



LFC Newsletter

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Representative Patricia Lundstrom, Chairwoman

Senator John Arthur Smith, Vice Chairman

David Abbey, Director

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From the Chairwoman Enchanting

New Mexico might periodically find itself short on cash but it is a state rich in cultural and natural treasures.

The state is a sensory feast from the Rocky Mountains in the north to the Carlsbad Caverns in the south, with lava fields, wind-worn slot canyons, grassy plains, wetlands, and deserts in between. We offer opportunities for skiing, golfing, biking, hiking, and hot-spring soaking. We have ancient pueblo ruins and state-of-the-art radio telescopes, centuries-old celebrations and cutting-edge immersive art, hot air balloons, duck races, pow-wows, world-class performing arts, world-famous chefs, and the best chile anywhere.

When the committee gathers in the Village of Taos Ski Valley in August, the beauty of the north will be on full display. More importantly, committee members will be able to see first-hand an uncommon way the state can help a community turn that beauty into economic success.

To raise money to pay for improvements, village voters approved the creation of a tax increment development district, which allows the village to issue bonds to be paid off with the additional gross receipts tax revenue, including the state's share if authorized by the Legislature, and property tax revenues generated by the improved properties and increased economic activity.

Tourism is essential to Taos and an important part of the New Mexico economy as a whole. Businesses that cater to travelers employ more than 68,000 New Mexicans who are paid a total of more than \$1.6 billion. Out-of-state visitors spend about \$6 billion a year in New Mexico and generate about \$630 million in gross receipts, fuel, and lodgers' taxes. Yet, visitors place no demand on schools, hospitals, and most other public services.

The success of the Taos Ski Valley in the wake of the creation of the tax district is a reminder that infrastructure is as important to tourism as the state-driven marketing that attracts visitors. It doesn't matter how many visitors we get if bad roads make it hard to get around, tap water is cloudy, or the accommodations are shoddy.

Money for infrastructure has been hard to come by lately. The availability of capital outlay is closely tied to the health of the oil and gas industry, anemic for the last few years, and much of the little that was available was used to shore up faltering state operational revenues.

It might seem counterintuitive that we need to boost the oil and gas industries to capitalize on the beauty of the state, but capital outlay is an important component of tourism and oil and gas is critical to infrastructure.

While we wait for oil and gas to improve, we can use tax districts, Local Economic Development Act funds, and other less common sources of infrastructure funding, to help tourism thrive.

*Representative Patricia Lundstrom
Chairwoman*

Fewer NM Infants Die but More Children Mistreated

The death rate among New Mexico infants in 2015 was better than the national average and better than the year before, but the rate of children abused or neglected increased and was almost twice the national rate, an LFC review on early childhood services shows.

Early childhood services have been a funding priority for the Legislature, with many programs receiving increases even during the economic downturn.

LFC staff periodically review the effectiveness of New Mexico's programs for young children by looking at key indicators on child wellbeing. The committee is scheduled to hear a report on the latest *Early Childhood Accountability Report* at 10:30 a.m. August 16.

The report finds three out of four New Mexico third graders are not ready for the next grade level of reading and seven in 10 are not ready for the next level of math; however, those 2017 figures are slightly better than the 2016 figures.

Also showing improvement, the 70 percent immunization rate for 2015 was higher than the 2013 rate of 66 percent, although below the 2015 national rate of 72 percent.

Similarly, the 2015 figure for the share of pregnant women with access to early prenatal care was better than the rate for 2014 – 66 percent compared with 64 percent – but worse than the national rate of 77 percent.

Additionally, the rate of children living in poverty and the rate of abuse- or neglect-related deaths among children worsened.

In a closer examination of the pre-kindergarten program, LFC staff found attendance can improve third-grade reading and math performance for all children, independent of income. Low-income children who participate in both prekindergarten and the K-3 Plus extended school year program perform as well as higher-income peers.

New Mexico ranks 16th in the nation for the share of 4-year-olds enrolled in prekindergarten and 20th on the amount spent per child. A third of New Mexico 4-year-olds are enrolled in a state-run prekindergarten at a cost of \$5,233 per child, compared with national averages of 32 percent and \$4,976.

Deregulation Would Slow, Not Stop Decline

Rescinding the federal Clean Power Plan, now stalled by a U.S. district court, could give the coal industry a boost but only if the cost of natural gas increases, LFC economists report.

The committee reviewed the report on the economics of electricity generation during its July meeting in one of several hearings on utility and environmental regulation, the energy industry outlook, and Public Service Company of New Mexico plans, which include shutting down the San Juan Generating Station in northwest New Mexico.

PNM, which has asked state regulators for a 9 percent rate increase, has announced plans to shut down the coal-fired plant by 2022. Much of the coal used to fire the plant comes from northwest New Mexico coal mines.

Electric utilities are moving away from coal partly because public policy is pushing solar, wind, and other renewable sources of energy and partly because natural gas is cheaper, the report says.

Natural gas, wind, and solar now meet

40 percent of U.S. power needs, up from 22 percent a decade ago, and more electricity was generated from natural gas in 2016 than coal for the first time since 1949.

Coal use has dropped from 60 percent to 20 percent over the last 20 years and the Columbia University Center on Global Economic Policy concludes increased competition from cheap natural gas is responsible for about half the decline, with lower demand responsible for about 30 percent and growth in renewable energy sources responsible for about 20 percent.

The U.S. Energy Information Administration projects the Clean Power Plan would lead to additional declines in coal production but coal would likely decline even if the plan never goes into effect if the price of natural gas stays low.

Even if the natural gas price goes up, the agency assumes the use of coal is unlikely to increase because coal-fired capacity has not increased over the last 10 years.

Revenue Component Poses \$135 Million Question

A piece of gross receipts tax revenues called “60-day money and other credits” has raised concerns about the accuracy of revenue estimates because it is adding money to the general fund total after years of representing a loss, LFC economists report.

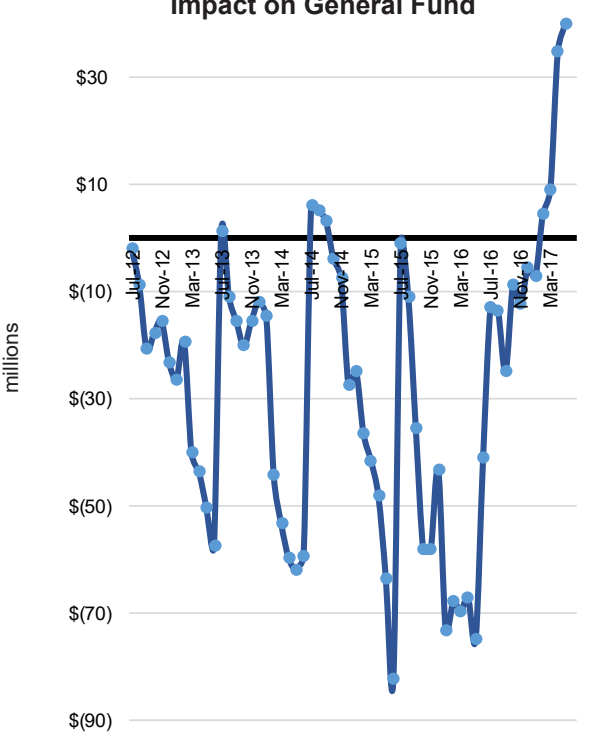
In the August revenue forecast, scheduled to be presented to the committee at 8:30 a.m. August 16, the component, a combination of credits and tax payments held longer than 60 days due to reporting errors and processing lags, is projected to add money to gross receipts tax general fund revenues, even though it represented a loss historically.

Historically, the line item averaged a \$5 million loss to the general fund each month, but starting in June 2016, the line item showed a gain, adding a total of \$135 million above trend from June 2016 through May 2017.

LFC asked the Taxation and Revenue Department in February for an explanation of the abnormality but the department has yet to provide one.

LFC economists note that, because the forecast is based on the abnormality, actual revenues could be significantly different, particularly risky given the state’s low general fund reserves and limited ability to continue to sweep other funds into the general fund for solvency.

Gross Receipts Tax, 60-Day and Other Credits Impact on General Fund



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On the Table

CYFD PreK Students Progress

More than 90 percent of the children enrolled in the prekindergarten programs run by the Children, Youth and Families Department last year showed measurable progress on a tool that measures school readiness, the department reports. However, the 91 percent of children who were ready was down from the 94 percent ready the year before and falls short of the department’s target of 93 percent.

DWI Arrests and Fatalities Up

State Police, which increased patrol hours in FY17, also increased drunken driving arrests by 80 percent, taking 2,931 suspected drivers into custody in FY17 compared with 1,615 in FY16. However, alcohol-related traffic fatalities rose 6 percent, from 93 to 99. The number of tickets issued for seatbelt misuse dropped 5 percent to 11,000, issued for hazardous driving dropped 11 percent to 104,000, and issued for missing proof of insurance dropped 6 percent to 16,400.

Group Purchases Lower Software Costs

IT specialists from the state’s colleges have asked the legislative Science, Technology, and Telecommunications Committee to consider re-establishing statewide technology funding for higher education. Past collaborative efforts among the state’s colleges led to an 80 percent drop in the per-user cost of Microsoft software and a 95 percent drop in the per-user cost of Adobe software for total savings of \$4 million per year.

NM GDP Growth Third Fastest

New Mexico’s gross domestic product, a measure of economic activity, grew 2.8 percent in first quarter of FY17, the third fastest in the country behind Texas and West Virginia, the U.S. Bureau of Economic Analysis reports.

Medicaid Surplus Grows

Medicaid program managers in August projected the FY17 surplus will be \$15.2 million, \$3.9 million more than earlier projections. June enrollment in the program was almost 900,000, up 3.5 percent from a year ago but down a half percent from May. Program managers also cut the projected general fund revenue shortfall for FY18, from \$33.2 million to \$23.9 million, a reflection that enrollment is now expected to grow by 1.3 percent instead of 3 percent.

Transitions

Connor Jorgensen is returning to LFC as the natural resources analyst.

He left LFC about a year ago to work for the Pew Foundation.

Madelyn Serna-Marmol is leaving the LFC Performance Evaluation Unit after four years to become an Albuquerque Public Schools assistant superintendent.

Bo Beames is the new interim director of the Miners’ Hospital. He recently served as a regional director for Presbyterian Healthcare Services, where he oversaw five hospitals in southern New Mexico.

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