LFC Newsletter

A publication of the **Legislative Finance Committee**
Senator John Arthur Smith, Chairman
Representative Patricia Lundstrom, Vice Chairwoman
David Abbey, Director

Volume 19 Issue 08-11 May 2019

From the Chairman

Off Balance

A goal of tax reform during the 2019 legislative session was to bring stability to state revenues. With a third of the state's income dependent on the whims of the oil and gas industry, New Mexico tends to swing from feast to famine. However, while lawmakers were able to address some tax fairness, revenue stability remains elusive.

After extensive debate, the Legislature sent the governor a tax package that includes three changes long advocated by the committee: taxing Internet sales to help local brick-and-mortar stores stay competitive, taxing nonprofit and government hospitals to level the playing field in healthcare, and raising the vehicle excise tax from 3 percent to 4 percent to better fund road improvements.

In addition, the new laws will raise the top income tax rate contingent on revenues staying within a specified range, increase the working family tax credit, create a new deduction for dependents to offset federal tax changes, and tax e-cigarettes and increase the cigarette tax.

Most of these changes fit within sound tax policy, but as a whole they do little to reduce the state's reliance on the volatile oil and gas industry. Indeed, what little revenue is raised will be wiped out by the film credit, a tax incentive that is supposed to stimulate the state's economy but is actually an industry subsidy, costing the state 60 cents for every dollar of impact.

While the increase in the top tax bracket of the income tax, which has a delayed implementation date, could generate revenue, analysts have raised concerns about the potential for the high-earners it targets to move their income to other states, an unintended consequence that would lower revenue and take money out of the economy.

Further, efforts to lower the gross receipts tax to partially offset 15 years of increases on the local level were largely ignored. Instead, legislators created or expanded a few, small tax credits and deductions for certain business activities – "tax expenditures" that narrow the tax base and mean fewer taxpayers must pay more to raise the same amount of money. Lawmakers also gave broader taxing authority to local governments, which could mean higher gross receipts taxes overall.

New Mexico is unlikely to ever have a revenue source that can make up everything we get from the oil and gas industry but that doesn't mean we shouldn't aim for a predictable, solid tax base that acts as a foundation for the less reliable energy industry tax revenue. We can, and have, taken steps to create an adequate cushion for the inevitable downturns in the industry – with revenue reserves now at 20 percent of spending levels – but we need to do more to prevent those downturns from hitting the state so hard.

Senator John Arthur Smith
Chairman

Services for Mothers, Children Suffer From Poor Coordination

New Mexico must improve maternal and child health if it wants to capitalize on its investment in early childhood education, but the state lacks a cohesive strategy for addressing weaknesses in those areas, an LFC program evaluation concludes.

The Department of Health Role in the Early Childhood System, scheduled to be presented to the committee at 10 a.m. on May 8, reviews the six Department of Health programs aimed at improving the well-being of young children and their mothers to assess how well they serve their clients and at what cost.

Over the last decade, the state has invested in making high-quality childcare and preschool more widely available and in elementary school interventions for low-income children, but the state must also support the health and development of children and pregnant women if it wants early education efforts to succeed, the evaluation says.

The report finds the DOH programs, which include nutrition, early intervention, and planning and coordinating services, operate in silos and do not share or use their data to improve services.

The result is poor targeting of programs, sometimes leaving those with the greatest need without access, and a lack of clarity on program effectiveness, the report says.

The LFC evaluation recommends the administration develop agreements to share data and collaborate across departments and programs.

It specifically recommends the Maternal and Child Health Epidemiology program take a larger role in state early childhood policy.

Although the Legislature created a new cabinet-level department during the legislative session earlier this year – the Early Childhood Education and Care Department – and two of the six DOH programs will move to the new department, LFC staff says the findings of its report will not change.

However, staff notes, the "resurrection" of the state's Children's Cabinet, a group of state agencies that is supposed to collaborate on children's issues, provides an opportunity to implement a well-coordinated system across agencies that provide comprehensive services to mothers, children, and families.

The six programs reviewed in the report are the federally funded Women, Infants and Children nutrition program and Family, Infant, Toddler early intervention program for developmental disabilities; the Medicaid-funded Families First parent-education program for low-income families; Maternal Health and Child Health programs that coordinate support and policy; and Maternal and Child Health Epidemiology program.

Capital Infusion Could Hike Costs

State construction managers will need to plan spending carefully or the $1.4 billion in capital outlay for roads and buildings approved during the legislative session could exacerbate already rising construction costs, LFC analysis indicates.

In two hearings scheduled to begin at 3 p.m. on May 8, committee members will learn more about funding and plans for the $389 million appropriated for roads projects and $925 million allotted for building and other construction.

LFC staff note in the brief on transportation projects that unemployment is low and contractor costs are likely to rise as competition for construction labor intensifies.

Construction capacity should be a consideration as projects are put out to bid; however, delays could also result in higher costs, with the global market forecasts indicating inflation will reduce the buying power of capital outlay by millions of dollars a year.

Associated General Contractors of America notes two issues in the next few years could put upward pressure on prices: trade policies that could drive up the cost of materials and a labor shortage worsened by immigration policy.

In addition to the funding authorized during the session earlier this year, as of March, the state had $737.4 million outstanding for more than 1,600 projects. More than half of that funding -- $480 million -- was authorized last year, but $174 million dates back to 2017 and about $66 million is older than that.

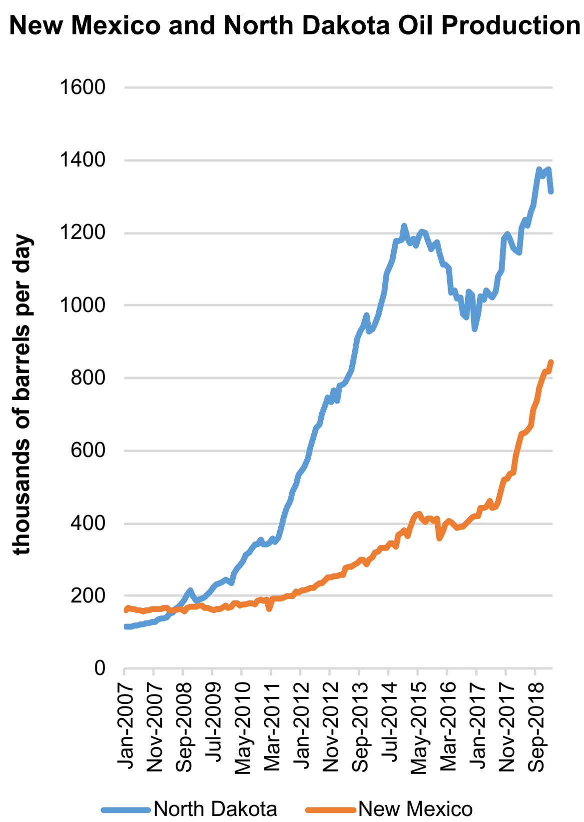
Oil Production Growth Busts Predictions

New Mexico's average daily oil production increased by more than 160 percent between 2012 and 2018, from about 213 thousand barrels to 557 thousand barrels, and 2019 production is on track to jump another 45 percent from 2018.

LFC analysis, included in [a presentation to the New Mexico Tax Research Institute](), indicates forecasts project Permian Basin production could double in the next five years, potentially putting New Mexico production at more than 1 million barrels a day in 2023.

The analysis shows New Mexico oil production seems to be echoing production growth rates in North Dakota, where production is booming and which has become the second largest oil-producing state after Texas since the advent of fracking.

New Mexico is likely to produce about 290 million barrels in FY19, 40 million more than the December 2018 projections. Each additional million barrels generates about $3 million for the general fund.



LFC Newsletter

Volume 19 Issue 08-11

Published monthly in the interim by the Legislative Finance Committee.
Staff Editor - Alison Nichols Writer, Editor - Helen Gaussoin
Questions, comments: 505-986-4550
www.nmlegis.gov/lfc

Please contact Adreena Lujan at adreena.lujan@nmlegis.gov if you would prefer to receive this newsletter electronically.

On the Table

Medicaid, SNAP, TANF Caseloads Down

Caseloads for Temporary Assistance for Needy Families, the Supplemental Nutrition Assistance Program, and Medicaid were all down in February compared with the same month a year ago. The TANF caseload was down 6.5 percent from February 2018, the SNAP caseload by 0.6 percent, and the Medicaid caseload by 2.8 percent.

Medicaid Adds $50 Million

The Human Services Department's latest quarterly projection of funding needs for the Medicaid program includes $50 million for "Medicaid member initiatives," such as outreach and education efforts to increase enrollment, longer eligibility periods, and data sharing with the Department of Health.

CYFD To Get HR Staff Back

The State Personnel Office reports 17 human resources positions will be transferred back to the Children, Youth and Families Department by May 21. CYFD will be the first agency to get its positions back as part of the reversal of the consolidation of human resources initiated by the former governor.

Transitions

LFC has hired Caitlyn Wan, Amanda Dick-Peddie, and Noel Martinez as fiscal analysts, Cally Carswell, Jacob Rowberry, and Ryan Tolman as evaluators, and Christina Tapia as receptionist. Wan, analyst for natural resources, previously worked for the Texas legislature and Travis County, Texas, and has a master's degree in public administration from the LBJ school at the University of Texas-Austin. Dick-Peddie, judiciary analyst, recently earned a bachelor's degree from New Mexico State University and worked as an analyst for Representative Angelica Rubio during the session. Martinez, who will focus on education issues and the Regulation and Licensing Department, has a doctorate in economic development from NMSU and taught there for several years.

Carswell, a University of Wisconsin-Madison graduate, has been a freelance journalist with work published in *Science*, *Nature* and *Scientific American*. Rowberry, originally from Los Alamos, has a master's degree in public policy from the University of Michigan and has been working on research and evaluation for policy groups in Colorado and Washington. Tolman has a doctorate in social psychology from the University of Hawaii at Manoa and has worked as a program evaluator and statistician for several organizations, most recently the Public Education Department.

Tapia has worked for capitol building services for two years and spent one session in the capitol kitchen.

Charles Sallee, long-time LFC deputy director for program evaluation, is the new deputy director for budget. Jon Courtney, program evaluation manager, has replaced him as head of evaluation. Micaela Fischer, a senior evaluator, has been promoted to evaluation manager. Dawn Iglesias, LFC economist, has been promoted to chief economist for LFC, replacing Jon Clark, who is the new deputy secretary at the Economic Development Department. Ismael Torres has taken her spot as economist. Alison Nichols, formerly an LFC evaluator, has moved to fiscal analyst for the general control block.

Legislative Finance Committee
325 Don Gaspar Street Ste101
Santa Fe NM 87501