



LFC Newsletter

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Senator John Arthur Smith, Chairman

Representative Jimmie C. Hall, Vice Chairman

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From the Chairman **Faith-Based Economics**

Almost everyone knows how we got here. Oil prices dropped from \$104 a barrel in July 2014 to \$30 a barrel in January 2016 and, highly dependent on the health of the oil and gas industry, state revenues followed them down the drain.

Without federal stimulus funds to cushion the blow, this budget crisis arguably has been more painful than the Great Recession. But, while this energy bust has been deeper and more prolonged than most, it's not the first time New Mexico has found itself holding its breath while it watches crude oil and natural gas prices fluctuate. Tax experts have been telling policymakers for years that the state needs to diversify its tax base, and we hear them during busts in the energy industry. Lawmakers might even make some changes. But then the industry recovers.

Over the last two administrations, income taxes have been cut and the gross receipts tax has been battered by numerous piecemeal exemptions, credits and deductions. The result has been ever increasing reliance on the oil industry and a higher gross receipts tax being paid by fewer New Mexicans. With a top personal income tax rate of 4.9 percent whether you earn \$24,000 or \$100,000 a year and at least 130 tax breaks for businesses and individuals, New Mexico's tax structure has become increasingly regressive, with the working poor more likely to spend a higher share of their income on taxes.

And the tax cuts have not stimulated the economy. It feels like every new report on economic indicators has bad news for New Mexico. Tax foes argue that's because we haven't cut deeply enough but a group of nonpartisan tax analysts that includes current and former directors of the respected Bureau of Business and Economic Research say New Mexico tax rates only look high when the comparison to other states is skewed by a failure to consider New Mexico state collections pay for a lot of things covered by local governments in other places. The real tax burden for most New Mexicans is slightly below the national average.

Whether we tackle tax reform comprehensively or piecemeal, it's past time to fix the gross receipts tax by examining every exemption and credit and eliminating those that have no benefit, ensuring the base is broad and rates can be lowered. It's past time to get rid of every business tax incentive that does not actually stimulate economic activity and take the recovered revenue to build the workforce and infrastructure businesses say they want just as much as a friendly tax environment.

We know how we got here. We need to act now so we don't end up here again.

*Senator John Arthur Smith
Chairman*

Juvenile Commitments Drop But Costs Still Increasing

The number of juvenile offenders entering the justice system has dropped since the state moved to a system that emphasizes rehabilitation over punishment but costs have risen, an LFC program evaluation finds.

Since the Children, Youth and Families Department began the implementation of the Cambiar initiative in 2008, fewer offenders are entering the juvenile justice system and those who do are less likely to commit new offenses, according to the evaluation scheduled to be presented to the committee at 1:30 p.m. August 24.

Between FY01 and FY15, the number of juvenile offenders committed to secure facilities fell by two-thirds and since FY09 the overall number of referrals to Juvenile Justice Services dropped by 41 percent.

However, FY15 spending on secure facilities was 30 percent higher than in FY08, even though a third of the beds were empty.

While referrals to services and commitment to facilities are down, CYFD doesn't have hard data to gauge the effectiveness of the community-based

programming being used as an alternative to detention, the evaluation finds.

In addition, spending for services is distributed unevenly throughout the state, and the effectiveness of multisystemic therapy, a program with proven results, has been hampered by change-over in behavioral health providers and a lack of access for some clients.

The department is improving its monitoring of juvenile justice programs, the evaluation says, but still has too many violent incidents inside facilities and recidivism among probation clients, a problem particularly prevalent in areas without key community services.

The department should consider redistributing its probation staff to balance caseloads and examining its use of facilities to reduce the number of empty beds, the evaluation recommends.

Also worth attention, it says, is an examination of factors that seem to increase the likelihood that a juvenile offender will be committed to a facility or commit a new offense, including probation violations and a history of abuse or neglect.

Horse Racing Attendance Down; New Doping Rules Adopted

Interest in horse racing in New Mexico has continued to drop even as state regulators work to improve integrity in the sport, LFC staff reports.

Between FY10 and FY14, total attendance to New Mexico racetracks dropped 17 percent, even though purses increased, an LFC hearing brief from the July committee meeting says. Total wagers were down 5 percent, although total revenue increased 21 percent because of fines and higher taxes.

National studies say the market for gambling entertainment has reached saturation and other forms of gambling, including state lotteries and casinos, are pulling dollars away from horse racing.

New Mexico's horse racing industry has been under the microscope since 2012, when a *New York Times* article highlighted a high number of horse breakdowns and doping incidents.

In May 2013, an LFC program evalu-

ation found the New Mexico Racing Commission inadequately tested for doping compared with other states, inadequately audited revenues, and lacked resources to regulate the industry effectively.

A law that went into effect last year shifted some racetrack taxes to a testing fund but the agency continues to struggle to conduct testing and handle drug ruling appeals.

Under tougher anti-doping rules that went into effect in January, the commission scratched five quarter horses from Ruidoso Down races and placed the horses on a 60-day hold for testing positive of an illegal drug. Four of the horses had the same trainer.

Estimates of the horse racing industry's impact on the state economy vary widely but an industry study conducted 10 years ago put the figure at \$751 million.

Funding Fails To Stem Waiting List Growth

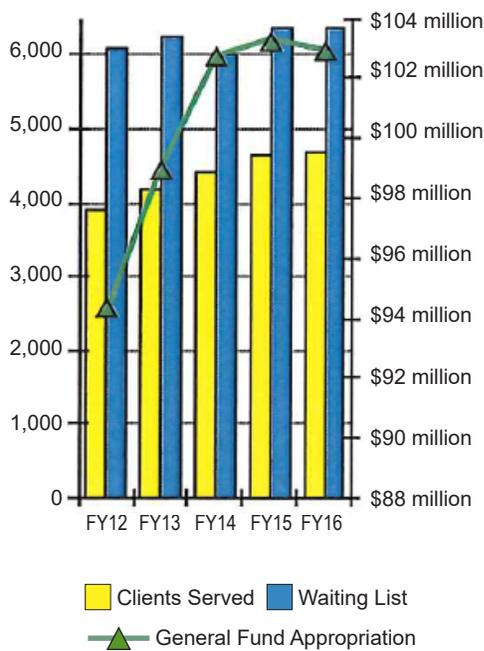
The waiting list for a Medicaid program that provides the developmentally disabled with home- and community-based care has grown at almost twice the rate new slots become available, despite a more than \$10 million increase in funding over the last five years, LFC analysis shows.

Growing at an average of 6 percent a year since FY08, the waiting list for the "DD waiver" program reached 6,500 in FY16 and clients can wait more than 10 years to get services. The Health Department reports about 70 new slots are available each year, the result of both increased funding and clients leaving the program.

The department also has created new slots by reducing the cost per client, which is down to about \$66,000 from a high of \$83,500 in FY12.

Between FY14 and FY15, about 600 new slots were added and the waiting list shrunk for the first time since at least FY08.

DD Waiver Appropriation Versus Waiting List



On the Table

Fewer Flaws in State Financial Statement

The state's FY15 comprehensive annual financial report, submitted to the State Auditor four months late, had fewer problems than the FY14 report but still had issues that raise questions about its accuracy. The auditors found two material weaknesses, down from four, noting inadequate internal controls over financial reporting and issues with the reporting and recording of interfund, internal, intra-entity balances and transactions. They also disclaimed eight out of 25 opinions, down from 14, indicating information was inadequate to form an opinion.

Renewable Energy Line Moves Forward

The Federal Energy Regulatory Commission has authorized the company planning to build a high-capacity renewable energy transmission line in New Mexico to start negotiating transmission rates with energy generators. Clean Line Energy's Western Spirit Line, planned to run from Torrance or Guadalupe counties to a Public Service Company substation outside Albuquerque, is in the development and permitting phase. Construction could begin in early 2018.

Juror, Court Interpreter Fund Short \$1M

A million dollar shortfall in the fund that pays for jurors and court interpreters could be eased by cutting juror pay rates to \$4.25 an hour, but the Supreme Court is expected to continue to let the shortfall grow. State statute requires juror pay to be at least the minimum wage; however, General Appropriation Acts since 2011 have granted the court flexibility from the law. New Mexico pays jurors more per hour than any other state, but most states require employers to pay employees on jury duty. In New Mexico, only the state is required to pay employees on jury duty.

Reduced NM Medicaid Rates Still Strong

New Mexico Medicaid payments to many healthcare providers and for many services dropped in July and August but, with New Mexico rates among the highest in the nation to start with, the rates might still be stronger than most. New Mexico rates, as a percentage of Medicare rates, were 7th highest in the nation in 2014, with an average of 91 percent of Medicare rates compared with a national average of 66 percent. Payment reductions that went into effect in July and August cut those compared-with-Medicare percentages, in some cases below 90 percent. The overall impact has not been assessed. Effective in January, all rates remaining above 100 percent of Medicare will be reduced to 94 percent of Medicare.

Transitions

Connor Jorgenson, a fiscal analyst, has resigned from LFC to take a job with the Pew Research Center in Washington D.C.

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