



LFC Newsletter

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Representative Luciano "Lucky" Varela, Chairman

Senator John Arthur Smith, Vice Chairman

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From the Chairman Just Right

It's an argument as old as government. In its current form, fiscal conservatives argue that all government is bloated with unnecessary functions and push for cuts, while social liberals decry the lack of opportunities available to the underclass and plead for more services.

It's politics' most basic argument because both arguments are legitimate. The most difficult feat facing any elective body is not how to do more or how to spend less but how to provide just the right level of service most effectively and efficiently.

That's the bottom line for the members of the Government Restructuring Task Force. Although triggered and necessitated by the continuing economic crisis, the goal of the group is not to just cut but to get New Mexico government back to the right size and improve services and the way they are provided. State government grew dramatically during economic good times and, perhaps, grew beyond its core responsibilities.

It's time to take a hard look at what exactly state government does and how it does it. And we can't avert our eyes from any area. Health care for the poor, public schools, higher education – three-quarters of the budget – must be on the table alongside the Organic Commodities Commission and the State Parks. It is not possible to bring spending in line with our depleted resources without touching the biggest pieces of the budget.

Making it through these difficult times won't be easy but the end result could be a government that is just right.

Representative Luciano "Lucky" Varela
Chairman

Gross Receipts Tax Pyramid Encourages Out-of-State Buys

“Pyramiding” of New Mexico’s gross receipts tax, in which the tax is added almost every time a business has to buy a service or good from another business, encourages businesses to buy from out-of-state vendors, LFC analysis shows.

The analysis scheduled to be presented to the committee during its July hearing suggests the gross receipts tax structure encourages businesses and consumers to buy from out of state because those businesses can charge less because they pay either lower or no gross receipts taxes.

In addition, small businesses are more likely to be hit by the impact of pyramiding because larger companies can afford to avoid the tax by keeping all steps of providing the goods or services in-house, the report says.

The hearing on tax policy, covering the pyramiding of the gross receipts tax along with the fairness of the state’s corporate income tax and the progressivity of the state’s individual income tax, is scheduled at 8:30 a.m. July 22.

The state gross receipts tax, higher than the U.S. average, generates 40 percent of all tax revenue in the state. Services and construction businesses pay 60 percent of the tax, while retail sales make up 26 percent of the tax.

New Mexico imposes the gross receipts tax on a much broader range

of services than other states and, while the tax rate for most business types is average, the tax on business “inputs” is twice the national average.

The gross receipts tax burden is offset in part by low property taxes.

Low property taxes also help balance the overall tax burden on the state’s corporations. While the state’s corporate income tax is slightly above average, low property taxes mean the total tax burden, excluding severance taxes on oil and natural gas and other mining, is about average for the West, the LFC analysis indicates.

About 20,000 companies pay corporate income taxes, compared with the some 100,000 businesses paying gross receipts taxes. The corporate tax generates about 5 percent of total tax revenue for the state.

The LFC review of personal income taxes shows, even though the personal income tax rate is lower for low-income taxpayers, New Mexico’s total tax burden is heavier for those households because they spend a larger share of their income on property and sales taxes than higher-income households.

The tax burden on the average New Mexico household is above average for the region, although the share of taxes paid by low-income households is slightly below the regional average.

High Expense Endangers Program for Disabled

The federal government could force changes in a state healthcare program designed to save money by providing the developmentally disabled with less expensive home- and community-based services because the program has become as expensive as more traditional institutional care, LFC analysis shows.

The \$78,800 annual per-client cost for care under the program known as the “DD waiver” is almost as much as the \$84,300 it costs to provide care through nursing homes and other intermediate care facilities, the LFC Evaluation Unit concludes in a report presented to the committee in June.

The federal Centers for Medicare and Medicaid, which grants the waivers

allowing states to use Medicaid funding for home- and community-based care, requires those programs to be cost neutral, meaning they can’t cost more than traditional Medicaid services.

New Mexico’s waiver is scheduled to be renewed in 2011.

The LFC evaluation reports New Mexico’s DD waiver program, budgeted at about \$260 million a year in state and federal funds, is the eighth most expensive in the country. It serves 3,792 disabled clients. Another 4,555 clients are on a waiting list and receiving care through the regular Medicaid program.

The evaluators found that, while the New Mexico program is considered one of the best in the country for quality of care, it lacks the tools to operate

efficiently, including an adequate information technology system, an accurate and up-to-date client needs assessment tool, and current information on the appropriateness of its provider rates or a method to check those rates

A discrepancy between records on services provided and payments to providers suggests either the records are wrong or the providers are being overpaid, the evaluation says.

That inaccurate information on client use of services makes it difficult for the department to predict future costs.

The evaluation recommends the Human Services Department and Health Department, which jointly oversee the program, provide greater oversight of the private contractors providing care.

Violent Offenders Fueling Prison Population Increase

After dropping nearly 7 percent from 2006 to 2008, the New Mexico inmate population is on the rise again, with an increase in the admission rate of violent offenders apparently fueling the rise.

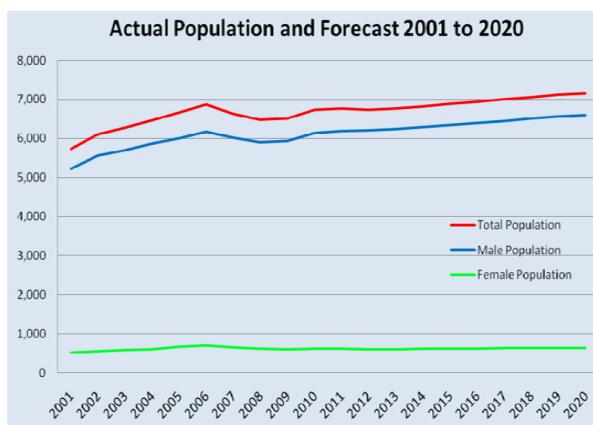
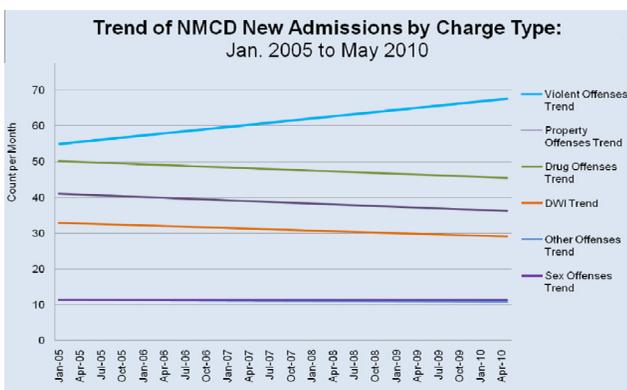
Past consultants to the Corrections Department attributed the two-year decline to more nonviolent and drug offenders being released than admitted.

However, the New Mexico Sentencing Commission, the department's current consultant, reports that since 2005 the admission of violent offenders has been climbing steadily. Those identified as serious violent offenders must serve 85 percent of their sentence, a longer length of stay than for other types of offenders.

The Sentencing Commission concludes that the long-term trend in the prison population has changed little, with a steady increase forecast through 2020.

The commission reports one in every 31 adults in the United States is in the corrections system, either in prison or on parole or probation.

The committee is scheduled to hear about prison population trends and alternatives to prison sentencing at 3 p.m. July 21.



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On the Table

Number of Business Tax Credits Grows 9-Fold

The number of New Mexico business incentive tax credits has grown from three to 27 since 1990, the Taxation and Revenue Department reports. The department estimates business tax credits represented \$122.7 million in foregone revenue in FY09. The figure is expected to fall to \$94.3 million in FY10 because of the slower economy. The report says few of the credits have sunset dates, caps to limit the state's exposure, or provisions that allow the state to reclaim the credit if the business fails to meet projected targets for employment or investment. More than half of the taxpayers benefiting from the credits in FY09 – 1,300 of 2,000 – claimed the Rural Health Care Practitioners credit.

Schools Get More than Expected

Almost \$12 million from FY10 will revert to the general fund because the public schools are getting more than expected in federal impact aid for federal lands, forest reserve and a 0.5 mill property tax. Those sources generated \$76.1 million, \$11.7 million more than the expected \$64.4 million.

Stimulus Funds Help Spread Broadband

Penasco Valley Telecom of Artesia has received \$9.5 million in American Recovery and Reinvestment Act grants and loans from the U.S. Department of Agriculture to expand rural broadband services.

Energy System Fails To Save

A biomass system at the Jemez Mountain Schools has failed to generate the \$56,000 a year in savings promised in the 2004 purchase contract. The \$1.8 million system, sold and installed by Albuquerque-based Energy Control, Inc., has failed repeatedly since installation. The system was funded with district money and \$450,000 in grants from the Energy, Minerals and Natural Resources Department and the U.S. Forest Service.

New Mexico Unemployed Losing Benefits

About 1,800 New Mexicans have stopped receiving unemployment insurance payments because Congress failed to extend benefits, the Workforce Solutions Department reports. Another 4,400 are expected to lose benefits in the next three months.

DPS Gets Stimulus Funds

The governor has allocated \$1 million of federal stimulus money from the government services fund to the Department of Public Safety to buy 11 new police cars and pay for fuel for the State Police fleet. The stimulus funds will push the department's car budget over the agency's FY11 request.

Transitions

Robert Mayer has replaced Tom McQuillan as deputy secretary of the Department of Information Technology. Mayer was the Department of Health chief information officer.

Jeri Poletto, Organic Commodities Commission director, has resigned.

Jennifer Taylor, senior vice president for business, finance and human resources at New Mexico State University, will retire in October after 27 years at NMSU.

Nick Franklin, New Mexico State University vice president for advancement and president of the NMSU Foundation, will leave this year after a replacement is selected.

Cynthia Borrego, municipal representative and Public Employee Retirement Association Board chair, announced her resignation from the board due to retirement.

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