b>Notes:</b>   |           |              |                  |
| ^2016 numbers are preliminary unaudited, and adjustments may be needed to match the 2016 audit. |           |              |                  |
| ^Red text with strikethrough denotes a vetoed item and is not included in the totals.           |           |              |                  |

Negative reserve balances for FY17

### 2017 Session:

- Address solvency; “now money” is harder to find
- Recurring revenue is less than current spending
- Spending outlook: many agencies are already down 8–10% from FY16; challenges in providing services

# FY16 general fund reserves at lowest point in at least 15 years

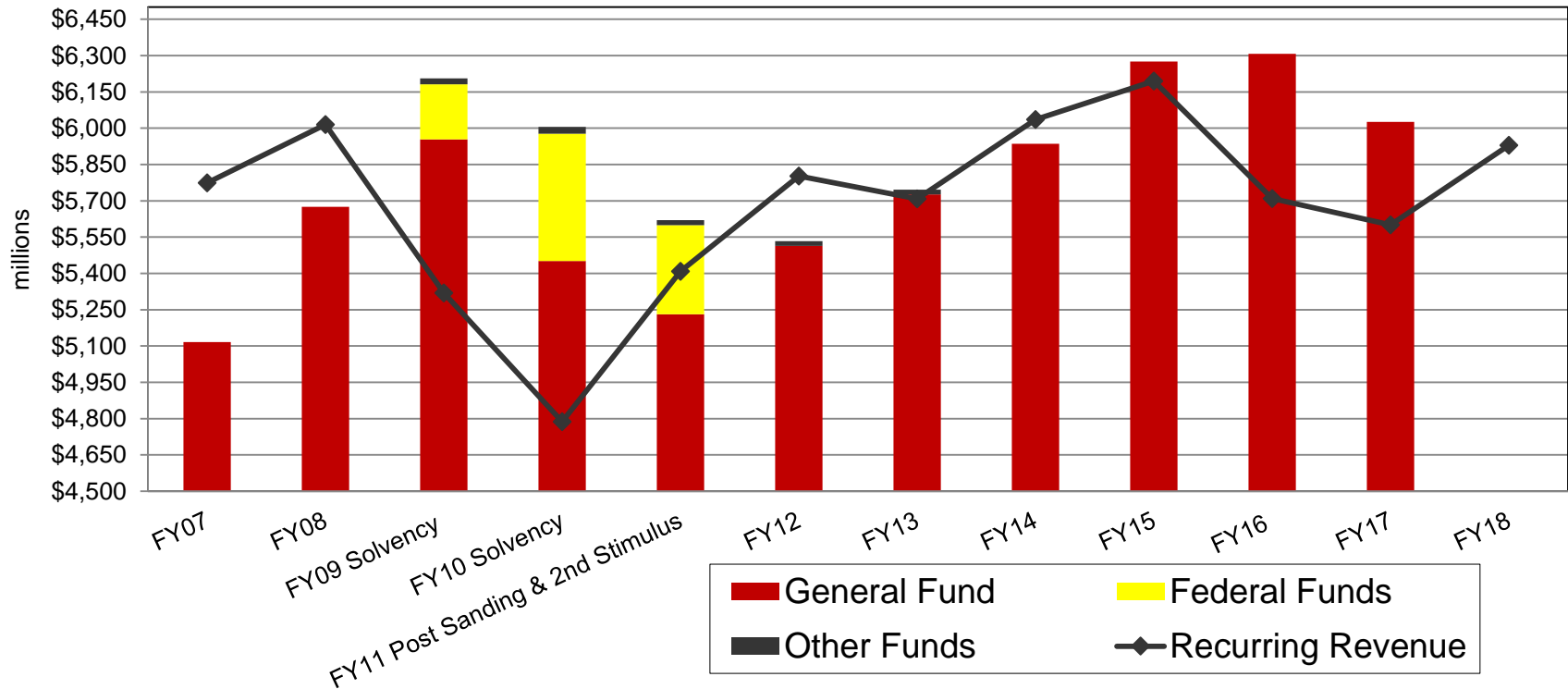


FY17 general fund reserves projected to be negative; revenue down 9 percent in FY17 Q1 year-over-year



# Appropriations exceeded revenues in FY15 and FY16; expected to exceed revenues for FY17

Appropriations: General Fund and Temporary Funds



Source: LFC Files

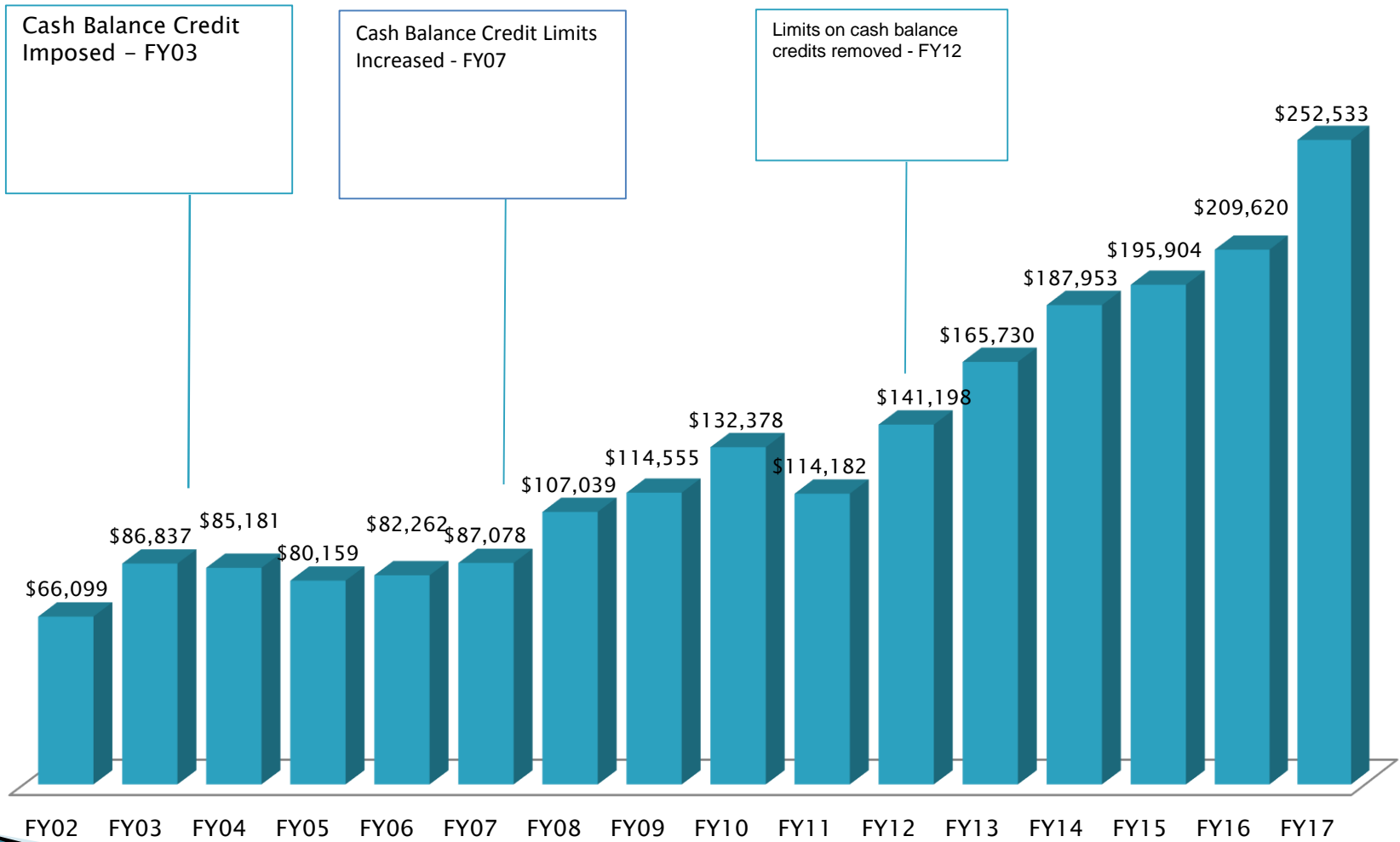
Recurring revenues in FY17 at lowest point since FY11  
 FY17 appropriations lower than FY09

# Solvency



- ▶ Total: \$190.3 million
- ▶ Insurance Bill (HB 4): \$89 million
  - Key bill to eliminate deficit
- ▶ Sweeps & Spending Cuts: \$55.2 million
  - Vetoed \$26 million in savings
- ▶ School Cash Credit: \$46.1 million
  - Governor recommended \$120 million
  - Districts on Emergency Supplemental not impacted
  - Floor for credit = 3% cash balance

# Public Schools – Statewide Unrestricted Cash Balances in Operating Budgets



# House Budget Plan



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

- ▶ FY17 general fund recurring appropriations were \$6.078 billion, lower than FY09 appropriations at the start of the great recession.
- ▶ FY18 recurring revenue lower than FY17 appropriations without considering additional funding needs
- ▶ Major concern over impact of additional cuts that would be needed
- ▶ Companion Tax Reform Plan needed for a balanced budget

# House Budget Plan



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

- ▶ HB 2 appropriates \$6.087 billion. This is \$16.3 million higher than solvency adjusted FY17 appropriations, but virtually flat.
- ▶ HB 202 needed to close gap in flat spending and low revenue
- ▶ HB 202 generates about \$265 million in recurring revenue to support spending in HB 2 and boost reserves modestly towards 3 percent.
  - Key provisions include closing health care and internet sales loopholes.

# House Budget Plan



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

## General Fund Appropriations

| Public School Support         | FY17 OpBud        | Adj. | HAFC              | \$ Change    | % Change    |
|-------------------------------|-------------------|------|-------------------|--------------|-------------|
| SEG                           | \$2,481.2         |      | \$2,513.5         | \$32.3       | 1.3%        |
| Categorical                   | \$99.0            |      | \$93.1            | \$(5.9)      | -6.0%       |
| Related                       | \$91.1            |      | \$72.3            | \$(18.8)     | -20.6%      |
| Public Education Dept.        | \$11.1            |      | \$11.1            | \$ -         | 0.0%        |
| <b>Total Public Education</b> | <b>\$ 2,682.4</b> |      | <b>\$ 2,690.0</b> | <b>\$7.6</b> | <b>0.3%</b> |

Categorical uses other state funds and is almost flat with FY17

# Other Key Issues



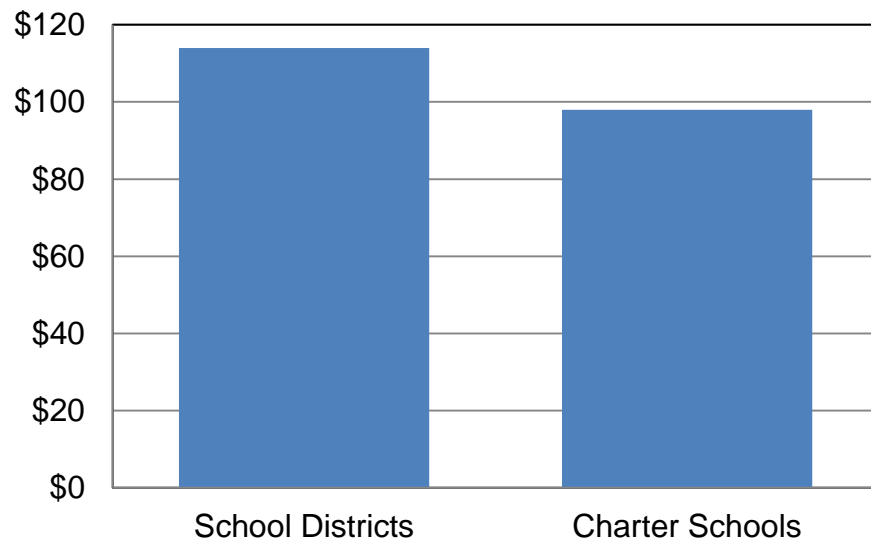
- ▶ Funding formula changes – SB 30
  - Boost At-Risk Index
  - Align T&E to Three Tiered System
  - Charter School Size Units
- ▶ Funding Formula and Accountability
- ▶ Use of Resources and “What Works”
- ▶ Alignment of Early Childhood and Higher Education Systems

# Role and Financing of Charters



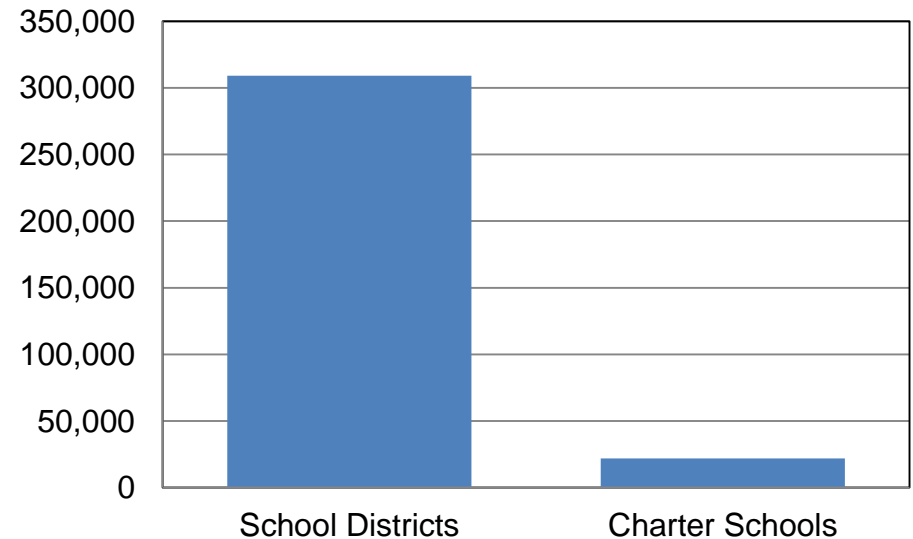
From FY08 to FY15 Charter Schools Received 46% of funding increases while educating 7% of students

**Change in Funding from FY08 to FY15  
(in millions)**



Source: PED

**Student Enrollment, FY15**



Source: PED



**APPENDIX C: SAMPLE PERFORMANCE BASED BUDGETING DOCUMENT**

**School District  
FYXX Performance Dashboard**

|   | FYXX - Actual                         | FYXX- Actual | FYXX- Actual | FYXX- Budgeted |
|---|---------------------------------------|--------------|--------------|----------------|
|   | <b>Revenue</b>                        |              |              |                |
| Cash Balance  |                                       |              |              |                |
| SEG   |                                       |              |              |                |
| Local   |                                       |              |              |                |
| Other   |                                       |              |              |                |
| <b>Total Operation Fund Revenue</b>                               |                                       |              |              |                |
|   | <b>Expenditures &amp; Performance</b> |              |              |                |
| <b>Instruction</b>  |                                       |              |              |                |
| <i>Percent Proficient in Reading (All)</i>                        |                                       |              |              |                |
| <i>Percent Proficient in Math (All)</i>                           |                                       |              |              |                |
| <i>Percent Proficient in Science (All)</i>                        |                                       |              |              |                |
| <i>Percent Proficient in Reading (At-Risk)</i>                    |                                       |              |              |                |
| <i>Percent Proficient in Math (At-Risk)</i>                       |                                       |              |              |                |
| <i>Percent Proficient in Science (At-Risk)</i>                    |                                       |              |              |                |
| <i>Percent Proficient in Reading (ELL)</i>                        |                                       |              |              |                |
| <i>Percent Proficient in Math (ELL)</i>                           |                                       |              |              |                |
| <i>Percent Proficient in Science (ELL)</i>                        |                                       |              |              |                |
| <i>Percent Proficient in Reading (SPED)</i>                       |                                       |              |              |                |
| <i>Percent Proficient in Math (SPED)</i>                          |                                       |              |              |                |
| <i>Percent Proficient in Science (SPED)</i>                       |                                       |              |              |                |
| <i>(Possible Short Cycle Measures)</i>                            |                                       |              |              |                |
| <i>4-Year Graduation Rate</i>                                     |                                       |              |              |                |
| <i>Average AP Score</i>   |                                       |              |              |                |
| <i>Average Dual Credit GPA</i>                                    |                                       |              |              |                |
| <i>Percent of Graduates Needing Remediation</i>                   |                                       |              |              |                |
| <b>Student Support</b>  |                                       |              |              |                |
| <i>Percent Enrolled in Special Education</i>                      |                                       |              |              |                |
| <i>Percent of SPED Students Requiring Related Services</i>        |                                       |              |              |                |
| <i>Percent of Students Successfully Exiting Special Education</i> |                                       |              |              |                |
| <i>Truancy Rate</i>   |                                       |              |              |                |

# What Works

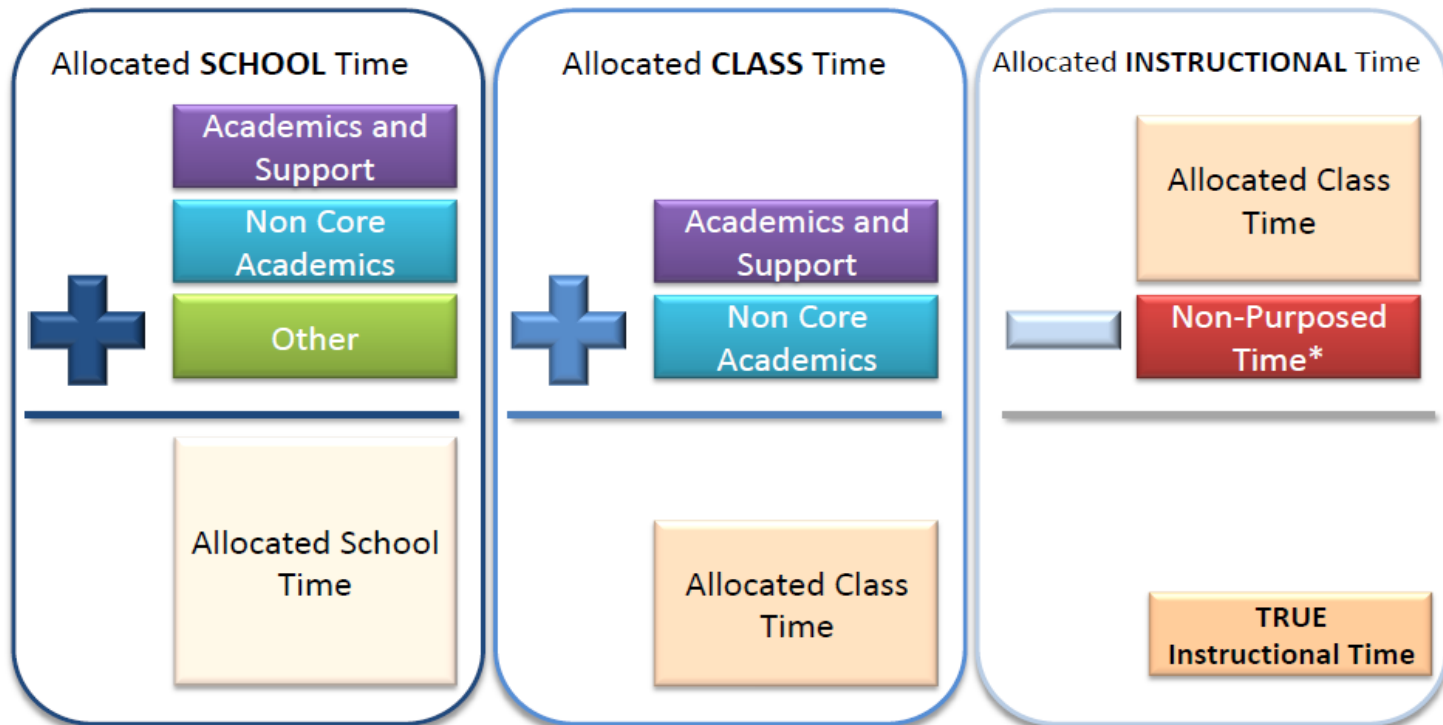


# Use of Resources



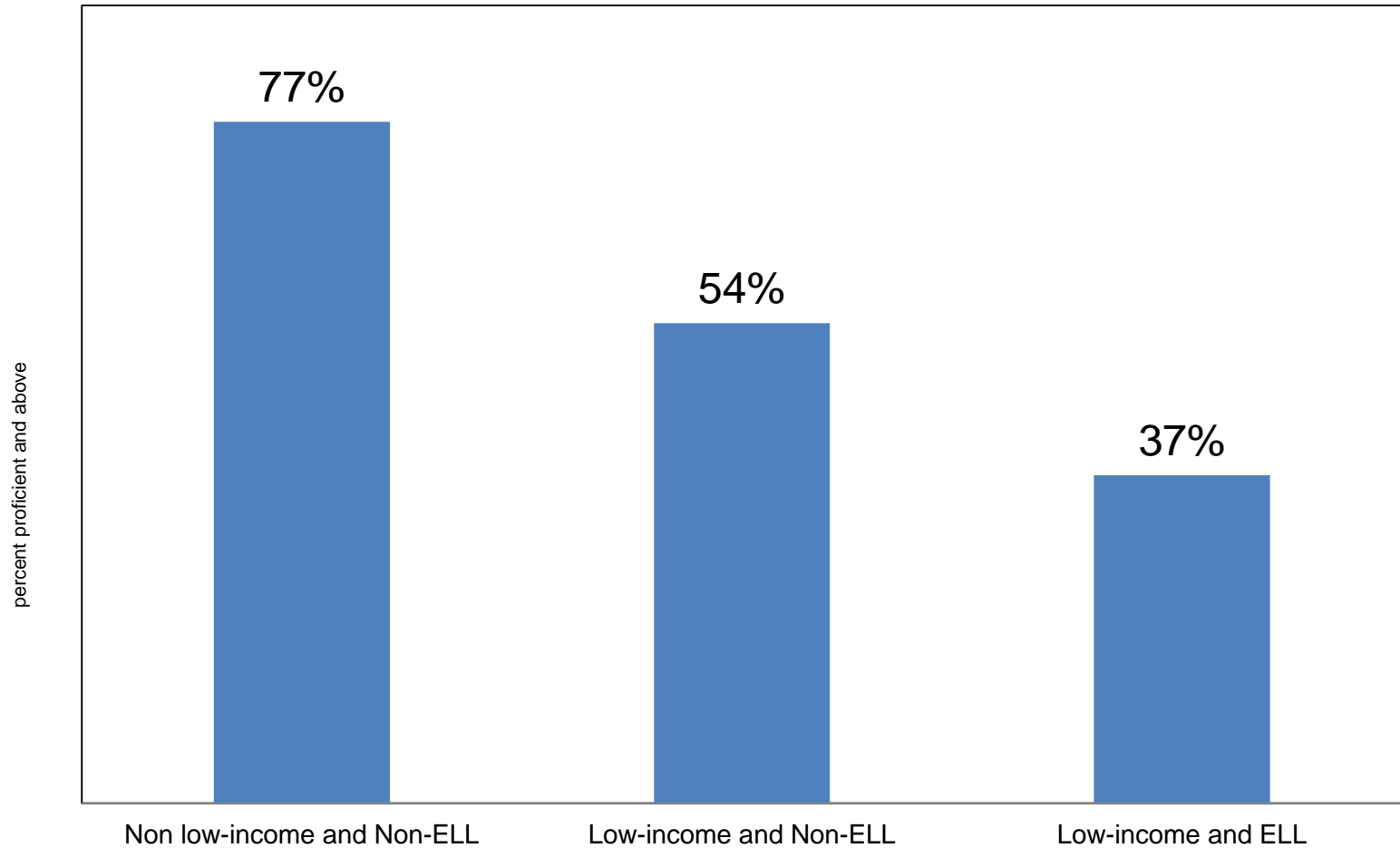
**LFC Report: NM Teachers report 32 percent lost instructional time, excluding testing.**

## Use the Quality Time Analysis Tool to Calculate Allocated School, Class, and Instructional Time



# Achievement Gap

Third Grade Reading Achievement Gap, FY14



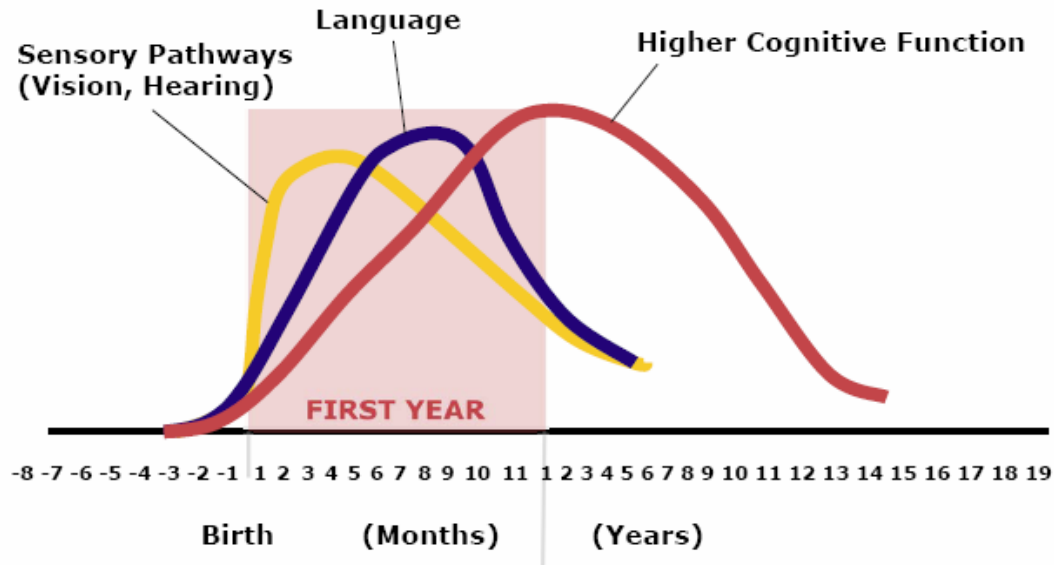
Source: LFC FY14  
ELL - English Language Learner

# Early Brain Development



## Human Brain Development

Synapse Formation Dependent on Early Experiences  
(700 per second in the early years)

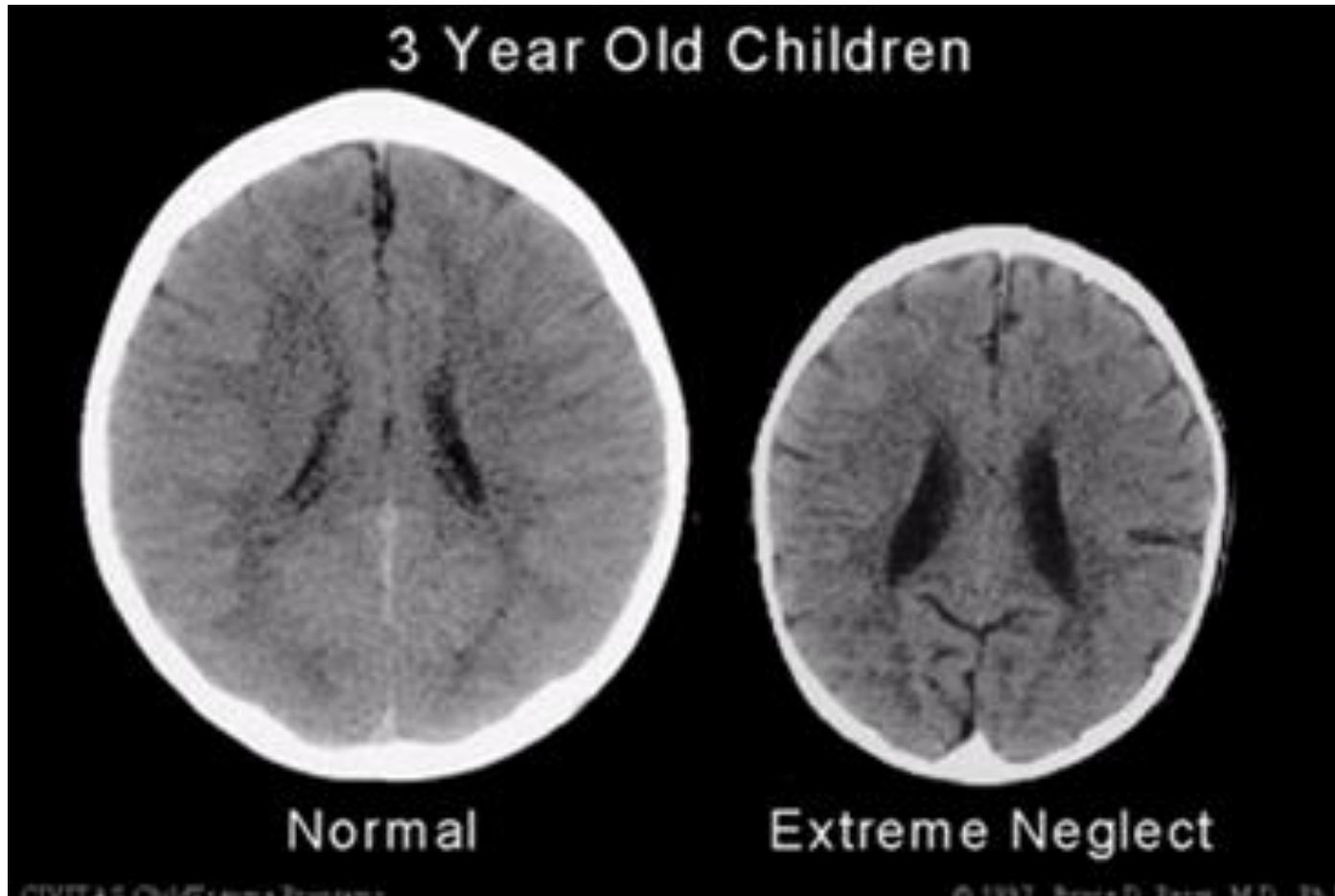


Source: C. Nelson (2000)

# Early Brain Development



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE



Source: UNM HSC

# Education Success

- ▶ Expand “What Works” & Make Sure Implemented Correctly
  - Early Childhood Investments, including PreK & K3+
- ▶ Focus on Transition to Post-Secondary
  - Boosting High School Graduation by 2,600 graduates (10 points) would yield \$700 million in long-term benefits
  - We can identify a handful of schools to make targeted investments that will yield big results

# Boosting High School Graduation

- ▶ Boosting High School Graduation by 2,600 graduates (10 points) would yield \$700 million in long-term benefits.
- ▶ Over half of the state's dropouts are concentrated in 25 schools
- ▶ Twelve percent of New Mexico students who repeated ninth grade graduate on time and 37 percent drop out.
- ▶ A research-based framework for dropout prevention and high school completion includes both comprehensive and targeted approaches.



# Education Success



TABLE 16: Graduation Rates and Lottery Scholarship Semesters by High School GPA

| High School GPA Range | Headcount | % did NOT receive Lottery | % who received some Lottery | % who received 7 or 8 semesters of Lottery | 6-Year Graduation Rate |
|-----------------------|-----------|---------------------------|-----------------------------|--|------------------------|
| Less than 2.5         | 178       | 76.4                      | 15.7                        | 7.9  | 11.8                   |
| 2.5 - 2.99            | 1606      | 64.8                      | 22.6                        | 12.6                                       | 22.8                   |
| 3.0 - 3.49            | 2607      | 44.4                      | 28.4                        | 27.3                                       | 40.6                   |
| 3.5 - 3.99            | 2600      | 23.7                      | 29.5                        | 46.9                                       | 60.2                   |
| 4.0 or higher         | 724       | 16.3                      | 27.4                        | 56.4                                       | 77.6                   |

Source: NMSU

Can predict which students will need extra help

# Legislative Finance Committee

- ▶ On the Web:

<http://www.nmlegis.gov/lcs/lfc/lfcdefault.aspx>

- Session Publications – including budget
- Report Cards
- Program Evaluations



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

Thank You

Charles Sallee, Deputy Director  
Legislative Finance Committee

505-986-4528

[Charles.sallee@nmlegis.gov](mailto:Charles.sallee@nmlegis.gov)