



# LFC Newsletter

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Representative Patricia Lundstrom, Chairwoman

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## From the Chairwoman Opportunity Knocks

When a district court judge ruled earlier this summer that the state has failed to provide a constitutionally “sufficient” public education, the cost of education reform quickly jumped to the top of the list of budget-drafting concerns. But rather than view this as one more hurdle, policy-makers should see this as an opportunity to reform the badly tattered New Mexico tax system. The ruling shines a light on the quantity of state revenue, but we should also take a hard look at the quality.

The adequacy and diversity of New Mexico’s revenue stream come under scrutiny every time the oil industry dives. But then the industry recovers, the sense of urgency wanes, and the conversation fades. We can’t let the conversation fade this time. Unlike an oil industry bust that can take a U-turn to a boom in an instant, the cost of quality schools, and accommodating those costs without neglecting other essential services, will be a constant going forward.

The guidelines for sound tax policy already exist: 1) The revenue generated must be adequate to cover essential services. 2) The base should be broad enough to prevent reliance on one type of tax or one group of taxpayers. 3) The tax must be fair, applied similarly to similar taxpayers and equitably to different types of taxpayers. 4) Tax rules should be simple so compliance is easy and the cost of collection is low. 5) Finally, the process must be transparent so that each component can be evaluated and the impact of change is predictable.

Over the last two decades, New Mexico’s tax policy has strayed far from sound policy. Income taxes have been cut – the top personal income tax rate is 4.9 percent whether you earn \$24,000 or \$100,000 a year – and the gross receipts tax has been shot full of holes, resulting in higher gross receipts taxes being paid by fewer New Mexicans. To promote economic growth, a myriad of tax breaks have been created, a myopic approach that ignores that business leaders themselves say good schools, safe streets, quality of life, and a stable tax environment are more important to them than low taxes.

With a new oil boom boosting revenues, it will be easy to again delay a hard discussion on tax reform, but we can’t put this off any longer. When revenues again dip – and they will if we fail to act – we will find ourselves between the rock of low revenues and the hard place of mandated education spending. Important services will have to be cut and discussions about cutting meals for the home-bound elderly or reducing state police patrols will be even harder.

*Representative Patricia Lundstrom  
Chairwoman*

## Higher Ed Funding Formula Leads to More Degrees

The number of credentials awarded by New Mexico colleges has increased since implementation of a new funding formula that rewards degree production, but the quality of degrees or whether they resulted in good jobs is unknown, an LFC report says.

An LFC evaluation scheduled to be presented to the committee at 1:30 p.m. on August 22 assesses the status of the formula, trends driving institutional performance, and the need for formula or other changes to assure quality in institutional performance.

The report finds, although credential production has increased, most of the growth has been in lower-level certificates and associate’s degrees for general studies, an indication the formula might need to be refined to better promote the eventual acquisition of bachelor’s degrees or job readiness.

Further, incentives in the formula to award degrees to at-risk students and in science, technology, engineering, math, and health appear to be insufficient.

Among other findings in the report is the conclusion the formula could mean a loss in funding for some schools, although all but one school would still receive more per-student funding than similar colleges nationally.

Under the formula, a college receives a base amount equal to a share of the school’s prior-year appropriation, and a smaller amount based on performance. That share, set each year, is 96 percent for FY19.

If a college is weak on awarding credentials, it is unlikely to receive enough performance funding to bring its total appropriation up to 100 percent of what it received the prior year.

The report recommends the formula be adjusted to encourage colleges to meet broader state educational goals, such as increasing graduation rates among low-income students.

It also suggests the Legislature and the Higher Education Department create formal structures for monitoring and amending the formula, which is not currently in state law or regulation.

## De-Institutionalized Care System Struggles With Costs, Delivery

New Mexico is one of 14 states providing home- and community-based care for those with intellectual and development disabilities, but the system suffers from rising costs, long waiting lists for services, and complex oversight, an LFC report says.

An LFC Program Evaluation Unit report, *Developmental Disabilities and Mi Via Waivers*, presented to the committee during its July meeting, notes providing care outside of institutions is better for clients, but clients can wait more than 10 years to get into the developmental disabilities and Mi Via waiver programs, called “waiver programs” because the services are provided under a federal waiver to Medicaid program rules that require institutional care.

National studies show care outside of institutions is better and cheaper and promotes client independence.

The New Mexico programs, funded with federal Medicaid and state dollars and managed by the Health Department

under an agreement with the Human Services Department, provide living supports, therapy, employment, and other services to about 5,000 clients at a cost of \$360 million. Another 3,900 people are on the waiting lists for the programs.

The LFC report says costs for the programs are being driven higher by increased use of services, changes to how client services plans and budgets are developed, and client movement from the traditional “DD” waiver program to the Mi Via waiver program, which allows clients to manage their services directly.

The report recommends the state strengthen oversight to protect clients and use of state funds and improve planning, data collection, and analysis to better understand cost drivers.

It recommends the Health Department work with the Legislature to create a five-year plan with committed funding to reduce the waiting lists.

# Revenues, Spending Bounce Over Decade

New Mexico recurring general fund revenue has varied widely over the last decade, dropping by 11.6 percent the first year the Great Recession hit and by 7.8 percent the year oil prices plummeted.

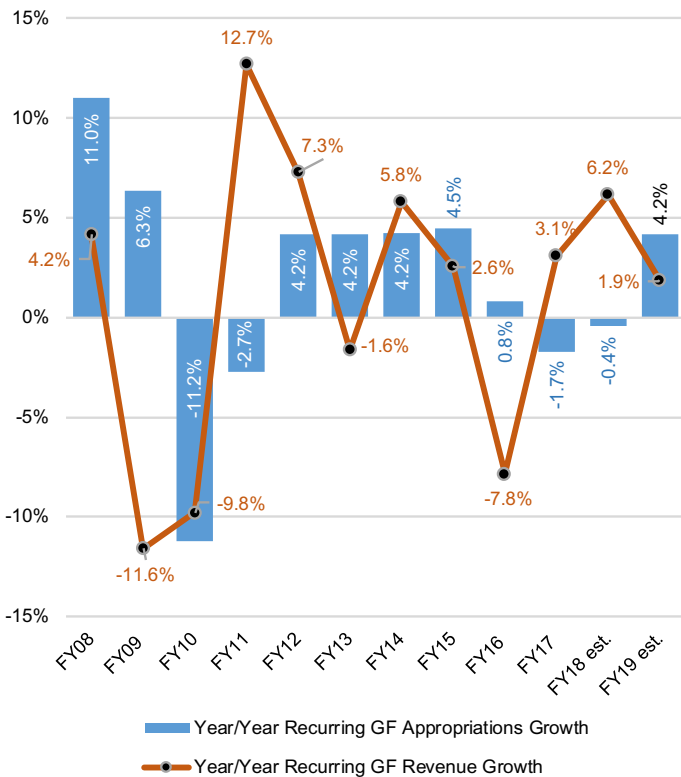
While recurring general fund appropriations have typically echoed recurring general fund revenue – with ongoing spending dropping by 11.2 percent and revenues by 9.8 percent in the second year of the Recession – spending cuts have sometimes lagged behind revenue declines.

When recurring revenue declined because of depressed oil prices in FY16, spending increased slightly, a sign the state was forced to rely on general fund reserves and other one-time money to cover ongoing spending.

In FY17 and FY18, recurring revenues started to recover, with 3.1 percent growth the first year and 6.2 percent growth the second year. However, FY17 appropriations were down 1.7 percent in FY17 and 0.4 percent in FY18.

During those years, recurring general fund revenue that was not used for recurring general fund appropriations was used to restore the reserves and to restore the use of recurring revenue for ongoing costs covered the previous year with nonrecurring revenue.

**Year-Over-Year Change in Recurring General Fund Revenues and Appropriations**



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## On the Table

### Federal Funds Could Surge

The state could see a bonus through a significant increase in the number of acres of federal land under consideration for the September 2018 lease sale. The U.S. Bureau of Land Management indicates 50,000 acres, mostly in the Permian Basin, were nominated for the September 2018 sale, compared with 15,000 acres in September 2017. States receive a share of the revenue through the Federal Minerals Leasing Act.

### Troubled School Gets Funding Bonus

New Mexico Connections Academy, a virtual charter school that remains open while it appeals the revocation of its charter, will receive funds for twice as many students as its actual enrollment. Under the public school funding formula, the school will receive an allocation based on its enrollment of 2,266 students from last year, even though enrollment this year has dropped to 1,100.

### Budgets Fall Short of Rising Costs

Bids for the renovation of Jones Hall at the New Mexico Institute of Mining and Technology have come in \$1.9 million over the project construction budget of \$7.6 million, a reflection of higher steel, wood, and transportation costs, and increased demand for construction. The school plans to work with contractors to redesign the project to fall within the budget. The renovation is one of a number of state projects that have received bids significantly over budget because of rising construction costs.

### Assistance Caseloads Drop

The Medicaid and Temporary Assistance for Needy Families caseloads were down in June compared with a year ago, but the rolls for the Supplemental Nutrition Assistance Program were up slightly. The June 2018 Medicaid caseload of 838,680 was a 6.6 percent drop from June 2017, while the 10,783 of families and individuals receiving TANF in June 2018 was a 4.6 percent drop from June 2017. The number of SNAP clients was up 1.9 percent in June 2018, to 221,245.

### Rape Kit Backlog Shrinks

The city of Albuquerque had tested 1,050 of 4,543 unprocessed sexual assault evidence kits as of the end of July, and plans to wipe out the backlog by 2020. The state Department of Public Safety is within 100 kits of completing its backlog of 1,388.

### Transitions

Amy Orlando, formerly deputy secretary of the Department of Public Safety, is now deputy secretary of administrative services at the Corrections Department, a position that has been vacant since November 2016.

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