LFC Newsletter

A publication of the **Legislative Finance Committee**

Senator George Muñoz, Chairman
Representative Nathan Small, Vice Chairman
Charles Sallee, Director

Volume 24 Issue 11 May 2024

From the Chairman

Potential

New Mexico has invested hundreds of millions in attracting and growing businesses, but too often we are attracted to the shiniest prospect—the big manufacturer that promises hundreds of jobs or an industry with a high profile. It doesn't always work out.

New Mexico invested $20 million in Eclipse Aviation in the early 2000s just to see it fold within a decade. We spend about $100 million a year, almost a third of our economic incentive budget, on film production, and less than 1 percent of jobs are connected to the film industry. It's fun to see the little yellow signs with cryptic messages pointing to a movie set or to randomly spot a celebrity, but film jobs often go to out-of-state professionals and tax revenues are less than the cost of the film credit. Rather than spend on a single manufacturer or a single industry, New Mexico might see better job growth and more economic activity by diversifying its economic investment.

New Mexico needs to make smart decisions when it comes to investing in its economy. Over the last decade, growth in both private employment and gross state product has trailed the region. New Mexico's economy is driven by the oil and gas industry—and policymakers are grateful for the benefits the industry provides—but New Mexico could have a more stable economy, broader opportunities for its residents, and higher per capita income with a more diverse economy.

LFC economists have done a deep dive into what employment sectors—called industry clusters—show the most promise for job and income creation. They are scheduled to present the report to the committee on May 14 when the members meet in Grants.

The report looks at which clusters have a competitive advantage in New Mexico, pay better wages, and have the potential to have an economic impact outside of the already strong metropolitan areas.

Right now, New Mexico has the resources to create the incentives and environment that will draw out-of-state companies to New Mexico and help promising in-state businesses grow. But we must use those resources strategically if we want to build the broad economic base that will serve New Mexicans into the future.

Senator George Muñoz
Chairman

Matched Hospital Payments Targeted at Larger Facilities

Larger hospitals will likely benefit most from a new program that multiplies hospital contributions, even though smaller hospitals in smaller communities are more likely to struggle financially, LFC analysis shows.

In analysis scheduled to be presented to the committee at 1:15 p.m. on May 15, LFC staff report the new Healthcare Quality Delivery and Access Act—which pools payments from hospitals, matches them 3-to-1 with federal Medicaid dollars, then redistributes the funds to hospitals—targets payments to hospitals based on bed count, meaning larger hospitals will get a bigger share.

However, most hospitals that lost money in 2022 were outside large metropolitan areas. Nine of 12 unprofitable New Mexico hospitals were "nonurban," suggesting funding should be targeted at rural areas and smaller communities if the intent is to improve healthcare access, the report says.

The new act, initiated by the New Mexico Hospital Association, allocates 60 percent of the pool dollars based on hospital size, determined by the number of licensed beds, and 40 percent based on performance as determined by the Health Care Authority, formerly the Human Services Department.

Of the 12 hospitals that lost money in 2022, four will receive too little money to become profitable, putting them at risk of closure. Further, while an additional six of the unprofitable hospitals will receive enough to cover losses, their margins will remain small and they could remain financially unstable.

In contrast, private, for-profit hospitals, which financially outperform both nonprofit and government-run hospitals in New Mexico, will receive the bulk of the pool dollars based on bed count.

In 2022, New Mexico for-profit hospitals earned profits of $168 million, and they will receive $281 million from the pool, the report says.

The report says analysis of existing research shows a community that loses its hospital experiences a loss in population, and a decline in economic growth. Patient transportation time in emergency increased by about 40 percent.

The report notes government revenues are expected to be 74 percent of total hospital revenues in 2025, and the state could use that leverage to ensure hospitals provide better care and access.

Office Should Help With Capital Outlay Woes

Inadequate vetting and piecemeal funding contribute to delays and higher costs for the hundreds of millions of dollars in local capital projects funded each year, but a newly created state division should help address some of those issues, LFC staff note in the quarterly update on the status of capital outlay projects.

Staff told the committee during a hearing in April a $3 billion gap between local capital outlay requests and available funding, along with a process that allows individual legislators and the governor to select local projects, undermine the state's ability to use surging revenues to efficiently complete projects.

Because demand far exceeds funding, projects often are partially funded, with 45 percent of the 1,400 local projects in the 2024 capital outlay building receiving half or less of requested funds.

The success of these projects "is likely to depend on community willingness and capacity to effectively leverage capital outlay with other funding sources," staff say in the quarterly report.

A new Infrastructure Planning and Development Division at the Department of Finance and Administration is expected to create a system to help local governments find additional funding sources, staff said.

Wesley Billingsley, the new division director, testified the division will be upgrading technology and processes to help agencies coordinate funding for projects and creating an online database of project status.

LFC staff reported outstanding capital outlay balances totaled $4.5 billion across roughly 4,600 projects at the end of March and most outstanding projects are local.

The quarterly update notes slightly under $200 million for about 600 active projects is scheduled to revert to its funding source in 2024.

Nearly 60% of LEDA Awards Went to One County

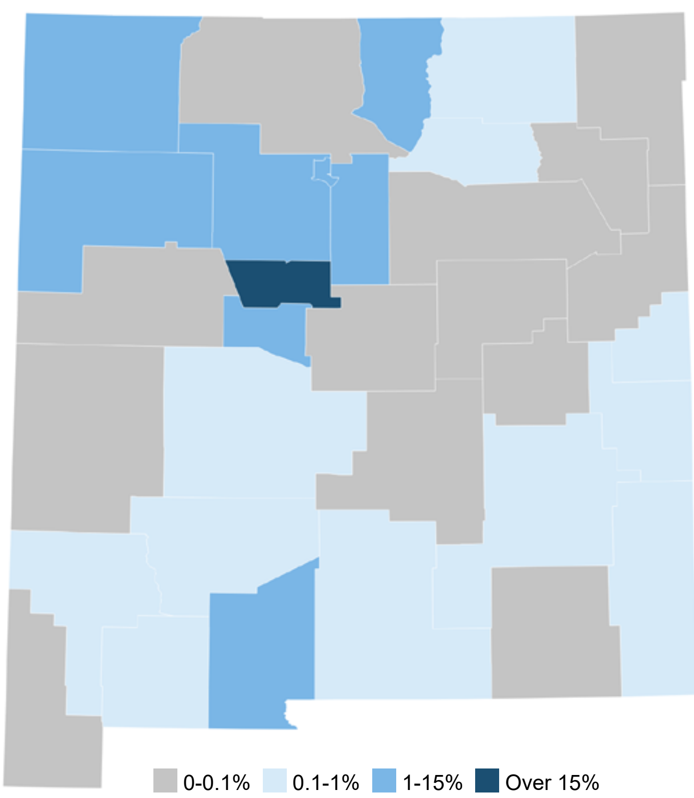
Analysis of Local Economic Development Act awards shows 57.7 percent of state LEDA awards from FY16 to FY23 were invested in companies in Bernalillo County.

Of more than $184 million in LEDA awards, used to reimburse local governments for land and infrastructure expenses related to new or expanding businesses, $106 million was invested in the county.The amount dwarfs the $24 million for Doña Ana County, the county with the next largest amount.

Over the same period, 89.3 percent of LEDA investment was made in Bernalillo, Sandoval, Santa Fe, Doña Ana, and Valencia counties. Those counties made up about two-thirds of total employment statewide in 2023. These counties are also New Mexico's strongest employment markets.

Analysis indicates targeting these strong regions might not the most effective use of investment dollars because research suggests jobs created in distressed labor markets can increase long-term employment by 80 percent more than jobs in the strongest labor markets.

LEDA Awards by County
FY16-FY23



Source: LFC Files

LFC Newsletter

2023-2024 Fiscal Year, Month 11

Published monthly in the interim by the Legislative Finance Committee.
Editor - Helen Gaussoin
Questions, comments: 505-986-4550
www.nmlegis.gov/Entity/LFC/Default

Please contact LFC support staff support.staff@nmlegis.gov if you would prefer to receive this newsletter electronically.

On the Table

NM Population Stable

New Mexico's population growth is essentially flat in the 2023 U.S. Census Bureau estimates, increasing by just 895 people from July 2022 and July 2023. The estimate shows 1,600 more deaths than births and 1,100 more people moving out of New Mexico to another state than moving in from another state. However, international migration increased by 3,600 people.

Draft School Lunch Rules Reward Nutrition

Recently released draft rules on universal school meals would require schools to meet meal quality requirements to receive the maximum state meal reimbursement rate (about $2 per breakfast and $4 per lunch) versus the lowest rate (38 cents per breakfast and 40 cents per lunch). The meal quality requirements would require most meals to be freshly prepared on site, more local produce, processes for addressing food waste, community feedback, and nutrition education. All participating schools in the universal school meals program are currently receiving the maximum reimbursement rate; it is unclear how many schools would meet the new standards.

High Loss Agencies Asked to Pay

The General Services Department has sent a total of $10.6 million in special liability insurance assessments to 19 executive branch agencies and three higher education institutions to help shore up the public liability fund, which has been hit hard by large claims and increased litigation costs. Agencies and higher education institutions were selected based on the loss ratio for each agency since FY18 or the difference between the amount the agency has contributed to the fund and the amount paid out of the fund on claims against that agency. Entities with large losses include the Children, Youth and Families Department, with payments short of contributions by $14.1 million, the Corrections Department ($4.6 million net loss), and New Mexico State University ($2.2 million net loss). These agencies received assessments of $4.4 million, $3.2 million, and $1.8 million respectively. Payment of these assessments is voluntary.

School Approved, Not Teacher Housing

The Awards Subcommittee of the Public School Capital Outlay Council approved an award to replace the Peñasco elementary, middle and high school with a combined K-12 school but tabled the district's request for three teacher housing units. The total cost for the teacher housing units was estimated at $1.95 million. The subcommittee asked the Peñasco Independent School District to submit a separate request for the teacher housing with more information about teacher vacancies, area housing supplies, and costs. The total project cost of the school replacement is estimated at $50 million, or $892 per square foot, with the footprint of the new school planned to be about half that of the existing schools. Five-year enrollment for the district is projected at 290 students.

Transitions

The Taos school board has hired Antonio Layton as superintendent, replacing Renetta Mondragon—who served as interim superintendent since last year. Mondragon will resume her former role as assistant superintendent. Layton, an educator from Texas, has previously served as a principal and a district human resources director.

The Tucumcari school board has hired Carl Marano as superintendent, replacing Aaron McKinney—who retired after 18 years. Marano is an assistant superintendent at Santa Fe Public Schools and previously served as a teacher, coach, and assistant principal.

Clovis Community College named Jonathan Fuentes its next president. Fuentes previously served as vice president of academic partnerships at Odessa College in Texas.

CYFD has hired a new director of the Family Services Division. Scott Paterson-Alatorre was previously the statewide behavioral health manager for the Administrative Office of the Courts.