

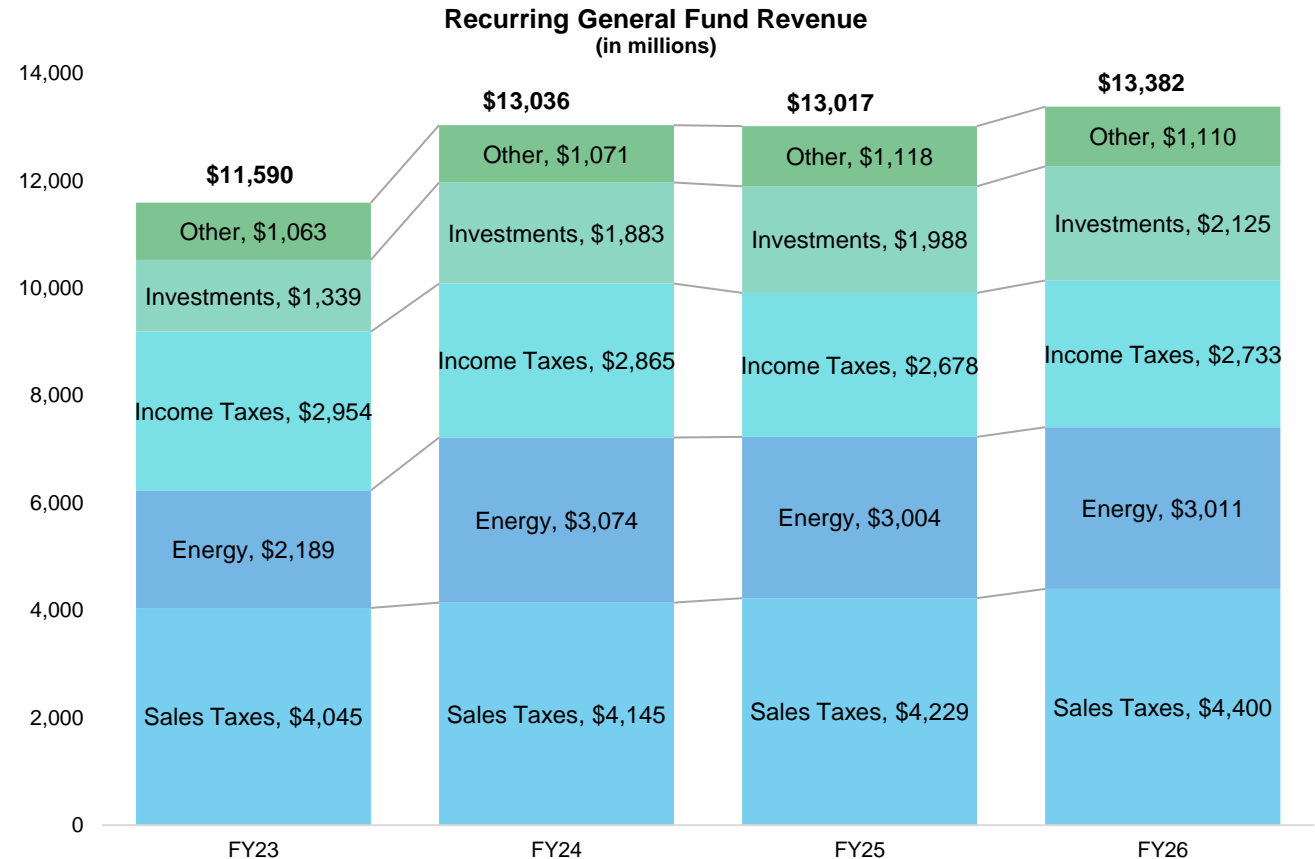
# What is the LFC?

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- Fiscal management and accountability arm of the state legislature
- Interim committee
- Bicameral and proportionate to political make up of each chamber
- Staffed by a permanent nonpartisan team of fiscal analysts (budget-making), economists (revenue estimating and tracking), program evaluators, and support staff

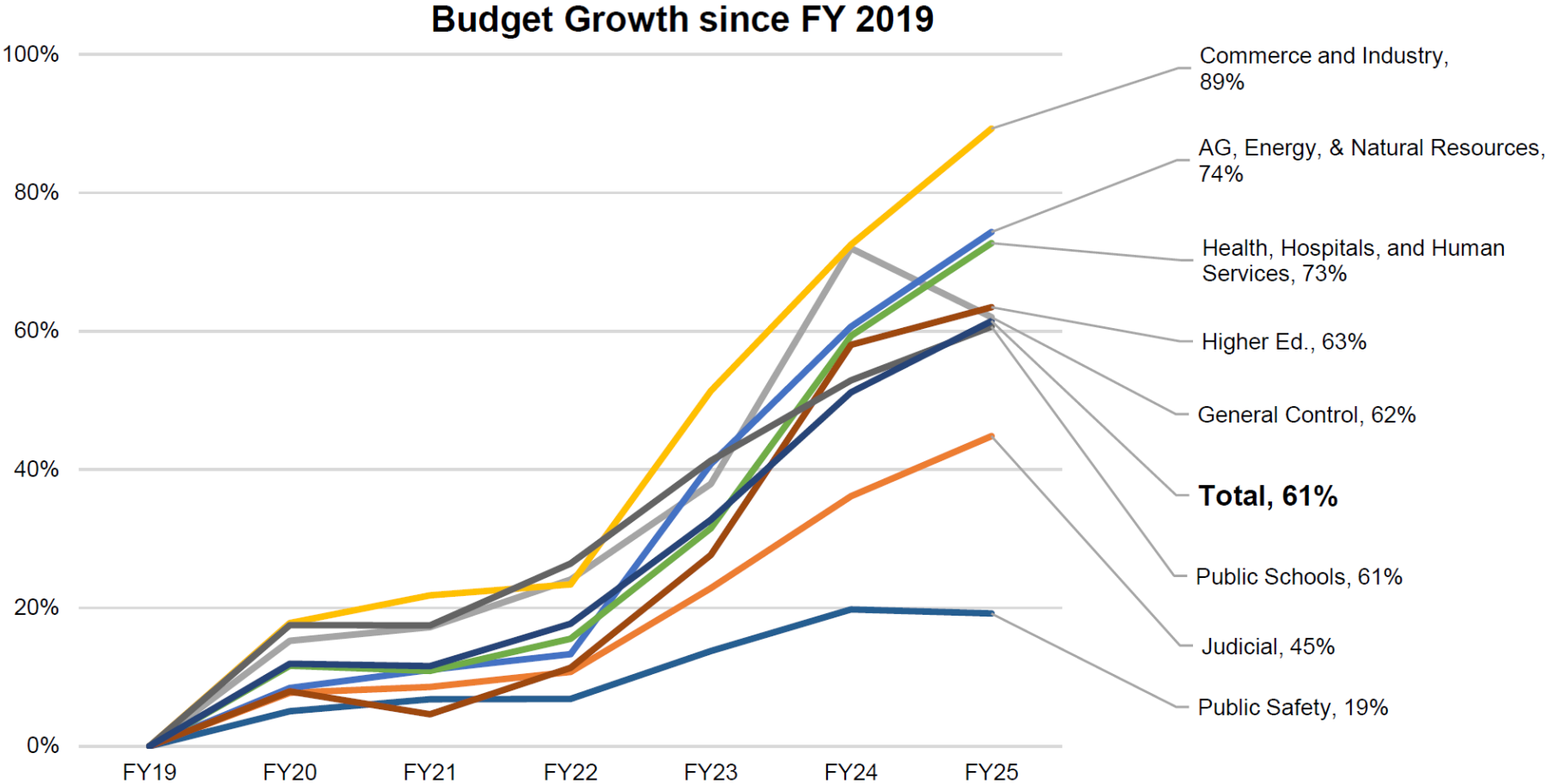
# After years of double-digit revenue growth, August 2024 CREG forecast shows much slower growth moving forward

- Recurring revenues are projected to decrease by 0.2% in FY25 and increase 2.8% Y-o-Y in FY26.
- “Total New Money” – FY26 revenue less FY25 appropriations – is projected at \$659.6 million.
- FY24 ending reserve balance of \$3.04 billion, or 31.7 percent.

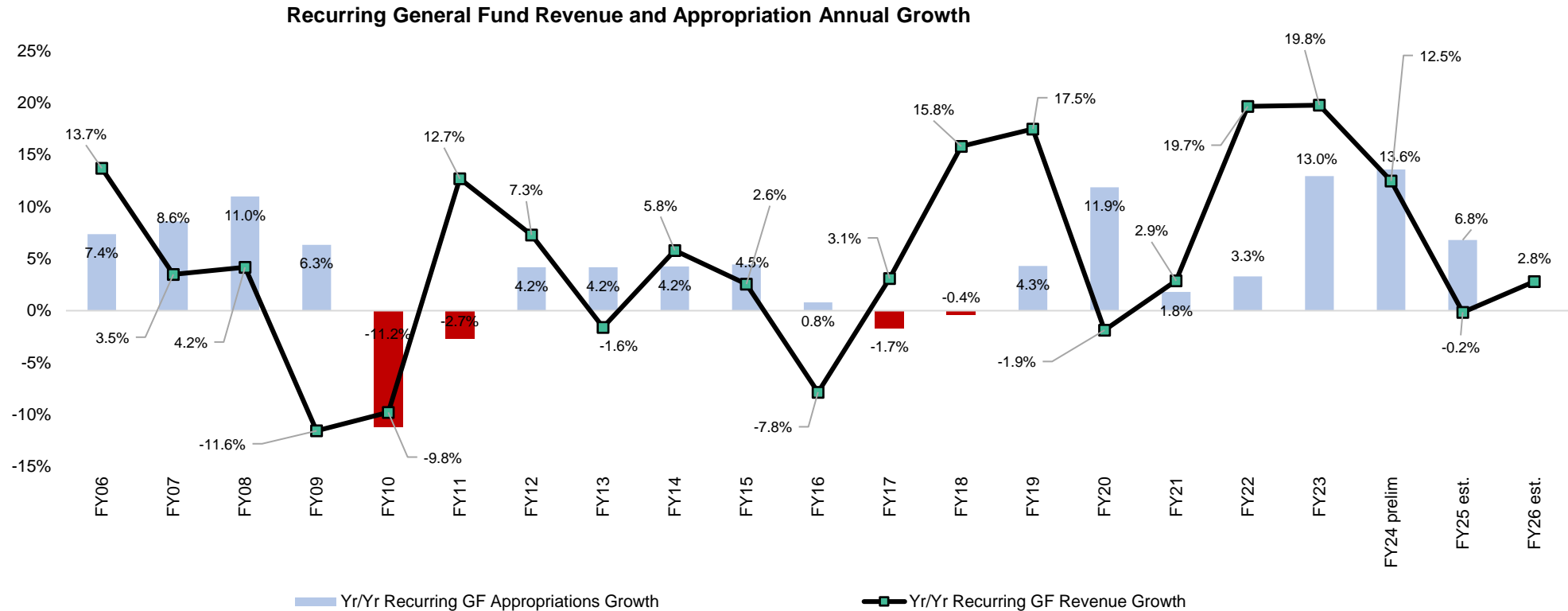


Source: August 2024 CREG Estimate

# Since 2019, key areas across state government have received large investments

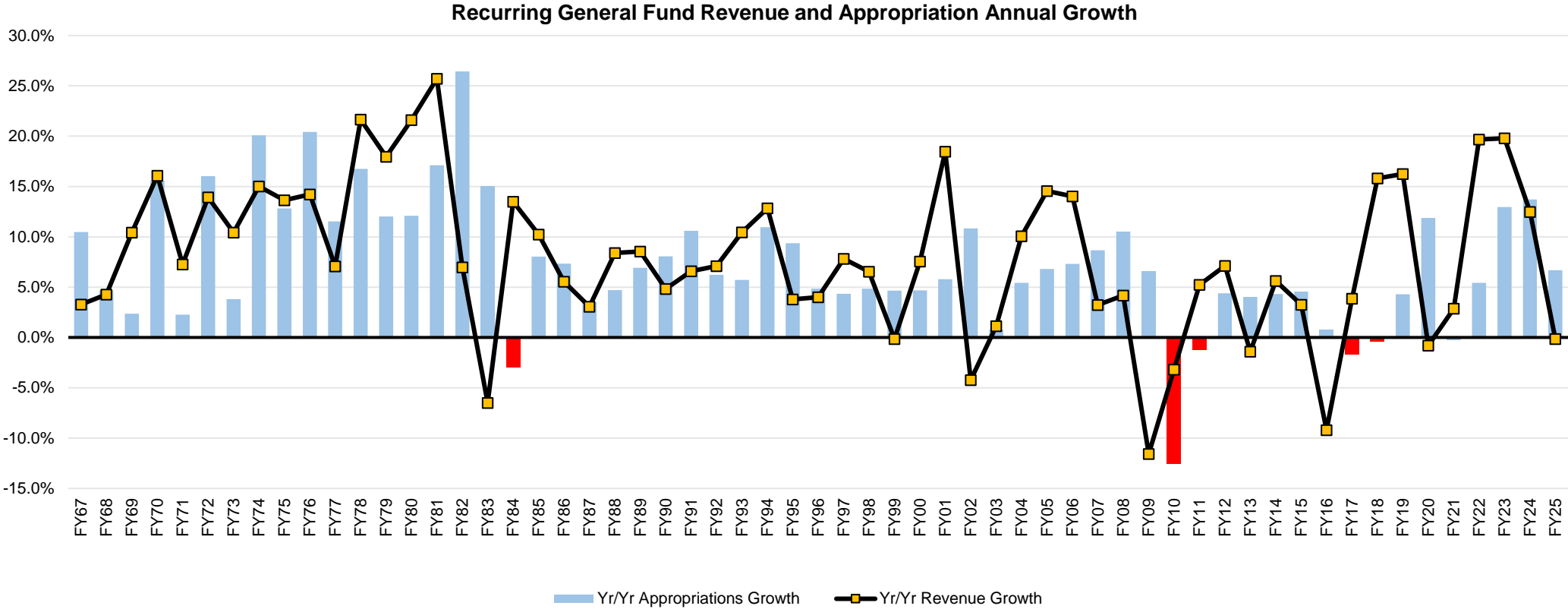


# Volatility in revenue hampers consistent investment, Challenging the state's ability to plan and execute stable budgeting



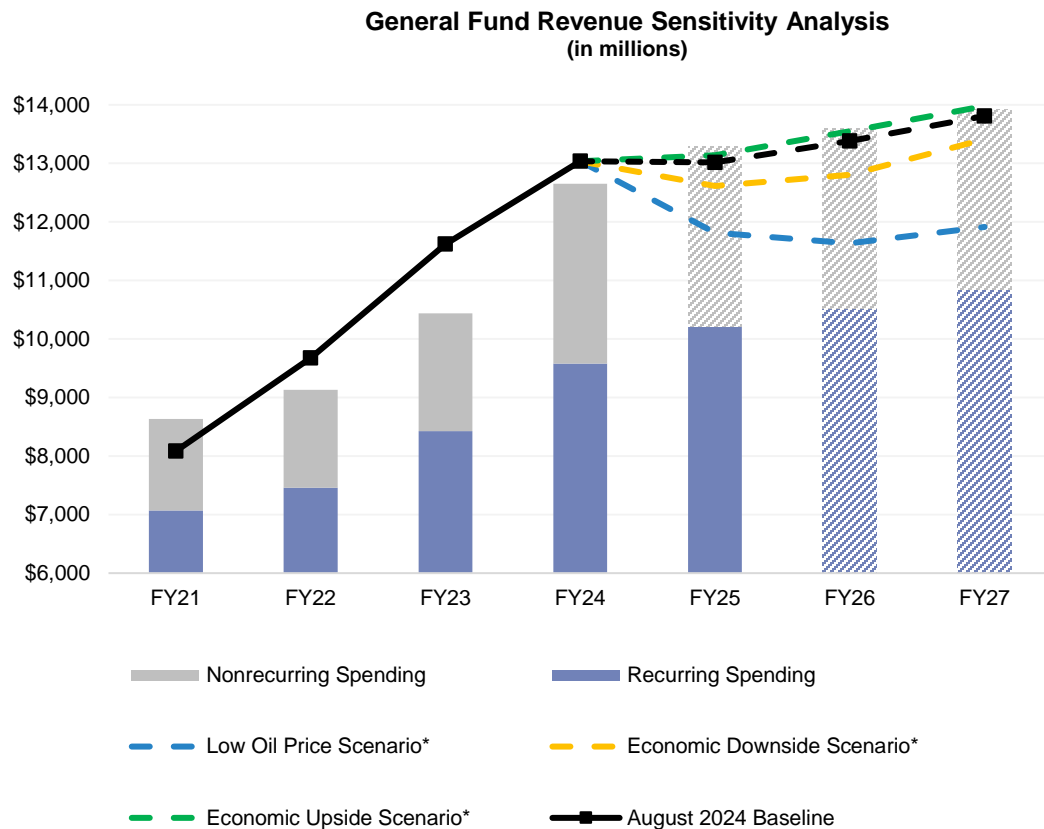
Source: Aug 2024 CREG; LFC Files

# Volatility in revenue hampers consistent investment, Challenging the state's ability to plan and execute stable budgeting



# General fund reserves have enough money

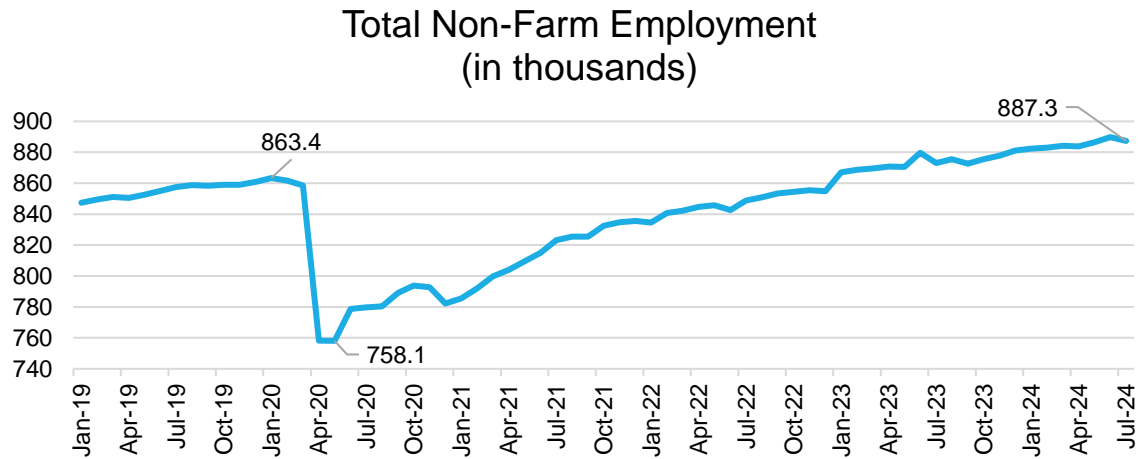
## To cover “worst-case” stress test scenario



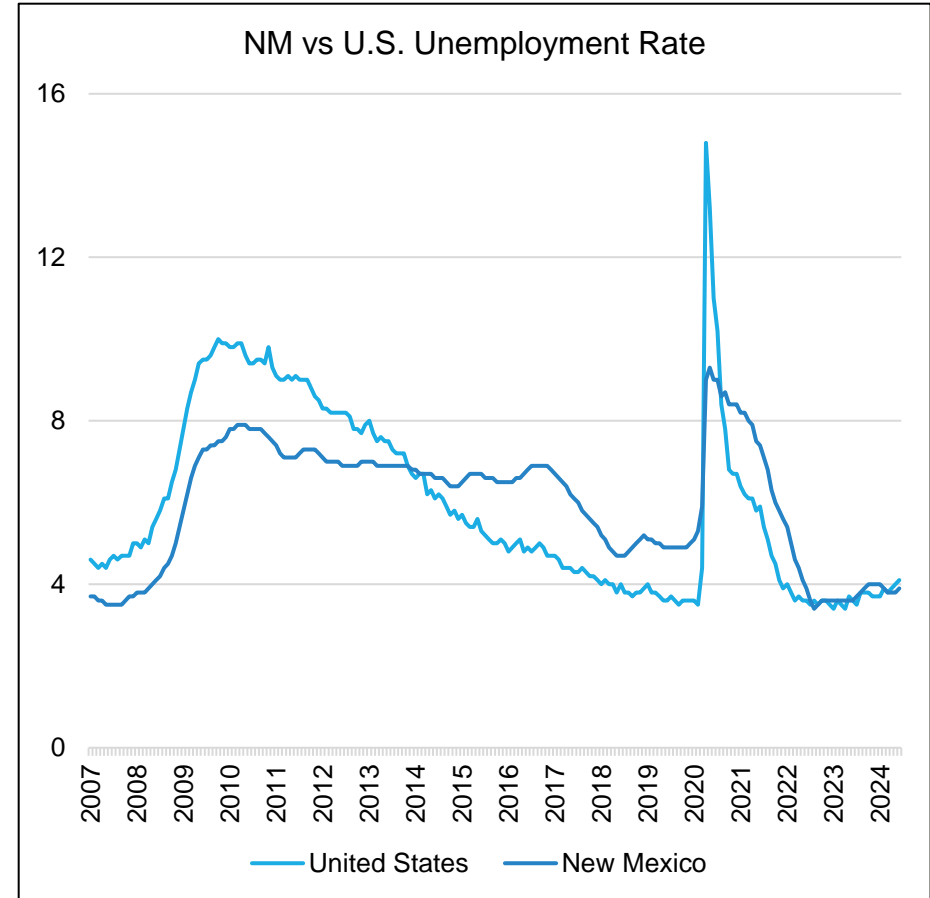
|   | S8: Low Oil Price |                 |                 | S3: Economic Downside |                 |                 | S1: Economic Upside |              |              |
|---|-------------------|-----------------|-----------------|-----------------------|-----------------|-----------------|---------------------|--------------|--------------|
| Scenario  | FY25              | FY26            | FY27            | FY25                  | FY26            | FY27            | FY25                | FY26         | FY27         |
| Severance Taxes to GF                                 | -\$368            | -\$418          | -\$417          | -\$35                 | -\$44           | -\$26           | \$4                 | \$5          | \$13         |
| Federal Mineral Leasing to GF                         | -\$155            | -\$443          | -\$466          | \$0                   | \$0             | \$0             | \$0                 | \$0          | \$0          |
| Gross Receipts Taxes                                  | -\$499            | -\$649          | -\$743          | -\$228                | -\$341          | -\$265          | \$91                | \$115        | \$108        |
| Corporate Income Taxes                                | -\$28             | -\$44           | -\$48           | -\$31                 | -\$57           | \$0             | \$5                 | \$7          | \$8          |
| Personal Income Taxes                                 | -\$151            | -\$192          | -\$220          | -\$109                | -\$135          | -\$104          | \$20                | \$40         | \$42         |
| <b>General Fund Difference from Baseline</b>          | <b>-\$1,201</b>   | <b>-\$1,747</b> | <b>-\$1,893</b> | <b>-\$403</b>         | <b>-\$576</b>   | <b>-\$396</b>   | <b>\$120</b>        | <b>\$167</b> | <b>\$171</b> |
| <i>General Fund Percent of Total Impact</i>           | 38%               | 45%             | 46%             | 27%                   | 27%             | 24%             | 44%                 | 41%          | 49%          |
| Severance Taxes to TSR or ECE                         | -\$517            | -\$345          | -\$123          | -\$482                | -\$345          | -\$123          | \$65                | \$88         | \$38         |
| Severance Taxes to STPF                               | -\$255            | -\$527          | -\$778          | -\$7                  | -\$326          | -\$390          | \$0                 | \$12         | \$31         |
| Federal Mineral Leasing to ECE                        | -\$882            | -\$548          | -\$175          | -\$616                | -\$548          | -\$175          | \$85                | \$127        | \$60         |
| Federal Mineral Leasing to STPF                       | -\$334            | -\$742          | -\$1,167        | \$0                   | -\$372          | -\$596          | \$0                 | \$17         | \$46         |
| <b>TSR/ECE Transfers Diff. from Baseline</b>          | <b>-\$1,988</b>   | <b>-\$2,162</b> | <b>-\$2,243</b> | <b>-\$1,106</b>       | <b>-\$1,590</b> | <b>-\$1,285</b> | <b>\$151</b>        | <b>\$244</b> | <b>\$176</b> |
| <i>TSR/ECE/STPF Transfers Percent of Total Impact</i> | 62%               | 55%             | 54%             | 73%                   | 73%             | 76%             | 56%                 | 59%          | 51%          |
| <b>Total Difference from Baseline</b>                 | <b>-\$3,188</b>   | <b>-\$3,909</b> | <b>-\$4,136</b> | <b>-\$1,509</b>       | <b>-\$2,166</b> | <b>-\$1,680</b> | <b>\$270</b>        | <b>\$411</b> | <b>\$347</b> |

Note: in millions

# Employment has gained 23.9 thousand jobs above pre-pandemic levels.

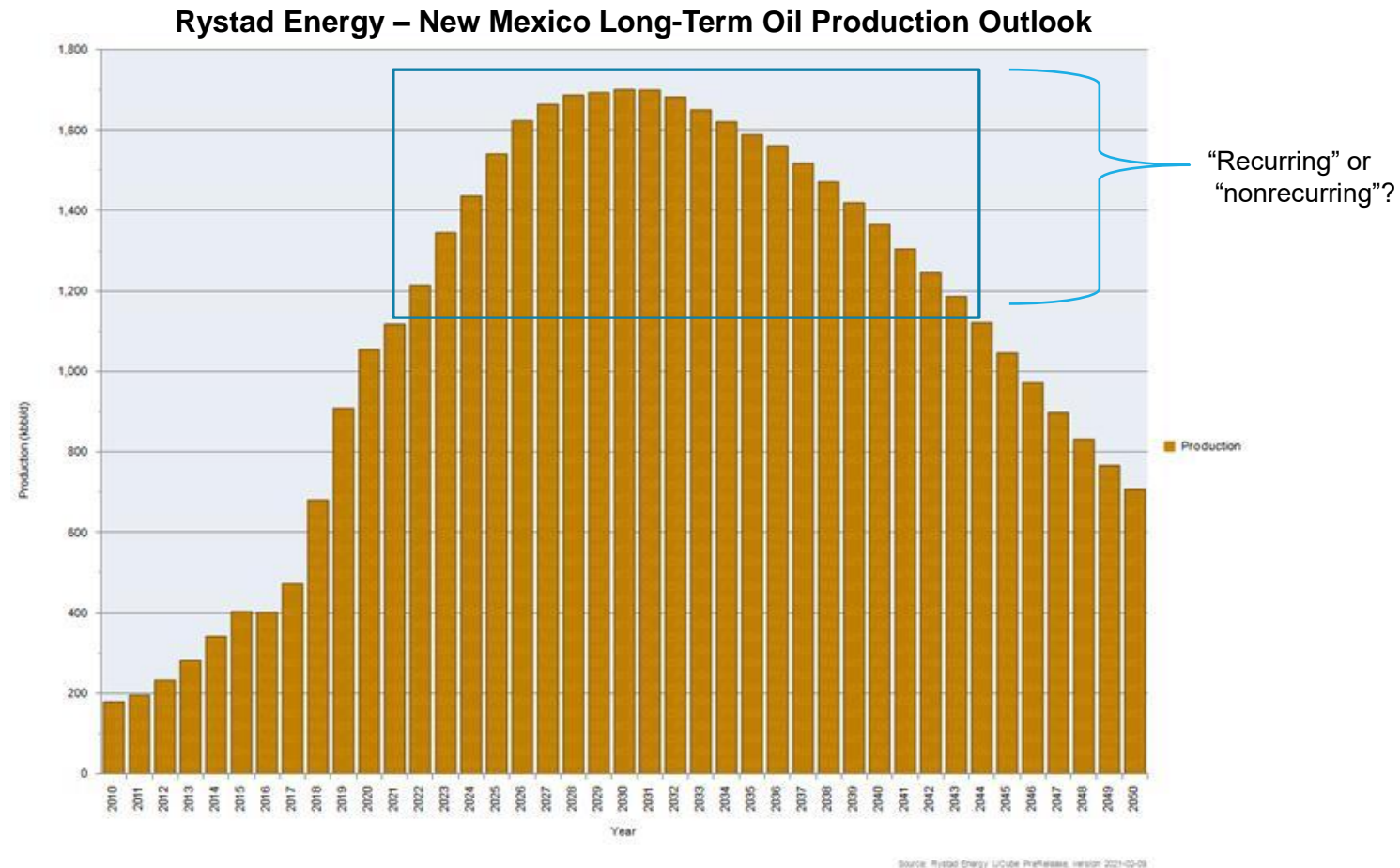


- As of July 2024, statewide nonfarm employment was 2.8 percent higher than it was in January 2020.
- New Mexico's unemployment rate in June 2024 was 3.9 percent.



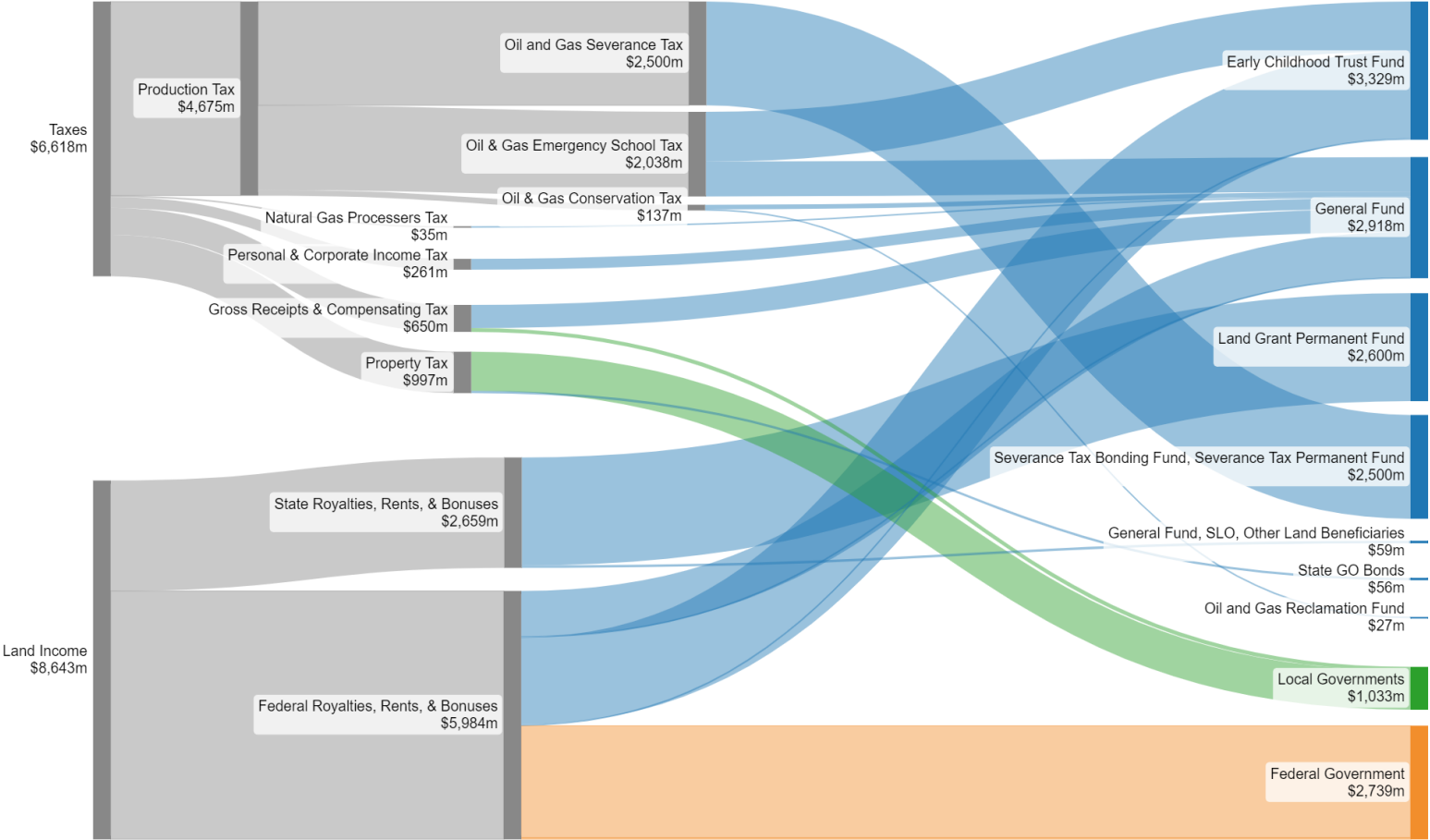
# While energy analytics firms expect NM oil production to grow for the next few years, production is currently expected to peak in the 2030s.

- The state will face tough choices in deciding how to treat general fund revenue growth from oil and gas revenues moving forward, particularly when growing recurring budgets
- Focus on diversifying and stabilizing state revenues



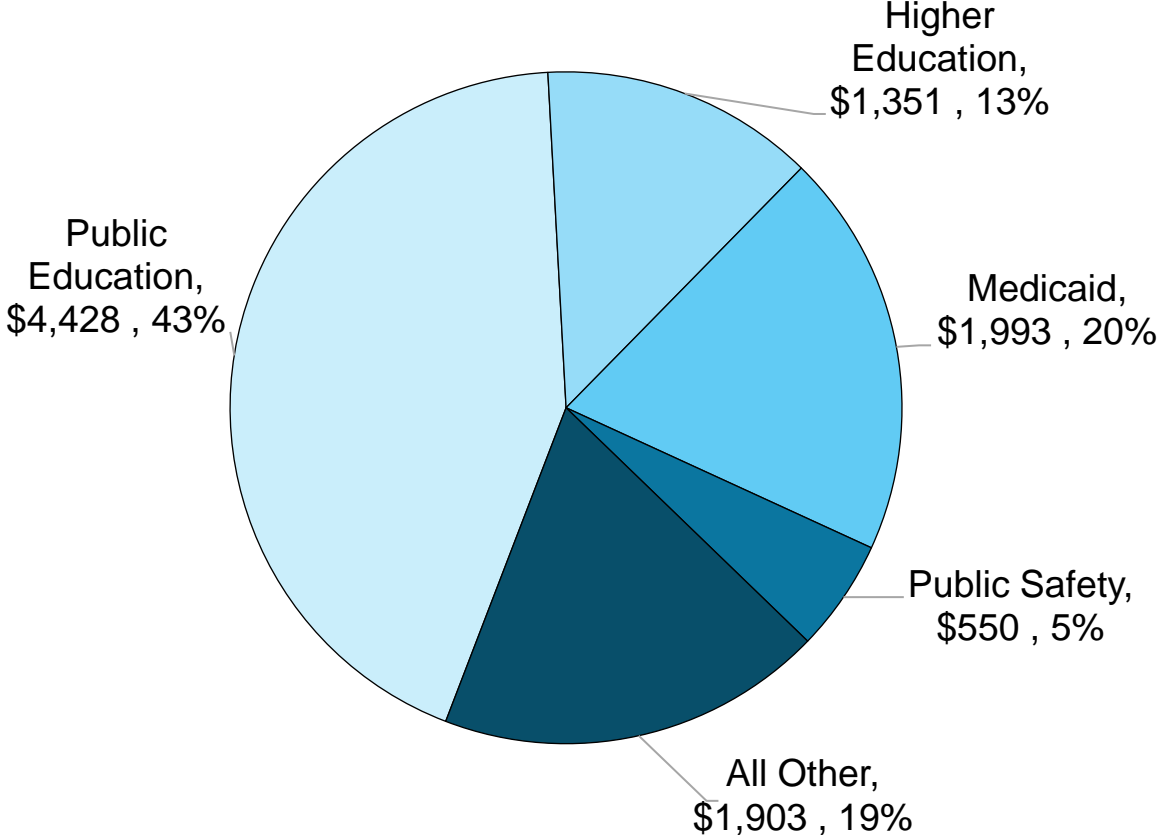


# FY2023 Oil and Gas Revenue Flow



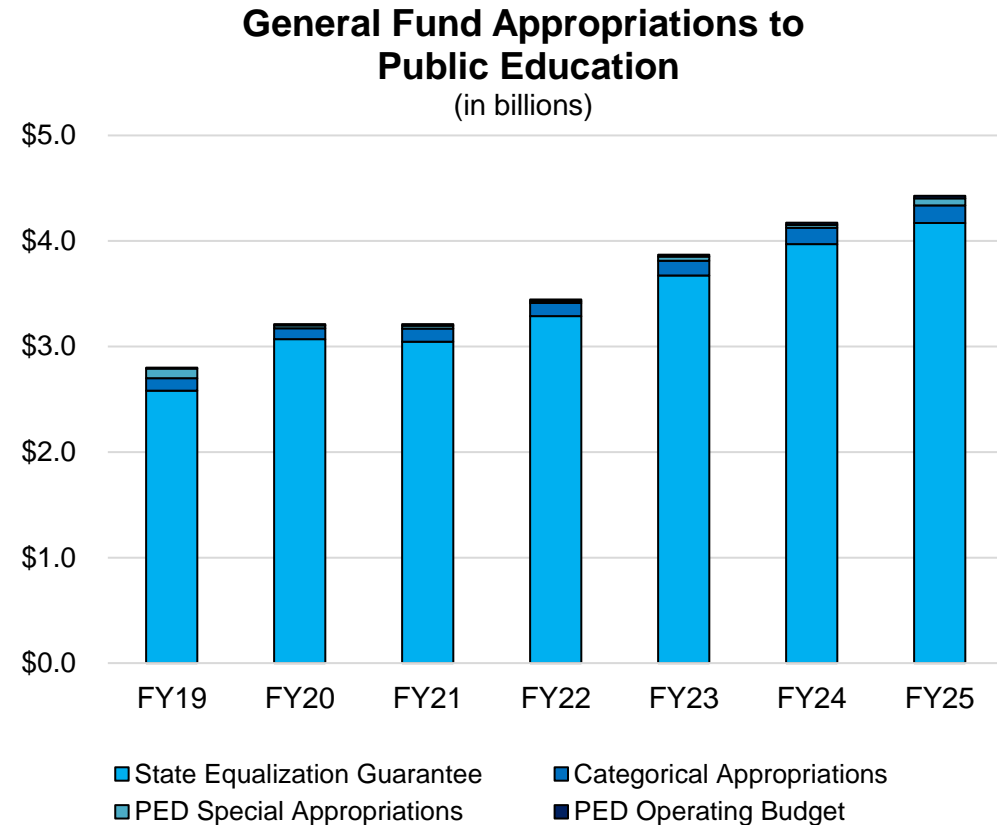
# FY25 General Fund Operating Budget

FY25 General Fund Operating Budget  
(in millions, Total = \$10.224 Billion)



# Public Education Funding Levels

- Since 2019, the Legislature has increased recurring appropriations for public schools by \$1.6 billion, or 61 percent.
- The average state operational funding amount per student is \$14,056, but it can vary widely from \$10,611 at Jefferson Montessori Academy in Aztec to \$51,323 in Vaughn.
- While funding for K-12 has grown consistently in recent years, Medicaid is quickly becoming a larger share of the budget.



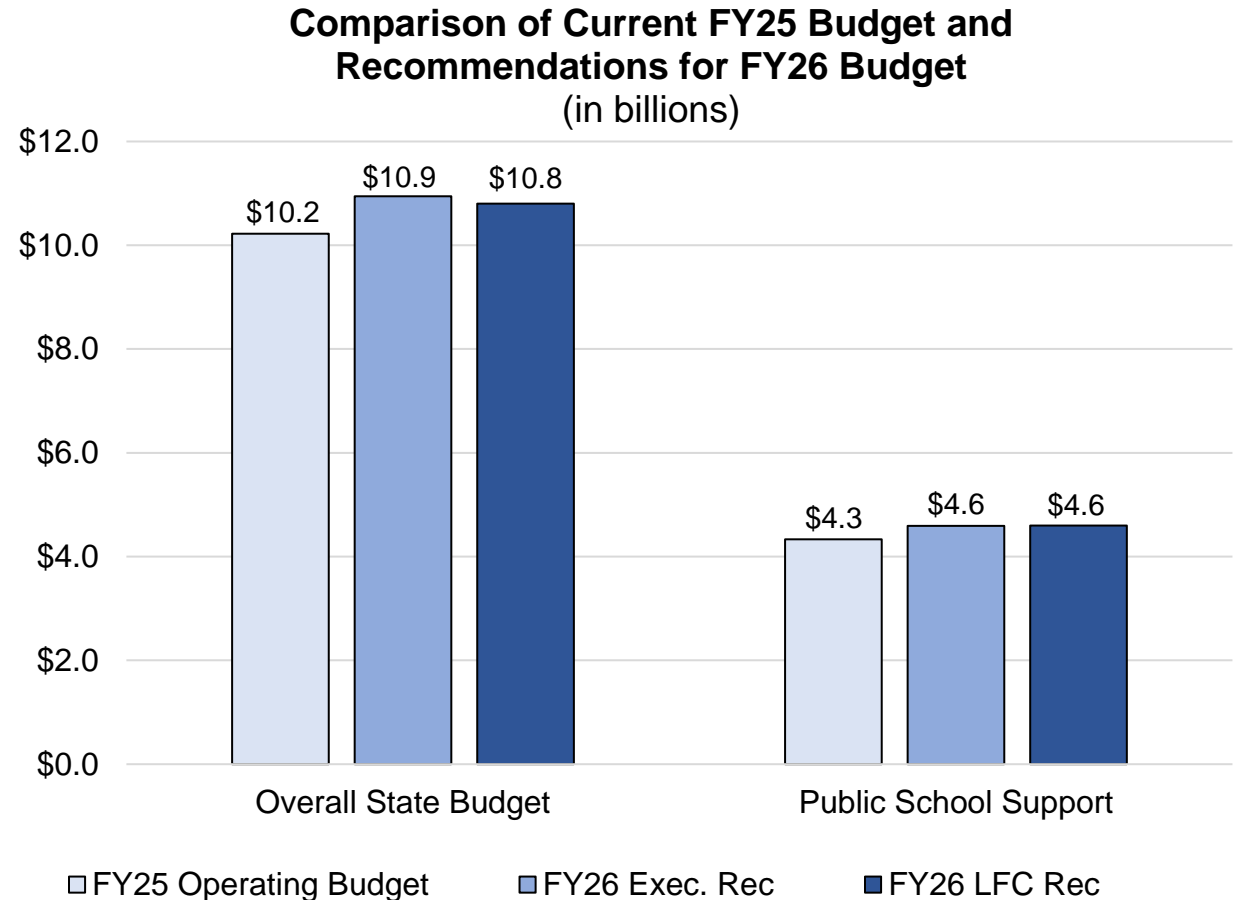
# LFC Budget Priorities

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- Use surpluses to make investments that will:
  - Increase New Mexican's personal earned income;
  - Improve access to high quality healthcare, including behavioral health; and
  - Improve quality of life (safe neighborhoods, clean water, nice amenities)

# Different Recommendations for the FY26 Recurring General Fund Budget

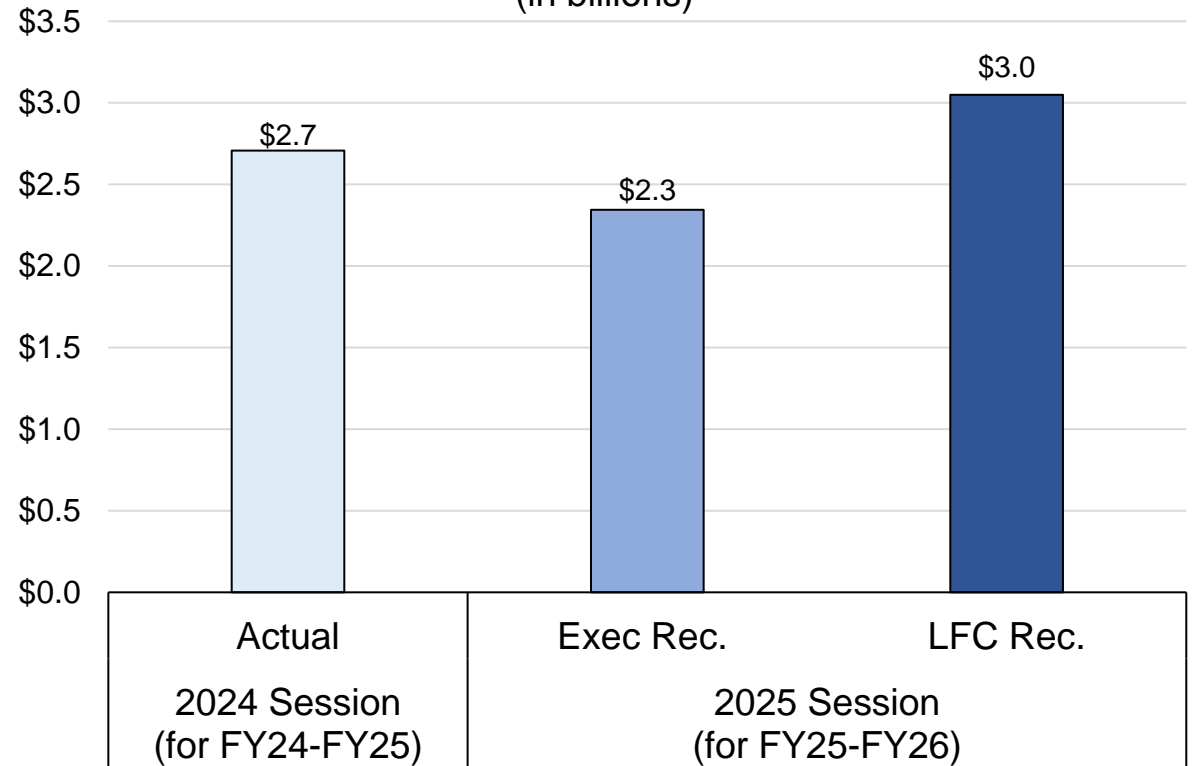
- The LFC recommendation increases the overall state budget by \$577 million (5.6 percent) in FY26 whereas the executive recommendation increases it by \$720 million (7 percent).
- The LFC recommendation increases public school support funding by \$261 million (6 percent) in FY26 while the executive recommendation increases it by \$260 million (5.9 percent).



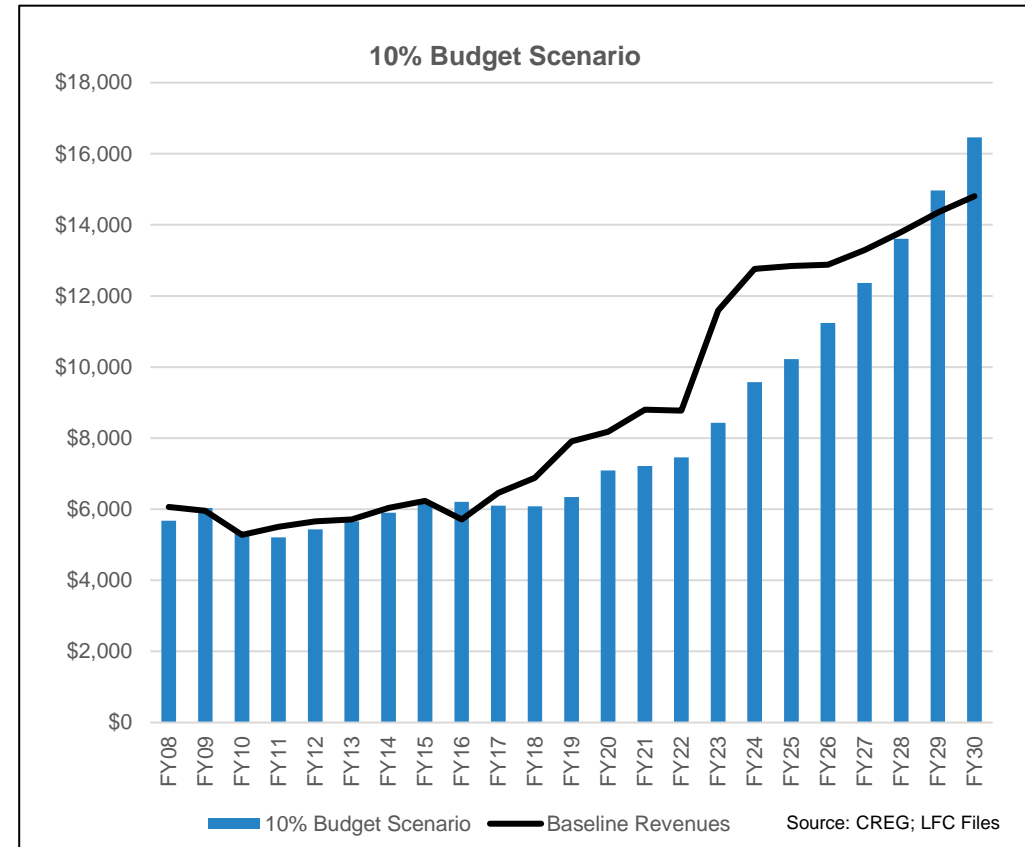
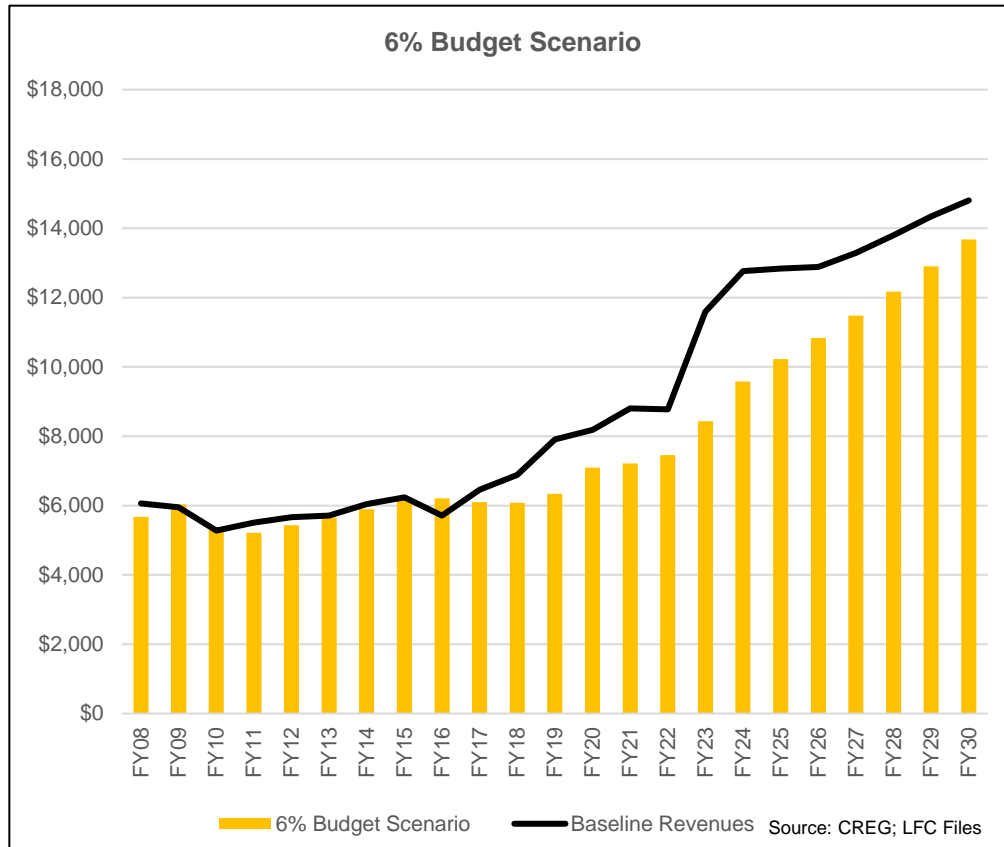
# Different Recommendations for One-Time Nonrecurring General Fund Spending

- The Legislature has made significant nonrecurring appropriations to build trust funds to support future spending and test out multi-year pilot projects.

Comparison of One-Time Nonrecurring General Fund Appropriations  
(in billions)



# The state's budget needs are expected to grow, so balancing near-term and long-term needs is constant.



# *Martinez-Yazzie vs. State of New Mexico*

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In 2014, plaintiffs alleged New Mexico was not meeting constitutional obligations to provide sufficient funding and programming for at-risk public school students.

In 2019, the District Court ruled that:

- **Inputs** (funding/programming) are inadequate,
- **Outputs** (student outcomes) are “dismal,” therefore
- **Funding and Oversight** are insufficient and should be enhanced.

In 2020, the court also noted the lack of access to Internet, devices, and IT support during school closures caused substantial harm to at-risk students.

In 2024, plaintiffs filed a motion with the court to order a remedial action plan developed by LESC staff.

## Key Findings

Achievement Gaps between at-risk students and their peers in test scores, graduation rates, and college remediation rates.

Lack of Funds for programs and resources that can close the achievement gap, such as high-quality teachers, appropriate curricula, and extended learning time programs.

Lack of Oversight by the Public Education Department to ensure schools spent funds on evidence-based programs for at-risk students.

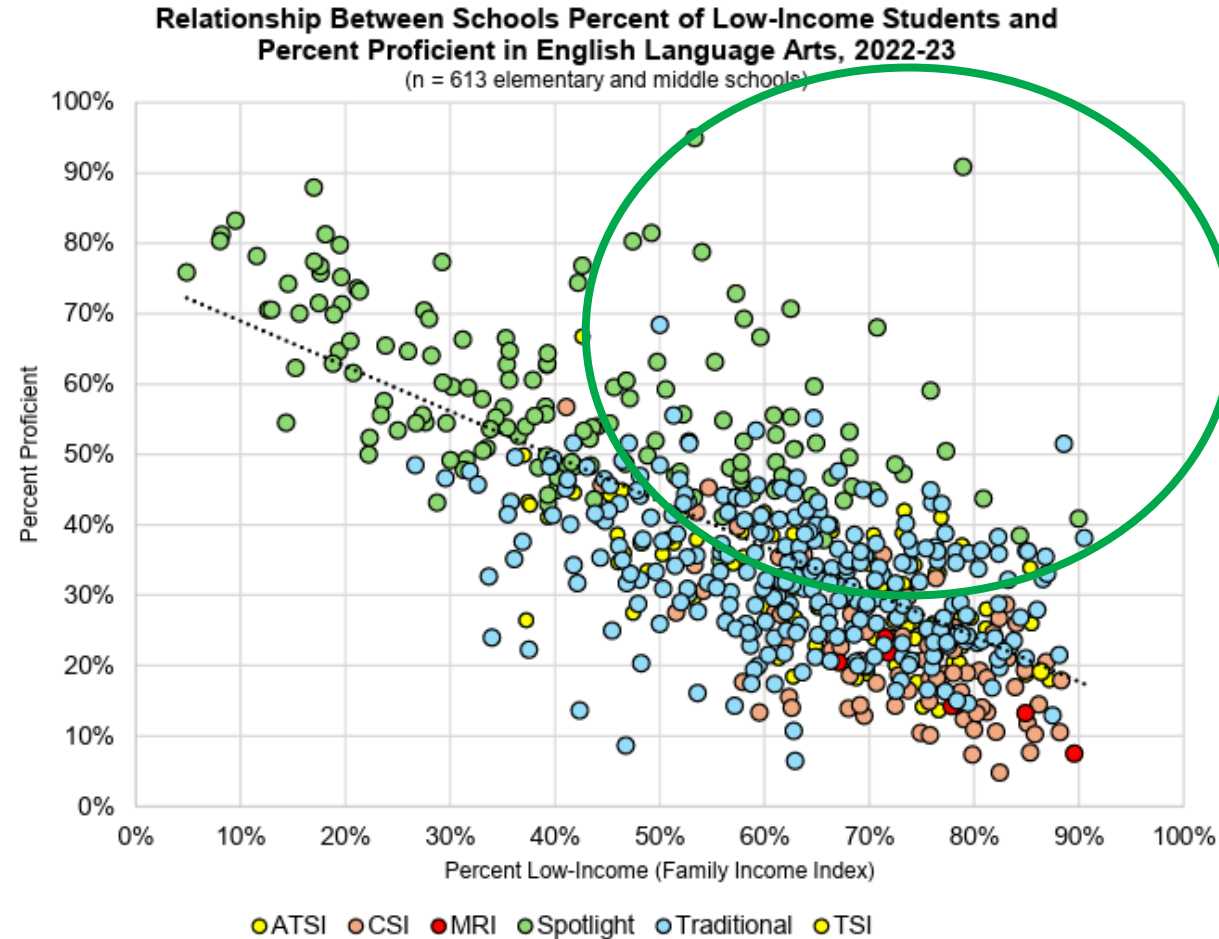


# What drives student performance and what improves it? *More and better* schooling

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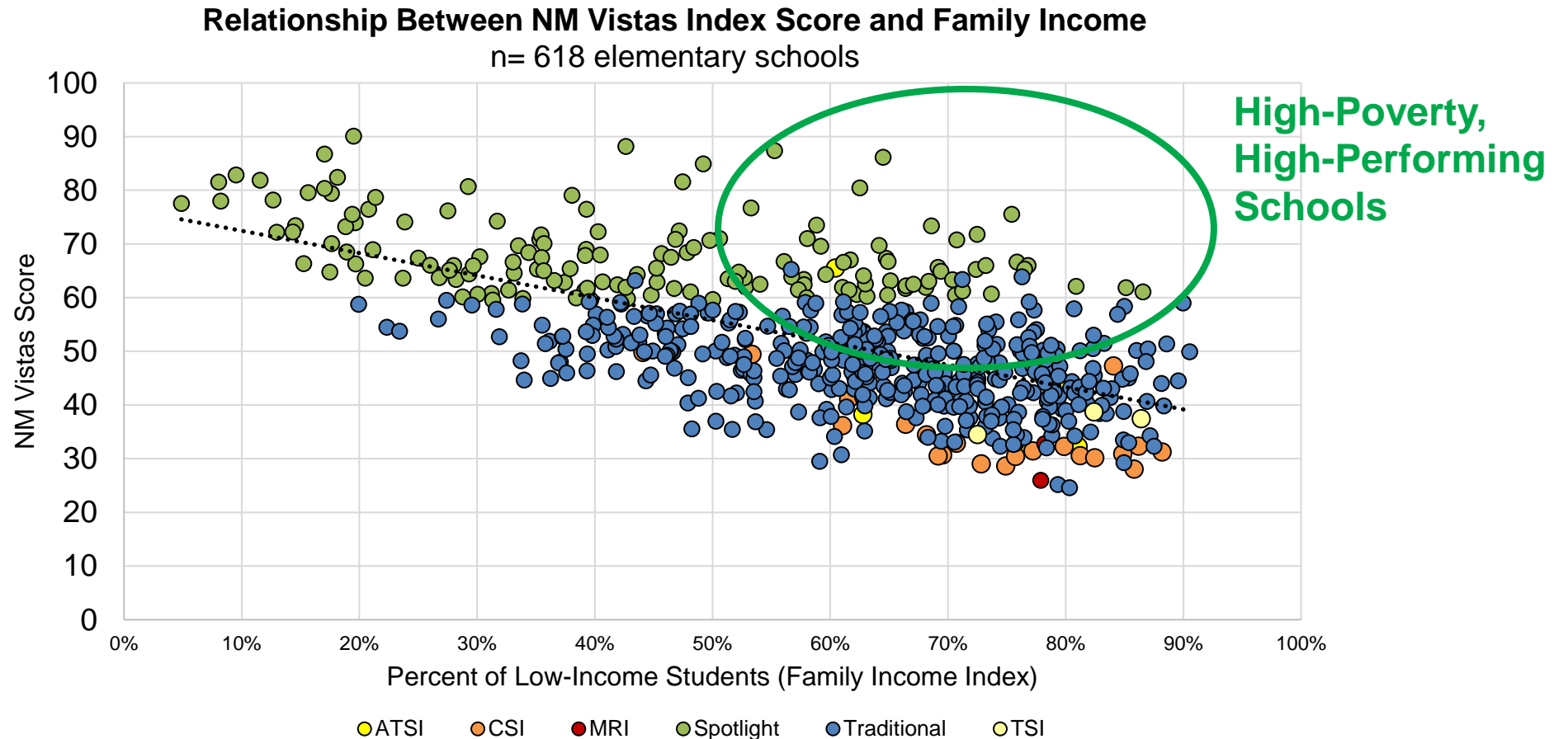
- Students often show up to kindergarten far behind where the system expects students to start school (2 to 2.5 years behind)
- New Mexico students, *including those from low-income households and students learning English*, on average make a year's worth of academic growth annually
- High poverty schools, with good leadership and best practices can and do help students make tremendous progress – but not enough.
- What works? Just what the court found students need more of. Additional learning time with high quality teaching and supports.

# NM Higher-Poverty Schools Tend to Have Lower Outcomes, But Some Schools Manage to “Beat-the-Odds”

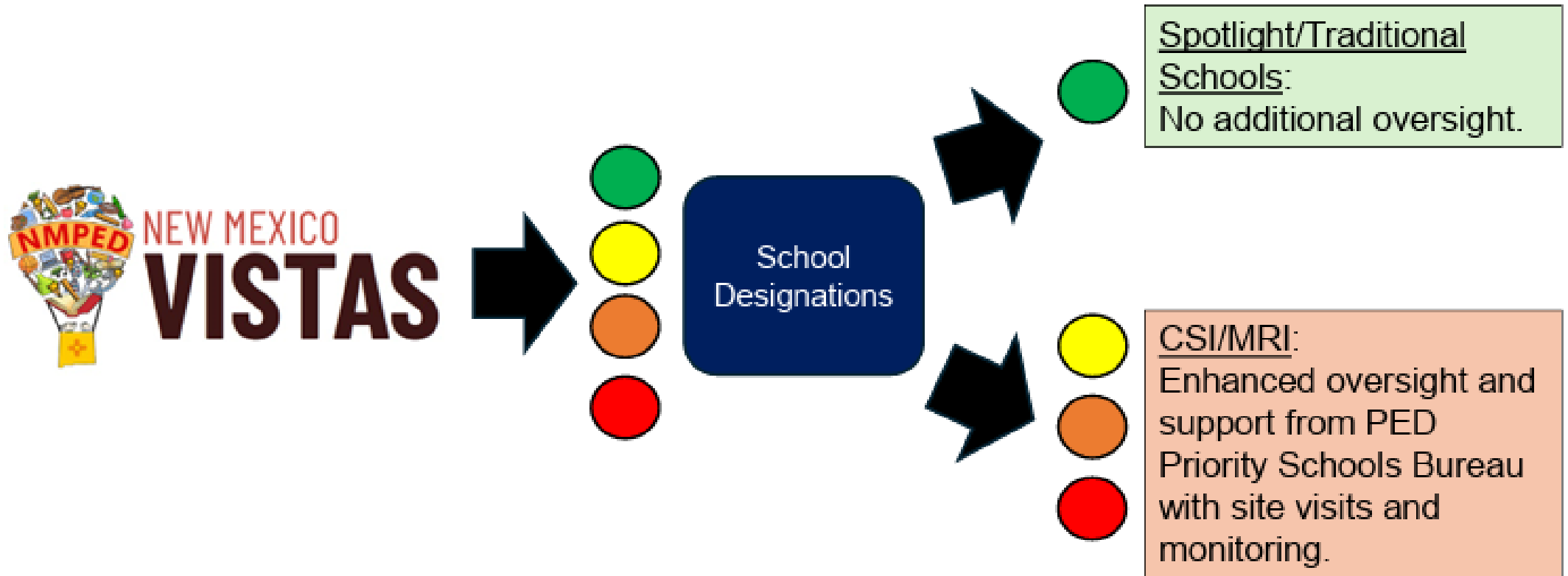


**High-Poverty,  
High-Performing  
Schools**

# NM Higher-Poverty Schools Tend to Have Lower Outcomes, But Some Schools Manage to “Beat-the-Odds”



# PED has a Federally Required System for Identifying High- and Low-Performing Schools



# Even Spotlight Schools Have Significant Room for Improvement in Outcomes

**PED School Designations and Median Proficiencies**

| Designation                                 | Criteria   | Median FY23 ELA Percent Proficient | Median FY23 Math Percent Proficient |
|---|--|------------------------------------|-------------------------------------|
| Spotlight                                   | Top 25% of all schools, by index score   | 55%                                | 42%                                 |
| Traditional                                 | Above the threshold for support  | 33%                                | 20%                                 |
| Additional Targeted Support and Improvement | One or more subgroups performing worse than the bottom 5% of all Title I schools             | 31%                                | 17%                                 |
| Targeted Support and Improvement            | One or more consistently unperforming subgroups  | 19%                                | 13%                                 |
| Comprehensive Support and Improvement       | Bottom 5% of all Title I schools; Graduation rate lower than 67%; Failed to exit ATSI status | 20%                                | 9%                                  |
| Most Rigorous Intervention                  | Failed to exit CSI status  | 14%                                | 7%                                  |

Source: LFC review of PED information.

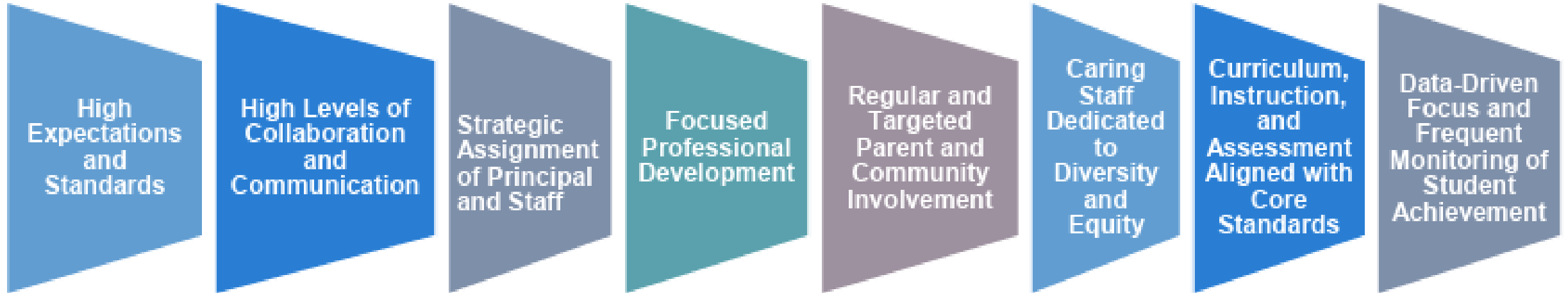
# LFC Staff Recently Compared the Practices of a Selection High- and Low-Performing Schools



- High- and low-performing schools serving at-risk students differ in their practices.
  - Planning and delivering grade level instruction.
  - Teacher development and accountability.
  - Monitoring student learning and addressing performance gaps.
  - Communicating with staff and parents.

# What Else Works in Public Education: Eight Characteristics of High-Performing Schools.

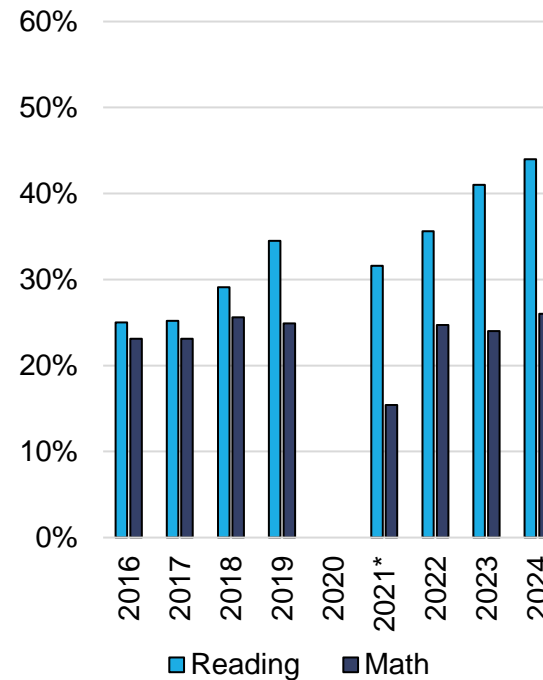
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# Student Outcomes on State Assessments

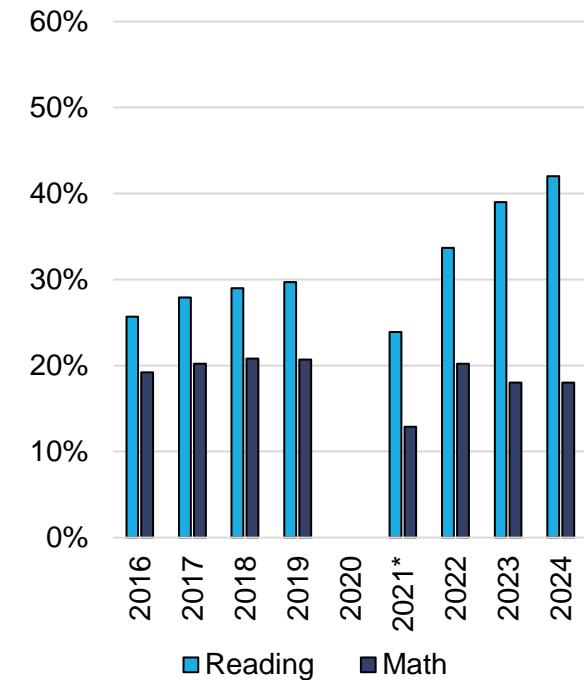
- Fourth and eighth grade reading proficiency scores are slowly improving, while math scores remain flat on state assessments.

### 4th Grade Proficiency Rates



\*Not a representative sample; change from PARCC to MSSA test in 2021  
Source: PED

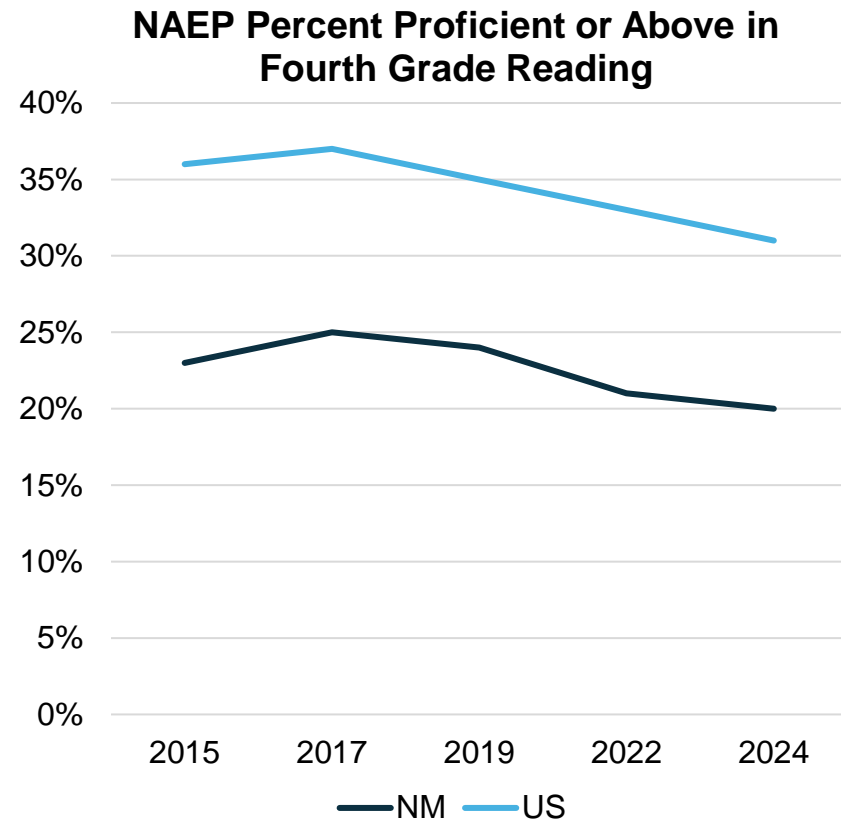
### 8th Grade Proficiency Rates



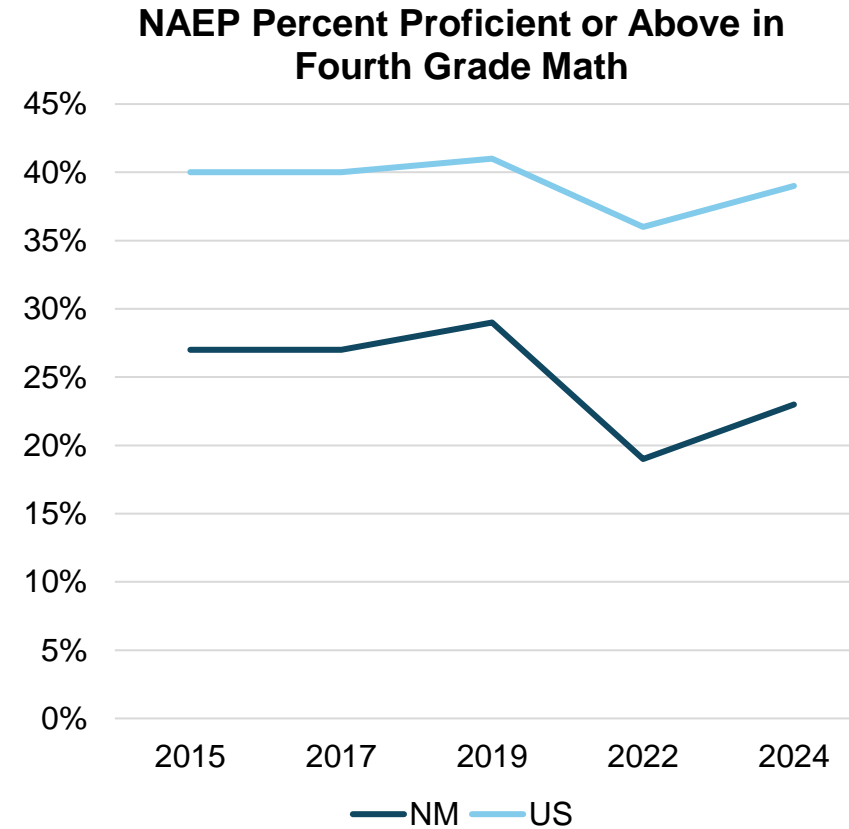
\*Not a representative sample; change from PARCC to MSSA test in 2021  
Source: PED



# Student Outcomes on NAEP



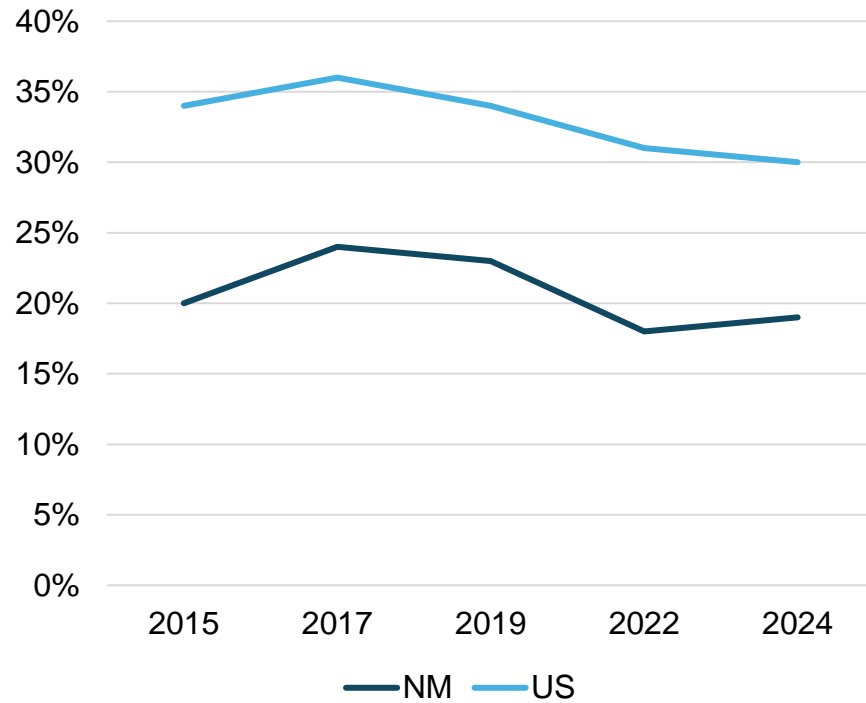
New Mexico ranked 50<sup>th</sup> in 4<sup>th</sup> Grade Reading in 2024.



New Mexico ranked 50<sup>th</sup> in 4<sup>th</sup> Grade Math in 2024.

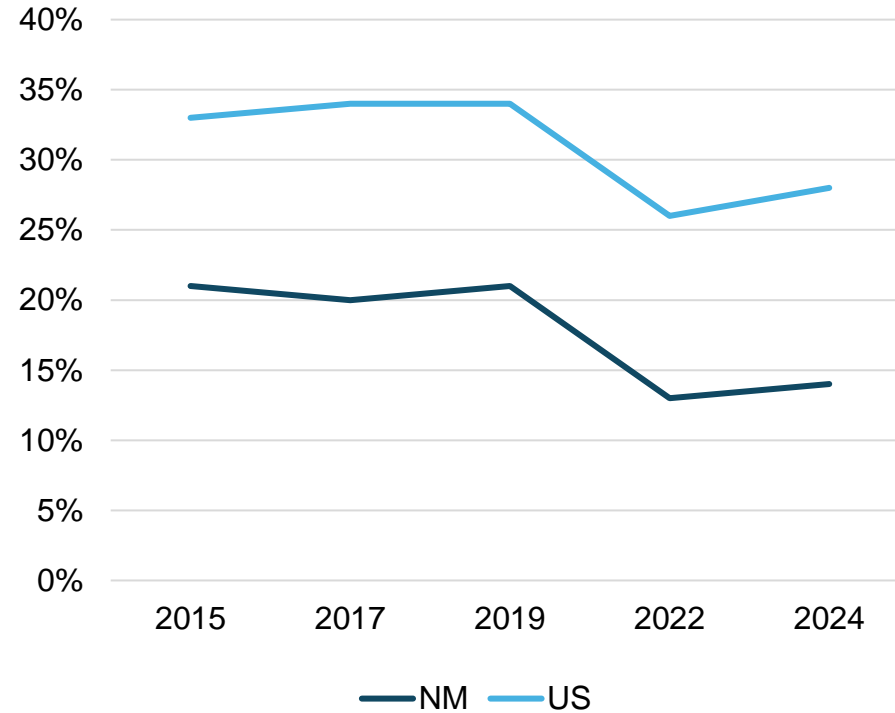
# Student Outcomes on NAEP

NAEP Percent Proficient or Above in Eighth Grade Reading



New Mexico ranked 50<sup>th</sup> in 8<sup>th</sup> Grade Reading in 2024.

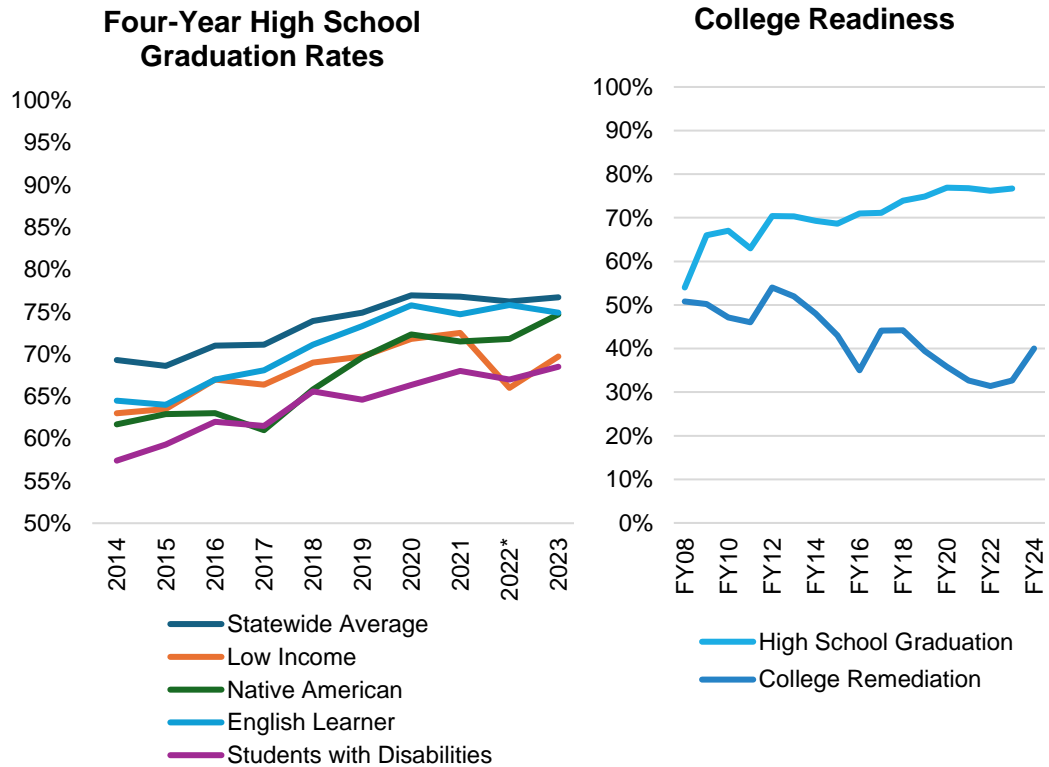
NAEP Percent Proficient or Above in Eighth Grade Math



New Mexico ranked 50<sup>th</sup> in 8<sup>th</sup> Grade Math in 2024.

# Student Outcomes in High School and College

- New Mexico high school graduation rates increased to 77 percent in 2023.
- To reach the national graduation rate of 87 percent (2022), 2,344 more students would need to graduate across the state.
- College remediation rates have risen since the pandemic.
- Students who need college remediation classes are less likely to graduate on time and more likely to drop out.



Note: PED changed measurement of low-income students in 2022  
Source: PED

# Balancing near-term with long-term spending and savings with mid-term financial strategies.

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- General fund recurring appropriations for all agencies has grown \$3.9 billion, 61 percent, since FY19.
- General fund recurring appropriations for public school support has grown \$1.6 billion, 61 percent, since FY19.
- There is significant saving for the future in the permanent funds.
- Mid-term revenue growth is slow.
- How can the state use this bountiful fiscal position to improve the economy and -
  - Personal earned income,
  - Access to high-quality health care,
  - Quality of life (safe neighborhoods, clean water, nice amenities, etc.)?



### For More Information

- <http://www.nmlegis.gov/lcs/lfc/lfcdefault.aspx>
  - Session Publications
  - Performance Report Cards
  - Program Evaluations

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