



LFC Newsletter

A publication of the

Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Jimmie C. Hall, Vice Chairman

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Volume 17 Issue 7

January 2017

From the Chairman Revenue Risk

The national election was a wild ride and it's not over yet, least of all in New Mexico. Potential changes in federal policy are among the "downside risks" to the state revenue forecasts that make it possible the already downbeat projections for this and next year will turn out to be overly optimistic. While a change in administration always adds some unpredictability to the projections, this transition raises more questions than usual, and boosts anxiety over revenue projections already buffeted by the ups and downs – mostly downs – of the oil industry.

Repeal of the Affordable Care Act is high on the agenda of the new administration and Congress. The leap in the number of New Mexicans covered by the Medicaid expansion authorized under the act has been expensive for New Mexico. But, at the same time, the number of New Mexicans without insurance has dropped to an all-time low, either because they are now covered by Medicaid or are getting previously unattainable insurance. Repeal of the act, and the potential for changes in federal support for the Medicaid program, would impact New Mexico significantly, and not just because Medicaid eligibility could contract or federal support could drop. Fewer people with insurance or assistance would be a hit to the healthcare sector of the economy and that hit would ripple through the state.

Another campaign promise of the new administration was to extricate the United States from trade treaties. Again, this could take a bite out of the New Mexico economy, which has been a big beneficiary of the North American Free Trade Agreement. Since 2007, nearly 50 companies have invested more than \$700 million in the border region near Santa Teresa. Adding tariffs to goods crossing the border might or might not encourage manufacturers to keep jobs here, but it will definitely discourage the kind of cross-border activity that has energized the southern New Mexico economy.

Also worth noting is that the New Mexico personal income tax piggy-backs on the federal tax – the starting point for calculating the New Mexico tax is the adjusted gross income figure from the federal form. Any tax reforms could have an impact on New Mexico tax revenue.

There is no doubt changes on the federal level are on their way. How and when those changes will hit New Mexico is hard to predict. Given that uncertainty, on top of the uncertainty of the volatile energy industry, it is more important than ever that policymakers establish a stable foundation for state revenue.

Senator John Arthur Smith
Chairman

State Employee Pay Lags

The state spent \$3 million on pay raises targeted at critical positions but still has trouble with recruiting and retaining staff for those jobs and is spending tens of millions of dollars on overtime, the state personnel director says.

Justin Najaka testified at the committee hearing in December that agency analysis shows New Mexico state worker pay lags behind comparison groups. However, he noted, New Mexico covers more of the cost of health insurance.

In the *2016 Classified Service Compensation Report*, the agency says the state's total compensation package is unbalanced, with compensation skewed toward providing higher benefits. The state contributes "significantly more" than other states for medical and retirement benefits.

The report says the average base salary of \$44,804 represents about 57 percent of total compensation, while medical and other insurance premiums and pension and retiree health contributions paid by the state make up about 25 percent of total compensation costs of \$78,157. The cost of days off and social

security and Medicare make up the rest.

LFC analysis included in "Volume 3" of the *Report of the Legislative Finance Committee to the Fifty-Third Legislature* indicates the State Personnel Office might be over-estimating the cost of benefits.

Najaka told the committee the state has overtime costs of at least \$32 million, although the figure does not include all types of overtime pay or overtime pay for the State Police.

Committee members argued the high overtime costs are a sign agencies are understaffed and complained about the more than two months it takes to fill a state position.

The State Personnel Office is working on a new compensation plan that groups positions by occupation type. Planners say the new plan would minimize salary inequities between similar jobs across agencies and give policymakers greater flexibility to address pay issues and recruitment and retention.

The executive in its budget proposal recommends reducing the employer share of the cost of benefits, which would reduce take-home pay for state employees.

NM Broadband Fails To Reach Users

New Mexico has a strong fiber framework for high-quality broadband access to the Internet, but fiber connections reach few users outside of Albuquerque, an LFC review finds.

A memo by program evaluation staff, scheduled to be presented to the committee at 10 a.m. January 13, indicates fiber, the only Internet connection suitable for heavy data traffic, runs throughout the state but only 7.5 percent of the population has access to a fiber connection, compared with 25 percent nationally.

New Mexico has fallen behind neighboring states in high-speed access to the Internet, the memo says. Further, New Mexico schools rank near the bottom of the country for connection speed even though they rank in the top half for the percent of schools connected to fiber.

That suggests New Mexico's lack of access to high speed Internet connections is not because the fiber framework is inadequate but because of a lack of

the electronics that drive information across the fiber, which are expensive to maintain and upgrade.

Fiber cable itself, flexible glass tubes, is expensive to build but costs little to maintain and never needs to be upgraded.

The memo suggests schools, colleges and other public institutions, which currently buy Internet services separately, buy access together to create an incentive for providers to install the necessary electronics in a region to deliver content, which will then be available to other users in the area.

The most "ubiquitous" broadband connection in New Mexico is the slowest, the memo says. DSL is run over telephone lines and is the only connection generally available in rural areas. Urban areas and high-density rural areas have access to cable connections, which run over television wires. Fiber is available to homes almost exclusively in Albuquerque.

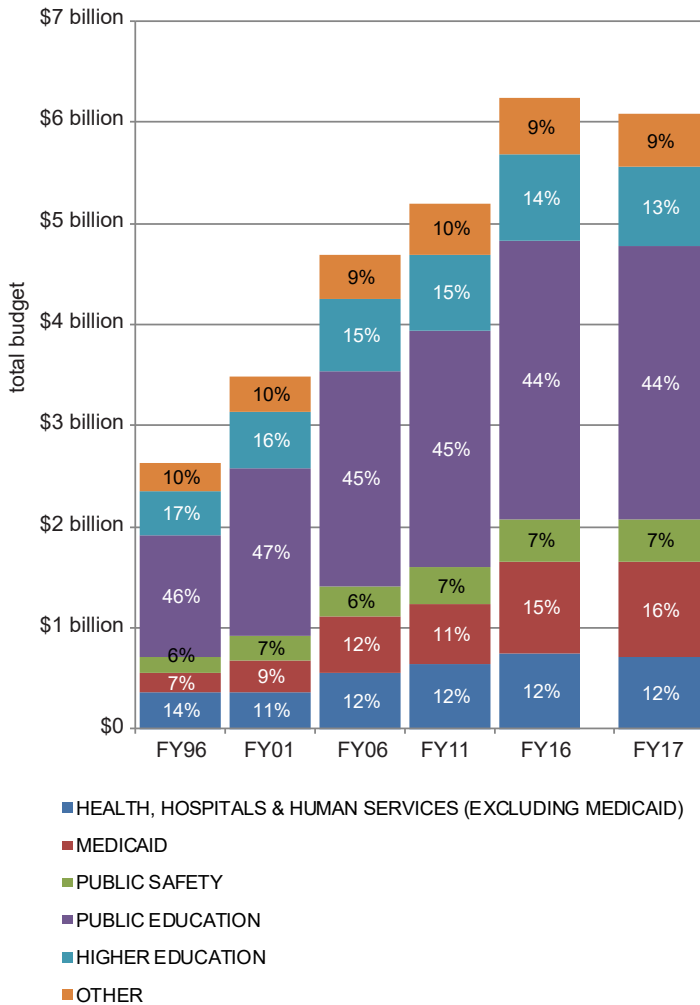
Medicaid Spending Takes Greater Budget Share

The share of the general fund operating budget spent on Medicaid grew from 11 percent to 16 percent between FY11 and FY17, while the share spent on public schools slipped slightly from 45 percent to 44 percent.

The share spent on higher education also dropped, from 15 percent to 13 percent during that time period, as did the share spent on general government, down a percentage point in FY17 from 10 percent in FY11.

The figures only show the share of state dollars spent on state operations; Medicaid is primarily funded by the federal government.

**General Fund Operating Budgets by Category
FY96-FY17**



On the Table

Charters Under Scrutiny

The Public Education Department approved 10 charter school renewal applications in December but denied those for Sage Montessori Charter School in Albuquerque, Uplift Community School in Gallup, and Estancia Valley Classical Academy in Moriarty for consecutive low school grades, high student and personnel turnover, and safety concerns. In addition, the Albuquerque Public Schools board rejected a charter application from La Resolana Leadership Academy, which had been chartered for the last six years by the state, partly because of financial issues and under-enrollment, and the Farmington Municipal Schools board declined to reauthorize the charter for the New Mexico Virtual Academy due to low student performance. The Attorney General is investigating the for-profit company behind the Virtual Academy, K12 Inc., which recently paid California \$168.5 million to settle a suit alleging false advertising, false claims and unfair competition.

TRD Fights \$90 Million Refund Claim

The Taxation and Revenue Department has hired a contract attorney to advise the department in administrative hearings and district court proceedings involving the denial of a request for a tax refund. In documents supporting the use of \$200,000 to hire a contract attorney, the department said it is fighting a claim for a \$90 million tax refund.

Jail Bonds Might Be Taxed

The Internal Revenue Service has notified the Municipal Securities Rulemaking Board that \$62.3 million of Otero County jail project bonds issued as nontaxable in 2007 might actually be taxable. The bonds were issued to finance a 1,096-bed U.S. Immigration and Customs Enforcement facility and federal tax law treats the federal government as a private party, making bonds used for federal facilities taxable.

Border Business Gets LEDA Funds

The New Mexico Economic Development Department will contribute \$140,000 in Local Economic Development Act funds to construct a cold storage facility at Santa Teresa. The expansion of the Valley Cold Storage and Transportation facility is expected to cost \$14 million and create 33 jobs, tripling the workforce.

School Unit Value Drops 1.5 Percent

The final unit value in the public school funding formula for the current school year is down \$60.61 from the \$4,040.24 set in March, before the solvency actions taken during the 2016 special legislative session. The entire cut will have to be absorbed in spending for the last half of the year.

Transitions

Francine Anaya is the new director of the Protective Services program at the Children, Youth and Families Department. The previous director, Jared Rounsville, is now with CYFD Early Childhood Services.

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Published monthly in the interim by the Legislative Finance Committee.

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