Mid-Session Legislative Review

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

- 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
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 $)

Source: LFC Files
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)

<table>
<thead>
<tr>
<th>APPROPRIATION ACCOUNT</th>
<th>Preliminary FY2016</th>
<th>Estimate FY2017</th>
<th>Estimate FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recurring Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>August 2016 Recurring Revenue Forecast Adjusted for Special Session Action</td>
<td>$ 5,672.1</td>
<td>$ 5,731.0</td>
<td>$ 6,056.4</td>
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<tr>
<td>December 2016 Revenue Forecast</td>
<td>$ 356.7</td>
<td>($ 130.8)</td>
<td>($ 127.3)</td>
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<tr>
<td>Total Recurring Revenue</td>
<td>$ 5,708.8</td>
<td>$ 5,600.2</td>
<td>$ 5,929.1</td>
</tr>
<tr>
<td>January 2016 Nonrecurring Revenue Update</td>
<td>$ 3.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2016 Session Nonrecurring Revenue Legislation (HB311)</td>
<td>-</td>
<td>$ 74.3</td>
<td>-</td>
</tr>
<tr>
<td>2016 Special Session Nonrecurring Revenue Legislation (SB2, SB8)</td>
<td>-</td>
<td>$ 127.0</td>
<td>-</td>
</tr>
<tr>
<td>Total Nonrecurring Revenue</td>
<td>$ 3.3</td>
<td>$ 201.3</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>$ 5,712.1</td>
<td>$ 5,801.5</td>
<td>$ 5,929.1</td>
</tr>
<tr>
<td><strong>APPROPRIATIONS</strong></td>
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<tr>
<td>Recurring Appropriations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Appropriation</td>
<td>$ 6,234.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2016 Legislation &amp; Fed Bill</td>
<td>$ 62</td>
<td>$ 6,228.3</td>
<td>-</td>
</tr>
<tr>
<td>2016 Legislation FY16 Sanding</td>
<td>-</td>
<td>($ 31.0)</td>
<td>-</td>
</tr>
<tr>
<td>2016 Special Session Recurring Appropriation Reductions (SB9, not inc. G-1)</td>
<td>-</td>
<td>($ 150.1)</td>
<td>-</td>
</tr>
<tr>
<td>DFA Adjustment to Book SB8 as Reduced Appropriation</td>
<td>-</td>
<td>$ 56.0</td>
<td>-</td>
</tr>
<tr>
<td>2017 Legislation &amp; Fed Bill</td>
<td>-</td>
<td>$ 10.3</td>
<td>-</td>
</tr>
<tr>
<td>Total Recurring Appropriations</td>
<td>$ 6,209.9</td>
<td>$ 6,032.5</td>
<td>-</td>
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<tr>
<td>Nonrecurring Appropriations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016 Legislation &amp; Prior Year Appropriations</td>
<td>$ 97.2</td>
<td>$ 1.3</td>
<td>-</td>
</tr>
<tr>
<td>2016 Special Session Nonrecurring Appropriations (SB6, SB9)</td>
<td>-</td>
<td>$ 2.5</td>
<td>-</td>
</tr>
<tr>
<td>2017 Session Nonrecurring Appropriations</td>
<td>-</td>
<td>$ 3.1</td>
<td>-</td>
</tr>
<tr>
<td>Total Nonrecurring Appropriations</td>
<td>$ 97.2</td>
<td>$ 6.9</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL APPROPRIATIONS</strong></td>
<td>$ 6,307.1</td>
<td>$ 6,039.4</td>
<td>-</td>
</tr>
<tr>
<td>Transfer to (from) Reserves</td>
<td>$(595.0)</td>
<td>$(237.9)</td>
<td>-</td>
</tr>
</tbody>
</table>

- Down ~$130M from Aug est.
- New Money in FY18 is ~$103.41
- No new money in FY18
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
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

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

Cash Balance Credit Imposed – FY03

Cash Balance Credit Limits Increased - FY07

Limits on cash balance credits removed - FY12

FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17
$66,099 $86,837 $85,181 $80,159 $82,262 $87,078 $107,039 $114,555 $132,378 $114,182 $141,198 $165,730 $187,953 $195,904 $209,620 $252,533
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.
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.
## General Fund Appropriations

<table>
<thead>
<tr>
<th>Public School Support</th>
<th>FY17 OpBud</th>
<th>Adj. HAFC</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEG</td>
<td>$2,481.2</td>
<td>$2,513.5</td>
<td>$32.3</td>
<td>1.3%</td>
</tr>
<tr>
<td>Categorical</td>
<td>$99.0</td>
<td>$93.1</td>
<td>$(5.9)</td>
<td>-6.0%</td>
</tr>
<tr>
<td>Related</td>
<td>$91.1</td>
<td>$72.3</td>
<td>$(18.8)</td>
<td>-20.6%</td>
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<tr>
<td>Public Education Dept.</td>
<td>$11.1</td>
<td>$11.1</td>
<td>$ -</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

**Total Public Education**: $2,682.4 $ 2,690.0 $ 7.6 0.3%

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
### School District
#### FYXX Performance Dashboard

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

High Expectations and Standards
High Levels of Collaboration and Communication
Strategic Assignment of Principal and Staff
Focused Professional Development
Regular and Targeted Parent and Community Involvement
Caring Staff Dedicated to Diversity and Equity
Curriculum, Instruction, and Assessment Aligned with Core Standards
Data-Driven Focus and Frequent Monitoring of Student Achievement
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

77%  
Non low-income and Non-ELL

54%  
Low-income and Non-ELL

37%  
Low-income and ELL

Source: LFO Files
ELL = English Language Learner
percent proficient and above
Early Brain Development

Center on the Developing Child
HARVARD UNIVERSITY

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

Sensory Pathways (Vision, Hearing)
Language
Higher Cognitive Function

FIRST YEAR

Birth (Months) (Years)

-8 -7 -6 -5 -4 -3 -2 -1 1 2 3 4 5 6 7 8 9 10 11 12 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19

Early Brain Development

Source: UNM HSC
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**

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

Source: NMSU

Can predict which students will need extra help
Legislative Finance Committee

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

Charles Sallee, Deputy Director
Legislative Finance Committee
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