



# LFC Newsletter

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**Legislative Finance Committee**

Senator John Arthur Smith, Chairman

Representative Patricia Lundstrom, Vice Chairwoman

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## From the Chair

### More of the Same

We might be done with Covid-19 but it's not done with us. New Mexico has seen a series of record-setting days for the number of cases this month, just as the weather is getting colder and we head indoors to riskier environments.

We can hope for quick, widespread access to a safe and effective vaccine. We can encourage responsible mask use and social distancing. But we need to plan for the pandemic to continue for many more months. We need to stop thinking in terms of stop-gap measures and start working on the longer-term changes needed to overcome pandemic-related barriers and the damage it will leave behind.

This will mean rethinking how government, schools, and even business do business. Public health restrictions can't rely solely on shutdown to stop contagion. The administration needs – and to its credit is beginning – to focus on intervention and prevention that will allow businesses to stay open with required and enforced Covid-safe practices.

Keeping schools closed is setting children back academically by months. Children are missing out on important interventions designed to catch special needs and family issues early. The Public Education Department needs to provide schools with the guidance and resources needed for schools to employ the best remote learning practices and perhaps open schools to students who are at greater risk because of home environments, learning needs, or lack of technology.

Business and government together need to start planning for the permanent economic damage that will be left in the wake of this crisis and the ripple effect it will have throughout communities.

And the Legislature needs to rethink its practices, as well; it needs to rethink the necessity – we already know it's unwise – of putting 112 lawmakers, thousands of legislative staff members, and innumerable experts and advocates in a closed building in the middle of winter just because it always meets in January. Lawmakers could, instead, gather long enough to satisfy the Constitution with plans to come together in an extraordinary session during a less dangerous time of the year, when they have a clearer picture of the economic toll of the pandemic.

Covid-19 has triggered an unprecedented crisis for our nation and our state, and it will continue to impact us long after contagion has subsided. We must stop hoping for a miraculous cure, a magical return to normal, and start treating it like the long-term issue it is.

*Senator John Arthur Smith  
Chairman*

**The committee will hold a one-day virtual meeting in October. Visual and audible access to the videoconference will be available to the public via webstream at [www.nmlegis.gov](http://www.nmlegis.gov).**

## Tax Expenditures Cost \$1B

The state gives up \$1 billion in revenue a year through tax benefits for certain taxpayers and activities but has limited information on whether the state gets anything in return, LFC economists report.

New Mexico's more than 100 different "tax expenditures" – mostly exemptions, deductions, and credits – are intended to promote the general welfare or promote the economy generally or an industry specifically.

However, while the Taxation and Revenue Department reports annually on the purpose and cost of the state's tax expenditures, the report says little about the impact.

The TRD report does not include information on impact, such as the number of jobs created, or other details that would allow policymakers to assess effectiveness, according to a LFC staff brief prepared for a hearing scheduled for 10:30 a.m. October 28.

The lack of detail is partly the result of the state failing to require sufficient reporting by the taxpayers, but many of the statutes enabling the tax benefits also fall short by failing to state the purpose of the tax expenditure.

The largest tax expenditures are the nonprofit exemption from the gross receipts tax, the film production tax credits, and the gross receipts tax deduction for prescription drugs and food and medical spending, which include "hold harmless" payments to reduce the impact on local governments.

Tax benefits intended to promote the

general welfare of New Mexicans make up the largest category of tax expenditures, both in terms of the number of carve-outs and the cost.

The state spends over half a billion dollars a year on tax benefits intended to reduce the cost of food, medical care, and other necessities; encourage donations and other activities; and alleviate the tax burden for low-income families, veterans, and other specific populations.

The gross receipts tax deductions for food purchases and receipts of nonprofits cost over \$350 million per year, and the cost of the working families income tax credit is estimated to cost some \$90 million a year.

Tax expenditures related to healthcare, including the gross receipts tax deductions for prescriptions and physician care, cost about \$270 million a year and make up about a quarter of the total cost of state tax expenditures.

TRD estimates the cost of tax expenditures for economic development at about \$155 million a year.

That cost is expected to rise with the expansion of the film production tax credit, which is expected to grow substantially because the cap that limited total claims for a year was lifted in 2019 for companies that sign long-term leases. The film credit is expected to cost the state about \$145 million a year by FY23.

Other economic-related incentives include tax credits for rural and high-wage job creation and partnerships with the state's national labs.

## Officials Question Fall School Testing

Student assessments, optional for most public schools this fall, might not be reliable indicators of pandemic-related learning loss because participation was low and some students appeared to get help from their parents, an LFC report finds.

While most schools canceled annual standards-based assessments in the spring, with state department approval, many opted to test students this fall, but administrators are suspicious of the results for some students and low completion rates suggest testing failed to capture the least engaged students.

LFC evaluation staff is scheduled to present the report, *Spotlight: Reopening Schools and Remote Education* to the committee at 1 p.m. on October 28.

Accurate assessment reports are important because schools need to know where students stand academically after the long break from the traditional classroom.

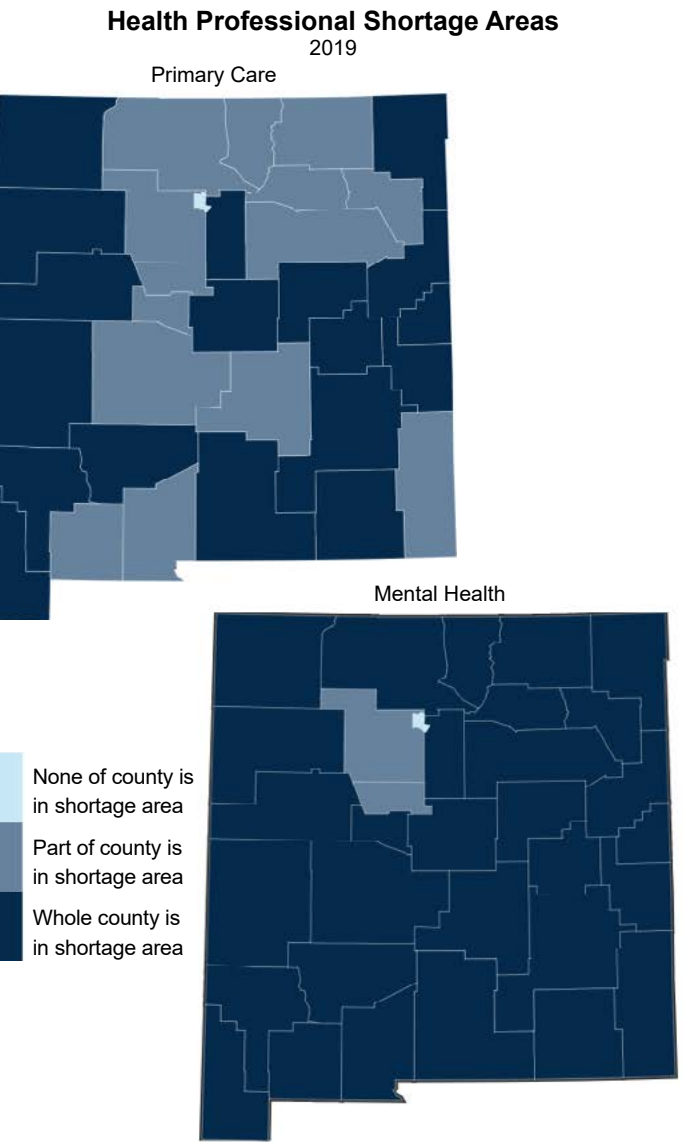
According to the report, state-specific projections from Stanford University's Center for Research on Education Outcomes confirm earlier findings that students nationally lost from four months to more than a year of learning because of school closures.

Stanford researchers worked with the Northwest Evaluation Association on new state-level estimates that suggest New Mexico third through eighth-grade students started school this fall an average of 98 school days behind in reading and 208 days behind in math.

# New Mexico Short on Doctors

The majority of New Mexico counties fall under the federal Health Resources and Services Administration designation of having a health professional shortage, with all but Los Alamos County have some areas with too few primary and mental health providers.

University of New Mexico healthcare workforce data from 2018 showed similar shortfalls, with just five counties hitting the benchmark for an adequate number of psychiatrists and just eight hitting the mark for primary care physicians.



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## On the Table

### Earnings Projected to Fall Short

The State Investment Council projects low returns on the state’s permanent funds over the next seven to 10 years. The land grant permanent fund is expected to grow an average of 3.3 percent per year, compared with the fund’s long-term target of 7 percent. Annual growth in the severance tax permanent fund is projected at 1 percent, far short of the target of 6.75 percent.

### Oil Up From Last Year, Down From March

July oil production of an average 1 million barrels of oil per day was up 11 percent from July 2019 but down almost 12 percent from the peak of 1.1 million barrels per day in March. The active drilling rig count of 45 in early October is down from July and down by more than half from the 117 rigs active in March.

### Public Schools Save on Healthcare

The Public School Insurance Authority, which provides health insurance for all public schools except those in the Albuquerque district, realized healthcare cost saving of \$15 million in FY20 because medical procedures were canceled or delayed due to the Covid-19 pandemic. Costs are expected to be \$5.2 million more in FY21 as a result of those procedures being rescheduled, resulting in projected net savings from the pandemic of \$9.8 million.

### Births Down

The number of New Mexico births in 2019, 22,964, is down 20 percent from the number in 2009. The birth to age 5 population has also dropped by 20 percent over 10 years.

### Plant Makes Plans for Santa Teresa

Prent Corporation, which makes custom packaging for the medical, electronics, and consumer industries, will open a new manufacturing facility in Santa Teresa. Prent plans to invest \$12.5 million and create 85 new jobs with an average wage of \$26.14 an hour. The company received \$500 thousand from the Local Economic Development Act fund.

### Transitions

Los Alamos County Magistrate Judge Pat A. Casados was re-elected president of the New Mexico Magistrate Judges Association, an office she has held for the past four years. Linnea Forsythe is the new acting director of the Governor’s Commission on Disability. Former director Anthony Alarid is retiring.

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