



LFC Newsletter

A publication of the

Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Jimmie C. Hall, Vice Chairman

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Volume 16 Issue 11

May 2016

From the Chairman Myopia

Some politicians consistently argue that low taxes are the only thing needed to stimulate the economy. But that's a simplistic approach that ignores the many other needs of business owners, who say they also want access to skilled workers, high quality education systems, and other infrastructure. And, of course, because they will live here too, they need a high quality of life with safe streets, cultural richness, and a clean environment.

If the business leaders' own words aren't enough, consider this: New Mexico now has a comprehensive tax environment for manufacturers that Ernst and Young named the "best in the West," but New Mexico has lost manufacturing jobs nearly every month for the last three years.

In addition, it is important to remember that, not only do tax cuts eat into the revenue needed to address the other items on the business wish list, every tax break erodes the revenue base, placing a larger burden on the smaller group of taxpayers left to carry the load.

Clearly, it takes a comprehensive plan, cooperatively and effectively implemented, to improve the economy.

Long-term economic development strategies will be discussed by experts from business and academia during a hearing scheduled for 1:30 p.m. on May 10. New Mexico has an economic development plan but much has changed in the two years since it was released. Job growth in New Mexico, 44th in the nation, was less than a half percent between March 2015 and March 2016. The average wage is down slightly as well, apparently a reflection of the bust in the oil industry and the loss of that sector's high-paying jobs. Tourism employment is up – the state's tourism advertising budget has increased three-fold over the last seven years – but that employment sector is small and has a modest impact on the overall rate.

New Mexico has invested heavily in economic development. Even as general government was cut during the last legislative session, a rapid response workforce training program was created and substantial funding was provided for the Job Training Incentive Program subsidies to businesses and the Local Economic Development Act closing fund, used for infrastructure to "close the deal" with businesses considering a move to New Mexico. Now we need to make better use of those funds and programs with a new plan that acknowledges broad investment – from highways to museums – is also economic development.

Senator John Arthur Smith
Chairman

NM Might Need More To Attract High-Tech Jobs

The New Mexico higher education funding formula rewards science, technology, engineering and math education and its economic development policy supports high-tech industry, but, while the number of degrees awarded for the so-called STEM fields is growing, many graduates leave New Mexico and the high-tech businesses here tend to hire from out of state, an LFC evaluation finds.

The number of STEM graduates increased by 32 percent from 2009 to 2014 but the number of non-STEM graduates increased by 47 percent, dropping the share of STEM graduates from 17 percent to 15 percent, the report notes.

The evaluation, *Science, Technology, Engineering and Math – Degree Production and Employment Outcomes*, finds Native American STEM graduates are most likely to take jobs in New Mexico but have the lowest average income, while white STEM graduates are more likely to leave and earn the most.

The program evaluation is scheduled to be presented to the committee at 10 a.m. on May 12.

New Mexico is ranked No. 1 nationally for the number of engineers and scientists with doctorates and No. 6 for the science and engineering graduate

students, the report says. In addition, federal research and development spending in New Mexico is strong.

However, while high-tech employment nationally is up 22 percent since 2000, New Mexico high-tech employment has dropped 30 percent. In addition, Albuquerque was ranked 99th out of the 100 largest metropolitan areas for high-tech job growth between 2010 and 2013, the report says.

Because STEM graduates are among the highest in earnings and employment, New Mexico might need to do more to improve high-tech employment, the evaluation concludes.

The report notes New Mexico could leverage millions of dollars available for investment in high-tech start-ups through the State Investment Council, and invests in commercialization of high-tech research, high-tech workforce development, and high-tech business relocation and growth through a variety of programs.

However, the report notes, New Mexico's colleges and universities need to continue to incorporate innovation and entrepreneurship in STEM degree programs to help students commercialize their ideas and the state needs to use innovative research at the colleges and universities to attract investment and interest from corporations.

PED Addresses Charter School Issues

The State Auditor's 195 findings of significant financial errors at charter schools suggests Public Education Department oversight of the nontraditional public schools is a concern, LFC analysis concludes, but the department says it is taking steps to fix the problems.

In a presentation to the committee in April, department managers said the charter schools with findings were to submit a plan to correct problems this month. The plan was to include the specific steps for correcting identified issues and the name of the person responsible.

Department managers told the committee they will monitor the problem schools quarterly.

The findings for the schools covered a variety of issues, from failing to have

an audit committee to deposits taking longer than required. The most prevalent findings were the lack of policies and missing travel and per diem records.

PED is requesting a budget increase of \$317,000 from the 2 percent of state-chartered charter school program costs withheld by the the department for administrative costs.

The department says it will use the money for administrative support staff.

While six of nine positions in the department's Charter School Division are vacant, the department has not indicated the budget increase will be used for charter school assistance or monitoring.

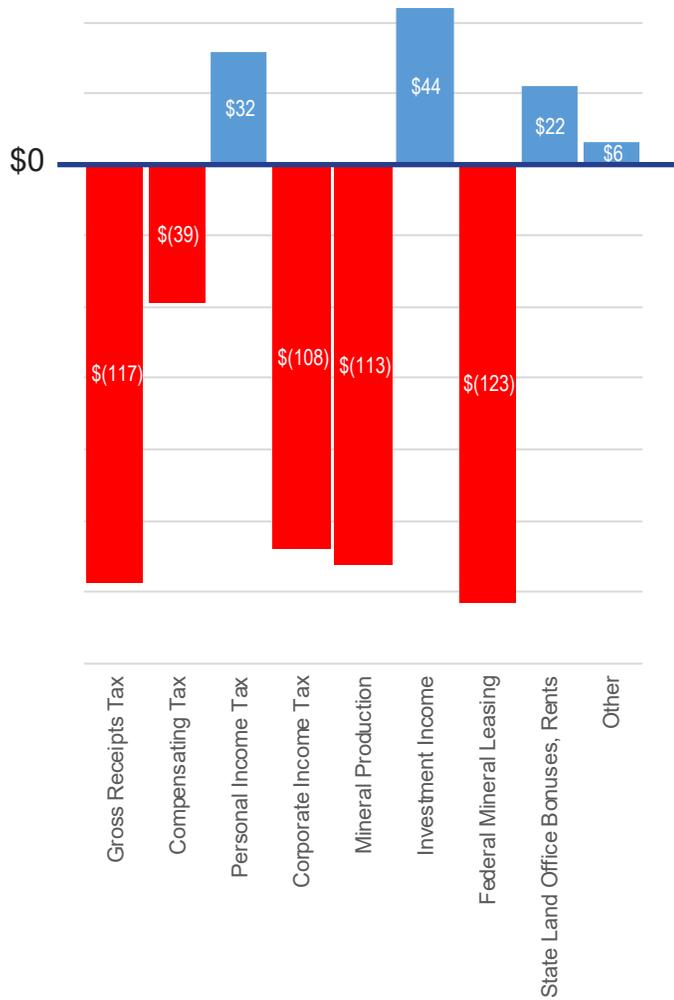
In the past two years, 10 PED staff members have left the division and the division has had four directors.

Revenue Continues To Lag

Revenue collected through February of this fiscal year totaled \$3.6 billion, 9.8 percent short of the \$4 billion collected through February in FY15.

In a reflection of the bust in the oil industry, revenue from mineral production and federal mineral leasing are both down significantly. The impact of the downturn on the rest of the economy can be seen in gross receipts tax collections and corporate income tax collections.

FY15 Versus FY16
Difference in Total Revenue Through First Eight Months*
 (in millions)



*The year-to-date revenue is a sum of monthly DFA actuals, preliminary revenues, and LFC estimates based on the January consensus revenue estimate.

On the Table

Tech Company Works on Tax Collection

Greenbox, a digital analytics company, is working with the Taxation and Revenue Department and funding research into a way to close the gap between taxes owed and taxes paid. The company is trying to develop a system that would allow the state to collect gross receipts taxes on each sales transaction in real time.

Veterans Agency Mishandles Cases

One in three veterans on the Veterans Services Department caseload for conservator or guardian services is either dead or has moved, a State Auditor report finds. A review of internal controls at the agency found, of 63 conservatorship or guardianship veterans on the “active veterans list” at the end of FY15, 12 were dead and nine had moved. The audit also found cases where the department had failed to distribute funds to a deceased veteran or failed to identify the veteran’s representative, even though the veteran had been dead for 10 years. In a response letter from the agency to the State Auditor, the agency states the issue was self-identified and self-reported to the agency’s independent auditor and the agency is working on a plan to distribute the funds to other states or heirs that should be done by November 1.

Courts Project Need for More Funding

The Administrative Office of the Courts is expecting it will need supplemental FY17 funding for jurors, interpreters, and witnesses because of the drop in fee collections. It anticipates it will also need between \$962,000 and \$1.3 million to cover shortfalls in magistrate courts.

In addition, the 2nd Judicial District Court, which reports a 38 percent turnover rate among clerks, is considering raising clerk pay with money saved through leaving positions vacant and other efficiencies. This would not require additional appropriations.

Tax Auditor Activity at Record Levels

The Audit and Compliance Division of the Taxation and Revenue Department issued \$146.4 million in tax assessment through the end of the third quarter of the fiscal year, almost \$30 million more than total FY15 assessments. Collections through March were just \$500,000 short of the full-year record set in FY13, an indication the department will set a new record in FY16.

Transitions

LFC has hired Jacqueline Martinez as the new economic development analyst. Martinez, a former Department of Finance and Administration budget analyst and finance director at the Higher Education Department, replaces Jon Clark, now an LFC economist. Terry Rister, director of the Revenue Processing Division at the Taxation and Revenue Department, retired on April 22. Charlene Trujillo, the deputy director, will act as director until the position is filled.

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Published monthly in the interim by the Legislative Finance Committee.

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