



LFC Newsletter

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Legislative Finance Committee

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From the Chairman Pitching In

When the House and Senate finance committees launched budget hearings a week before the start of the regular session, they were greeted – not surprisingly – by a parade of citizens concerned about potential cuts to the services and facilities important to them.

The legislative process depends on this kind of public participation. Indeed, the process would not work without the active and vocal input of New Mexicans. We want to hear from the people. It's why the LFC holds summer hearings throughout the state and why we produce this newsletter. However, given the current economic situation, it's unrealistic to hope that any area of state government can escape the budget knife.

When facing a threat, it's natural to emotionally defend what's important to us but what New Mexico needs right now is reasonable debate about how to survive the budget crisis. We need widespread recognition that everyone – everyone – must sacrifice.

Like all New Mexicans, individual legislators can be passionate about some causes more than others. But as legislators, we will be working hard to balance the needs of all New Mexicans while we protect the most vulnerable.

Representative Luciano "Lucky" Varela
Chairman

Spending Gap Close to \$1 B

While general fund revenue has been growing an average of about 3.4 percent a year for the past eight years, recurring spending has been growing an average of 5.7 percent, LFC analysis shows.

State spending levels for this year and last have been sustained with federal funds and the temporary availability of these federal funds has masked the true extent of the shortfall. Even after two rounds of budget cuts, recurring FY10 spending, including the use of the temporary federal funds, is some \$900 million more than total recurring state revenue.

Since 2003, the state has adopted several tax cuts and incentives that reduce revenues by \$600 million a year, the analysis shows. Income tax cuts represent \$400 million of the revenue loss, while an elimination of the gross receipts tax on food and medical costs the state \$130 million a year. Tax incentives for businesses and other activities and tax relief for low-income New Mexicans represent another \$170 million in lost income.

The LFC report says a recent comparison of New Mexico's taxes to those in surrounding states indicates the tax burden on New Mexico businesses is typical of the region, with those businesses that purchases a lot of services at a disadvantage and those with property at an advantage. A national study says

New Mexico households pay a little more in taxes than those in neighboring states mostly because the state's gross receipts tax, like a sales tax, is higher than most.

Although New Mexico's tax system is relatively fair in the distribution of the tax burden between high- and low-income households, the income tax cuts favored high-income New Mexicans, with 80 percent of the rate benefit in the rate change going to households with incomes over \$100,000 a year. The revamp of gross receipts taxes, which narrowed the range of services and sales subject to the tax but raised rates on the rest, distorted the business tax environment and made the tax more favorable to out-of-state retailers.

Although any significant increase in taxes will push New Mexico above average in the burden on business and individuals, an increase in the income tax on high-income households would improve the equity among income groups.

According to the National Conference of State Legislatures, nine states have raised income taxes on high-income households for the current fiscal year, five have reduced deductions and four have raised the tax on capital gains.

The conference reports five states have increased their gross receipts taxes, 13 have expanded the tax, and seven have tightened collections.

Colleges, Charter Schools Scheduled for Reviews

The effective use of resources at two universities and the management of charter schools statewide will be the focus of two program evaluations planned by the LFC.

Both evaluations are scheduled to be completed in early summer.

The goal of the LFC program evaluation of the University of New Mexico and New Mexico State University, two of the state's three research universities, is to assess the efficiency and effectiveness of the school's use of resources, including professors. The team will look at higher education funding, administration and governance, and student performance.

The project will review spending on administration, faculty workload, strategic planning, student satisfaction and the cost for both students and taxpayers.

The evaluators will also look at gover-

nance board oversight, statewide coordination of degree programs, and higher education programs in other states.

General fund spending on higher education, about 15 percent of total state general fund appropriations, has increased about 28 percent in the last six years, from \$639 million in FY04 to \$816 million in FY10. New Mexico's per capita spending on higher education is among the highest in the nation.

State dollars typically make up about 40 percent of a college's total revenue.

The goals of the evaluation of charter schools is to assess accountability for charter school performance, charter school use of resources, and student performance in charter schools.

Charter schools are public schools that must meet the same performance standards as traditional public schools but operate under an independent board

of directors. As with all public schools in New Mexico, the schools are funded through the enrollment-driven state equalization guarantee.

Evaluations in other states have found that charter schools are prone to financial mismanagement because they typically lack experienced financial managers and must overcome high start-up costs and the cost inefficiencies of small schools.

Of the 12 New Mexico charter schools that have closed over the last decade, four cited financial problems.

Charter schools have also struggled with performance, although comparing charter schools to traditional schools is complicated by the tendency of charter schools to serve at-risk and exceptional student groups.

The number of charter schools in New Mexico has grown from five in FY93 to 73 in FY10.

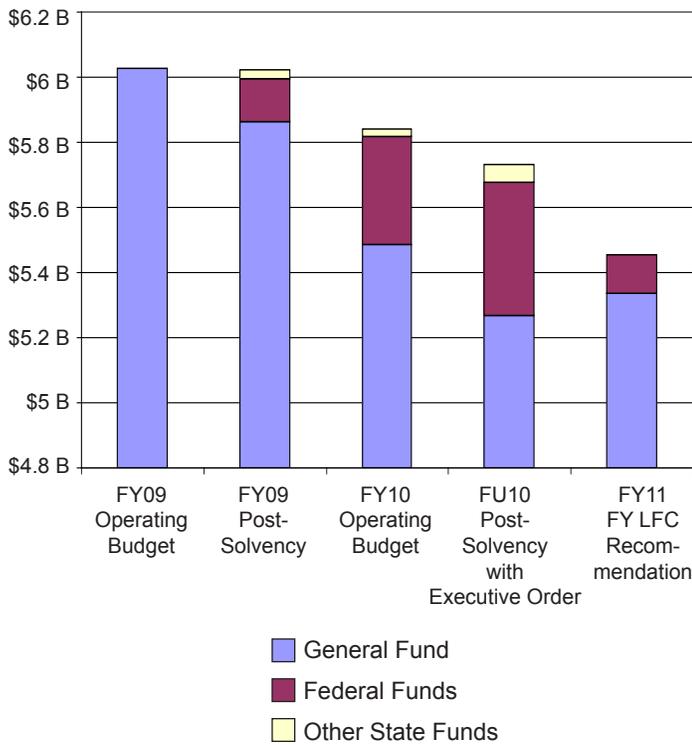
General Fund Falls Short

General fund revenue dropped dramatically the last two years but the drop in total spending has been softened through the use of federal and other state funds.

While state general fund revenue is expected to recover slightly in FY11, a dramatic drop in the availability of federal and other state funds means total spending will continue its decline.

General Fund Appropriations and Other State Funds and Federal Funds Supplanting General Fund

FY09-FY11



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On the Table

Settlement Means Bonus for College Funds

Oppenheimer Funds Inc. will pay New Mexico \$67 million as a settlement in a dispute over the firm's management of New Mexico's 529 college savings programs, the Attorney General has announced. The money would be distributed to participants in the Education Plan and Scholar's Edge programs, college savings plans with tax benefits. The settlement requires approval from the Education Trust Board.

Library Gets Money To Promote Technology

The New Mexico State Library is to receive a \$1.5 million grant and \$591,000 in federal matching funds to promote the adoption of high-speed Internet use and computer literacy. The money is coming to the state through the American Recovery and Reinvestment Act.

Per Prisoner Cost Averages Over \$100/day

The per-inmate-per-day at the state's public prisons ranged from \$75.25 at Roswell Correctional Center to \$238.50 at Springer Correctional Center in FY08, according to the Corrections Department. The average for all public prisons was \$123.45. The average at the private prisons was \$81.79 for men and \$93.65 for women.

Gaming Revenue Down

Tribal gaming revenue was down 5.8 percent for the first quarter of FY10. Every tribe saw year-to-year declines in the net win during the quarter. The drops ranged from 4 percent at Sandia to nearly 26 percent at Acoma. Revenues at race track casinos were down 11 percent.

Enrollment Up in Medicaid, Insurance Plan

Enrollment in Medicaid was at a little over 468,000 in August, a 3.6 percent increase over the same month a year ago. Enrollment in State Coverage Insurance, a subsidized health insurance program, was about 44,000, a 6.2 percent increase over the previous month.

Drug Settlement Nets \$10 Million

New Mexico will receive a little over \$10 million from drug maker Eli Lilly as part of a national settlement over the company's marketing of the antipsychotic drug Zyprexa, the Attorney General announced. Lilly was accused of promoting the drug for unapproved uses and concealing its serious side effects.

Miners' Hospital Falls Short

The Miners' Hospital estimates revenues will fall \$2.4 million short for FY10. The hospital has initiated a pharmacy management procedure it believes will save \$600,000 but might still need a transfer of funds from the Miners' Trust to balance its budget.

Transitions

LFC analyst Arley Williams has resigned to become an assistant vice president at the University of Wyoming.
 Bill Brancard, formerly director of the Mining and Minerals Division at the Energy, Minerals and Natural Resources Department, has assumed the duties of the department's general counsel following the retirement of Carol Leach.
 Mathew Woodlee, formerly an LFC analyst and previously director of the Office of International Trade at the Economic Development Department, has accepted a position in the Albuquerque office of WG Scorpion, Washington D.C.-based international management consultants.