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Legislature Adjourns Until Monday

Many members of the legislature will return home this weekend, since both chambers have adjourned until Monday morning. However the House Education Committee met Friday morning to work on their version of a school budget. They will likely complete work on their version of school funding, HB3, the Education Appropriations Act, on Monday morning. The measure will then be presented to the House Appropriations and Finance Committee, probably on Wednesday. They will use the Legislative Finance Committee blueprint described below. Talk to legislators at home this weekend about putting as much money as possible in the School Equalization Formula and fully funding educational retirement by transferring the 1.75% contribution swap back to employers and by paying the legislator next solvency payment of $17 million dollars (see below).

Two competing school budgets have been introduced.

The Legislative Finance Committee (LFC)'s Budget is summarized below:

The LFC recommends FY13 appropriations of $5.68 billion. This spending level is $250 million, or 4.6 percent, above the FY12 operating budget. The agency recommendations include $49.7 million to reverse the 1.75 percent shift from employer-to employee retirement contributions that was triggered because general fund reserves exceeded 5 percent. Separate from the agency recommendations, the LFC recommendation accelerates two spending commitments required in FY14: $17 million for a 0.75 percent contribution increase for education retirement (ERB) and $19 million to reduce the use of tobacco settlement revenue from 100 percent to 50 percent. Also, the LFC recommends a 0.5 percent compensation increase for agency employees.

Because a temporary cost-saving provision that increased the employee share of pension contributions is expected to expire, the recommendation covers the shift of those costs back to agencies, which means public employees, including teachers, would see an increase in take-home pay for the first time in four years. The committee's general fund recommendation of $2.5 billion for public schools is an increase of 3.2 percent, or $89.2 million, from the FY12 appropriation. The recommendation includes an additional $10.4 million for early childhood programs and $7.5 million for a new reading initiative. Another $5 million for early childhood programs is part of the recommendation for the Children, Youth and Families Department. Funding for that department would increase $13 million, or 6.7 percent over FYI2, to $385 million. The $755.5 million general fund recommendation for higher education represents a 5.4 percent increase over the FY12 appropriation. The recommendation assumes the implementation of a new funding formula that emphasizes course and degree completion over enrollment. Unlike most years, the recommendation does not take credit for any revenue raised through tuition.

Governor Martinez's Budget is summarized below:

Governor Martinez’s executive budget proposal maintains funding for most agencies at the current level. Approximately $97.2 million in new funding for public schools. Roughly $40 million of this new funding would be committed to core services such as textbooks and transportation. The Governor is proposing a $17 million investment in early childhood reading initiatives in order to fund her anti-social promotion bill. Her budget calls for a $5.5 million initiative to help the state’s lowest-performing schools improve their student achievement, while rewarding those schools that are showing the greatest student progress. She is also proposing $4.2 million on initiatives to better prepare students to graduate from high school and enter college. The remainder is attributed to additional contributions that New Mexico’s teachers will not have to make into their retirement.

The Budget has nearly $42.5 million in new funding for Medicaid services and program improvements, which includes an additional $8 million to prevent the closure of nursing homes in New Mexico due to federal Medicare cuts.

She also proposes cutting revenues by approximately $55 million to be used as tax giveaways to business.

While the amount of funding in both budgets is about the same and does not make for cuts in education funding since 2008, we like the LFC's approach better. In channels more money through the public school funding formula. This funds are more flexible and can be used more effectively for local school district needs and are more amenable to the collective bargaining process. The Governor proposed to spend most of her school funding on her version of "school reform," often not the same as ours!

New Revenue Fears

Prior to the start of the 2012 legislative session, state economists predicted New Mexico would have $250 million in extra revenue for the new budget year. Governor Martinez wants to use has proposed more than $50 million in tax giveaways businesses. In contrast, the Legislature's proposed budget recommends putting the expected new money back into programs that were cut in recent years as the state responded to falling tax revenues, such as educational retirement. However there are now rears that there might not be enough money to go around because of a drop in the price of natural gas. Natural gas production gives New Mexico its largest source of tax revenue among the minerals extracted across the state by various industries. According to state officials, every 10-cent swing in the price of natural gas is worth more than $11 million in tax revenue — a drop in tax revenue if the price goes down and an increase if it goes up. If the price drops too much, revenue forecasts will be revised downward, creating a problem even for the meager increases contained in this year’s budget proposals. Tell Legislators that funding public schools must be the state's first priority. Stay tuned.

Governor's Tax Giveaways Hurt Retirement Solvency

One big difference in the Governor's and the LFC's budget proposal is the resumption of the legislature's commitment to increasing employer contribution to retirement. Several years ago a commitment was made to increase the employer contribution to the Education Retirement Association by .75% per year for five years. In 2008, the legislature suspended these increased contributions. The LFC budget restores this commitment with a $17 million dollar contribution. The Governor's budget includes this $17 million in her $55 million giveaway to business. Tell legislators that this is the time to keep commitments made to educators and not the time to harm our revenues with a massive tax giveaway to businesses.

Start Retirement Discussion with Legislators Now

The Educational Retirement Board (ERB) developed funding goals of 80% by 2030 and 95% by 2040 for our educator retirement plan. NEA-New Mexico believes that these goals are unrealistic and require changes to school employee retirement plans that are too severe. NEA-New Mexico urged the board not to adopt these extreme funding goals. However, the only member of the Board to vote against the goals was Mary Lou Cameron, NEA-NM's member of the Board (and the only active public school employee on the ERB).

These funding goals forced the plan changes recommended by the ERB. Their proposals make changes to the retirement qualifications of vested members by creating a mandatory minimum retirement age of age 55 for all members not within 10 years of meeting a current retirement qualification. Further, the plan reduces all future COLAs by 12.5%, including those of current retirees.

We have made our views clear. No changes that reduce promised benefits for vested active members are acceptable. No changes that reduce the Cost of Living Adjustment or other benefits of current retirees are acceptable. No changes that adversely alter the retirement eligibility rules for currently vested active employees are acceptable.

The unrealistic funding goals were adopted at least partly because the Governmental Accounting Standards Board (GASB) has proposed new reporting and accounting standards for public pension plans. GASB is a non-governmental organization that sets accounting standards for state and local government entities, including cities, counties, school districts, and the trust funds that they establish. GASB does not have the legal authority to compel compliance, but the accounting profession and investors view the standards as part of the baseline for proper accounting. GASB’s statements become part of generally accepted accounting principles. Part of the rationale used by the ERB was that the new standards will affect the bond ratings of the state, school districts, or both. NEA has queried the bond and credit rating agencies on the validity of this argument and has found that there is no reason a pension plan has to make changes in anticipation of the new accounting standards’ treatment of unfunded liabilities. In essence, the ratings agencies are saying that it’s always been part of their job to look at and factor into their analyses pension plans’ unfunded liabilities. As a result, the future inclusion of unfunded liabilities on an employer’s balance sheet should not spur changes to pension plans in order to protect credit ratings.

We believe that our earned retirement benefits are a protected contract and a vested property right under the New Mexico Constitution. We firmly believe that Article 2, Section 19 and Article 20, Section 22 of the New Mexico Constitution make any diminution of benefits to currently vested members of ERA under current economic conditions unconstitutional.

While no legislation has been introduced to advance the ERB's plan yet, we believe it soon will be. It's time to make our views know to Legislators:

1. If you are vested, you already earned your benefit under the conditions in existence when you vested.
2. No one contributed a gift on your behalf. You paid for your retirement plan as deferred compensation that already belongs to you.
3. The ERB’s funding goals are unrealistic and unnecessary, even in the face on new GASB rules
4. Changes to the benefits of currently vested or retired members are an impairment of constitutional contract and property rights.

If the facts don’t work with policy makers, try these three quotes that politicians should understand, especially in an election year:

1. A politician is known by the promises he keeps.
2. There is no greater fraud than a promise not kept. ~ Gaelic Proverb
3. Losers make promises they often break. Winners make commitments they always keep. ~Denis Waitley