



LFC Newsletter

Volume 07 Issue 10

February-March-April 2007

From the Chairman Foundation

It's hard to find someone who doesn't like tax cuts. Taxpayers like them because they put more money in their pockets. Elected officials like them because they mean votes on election day. Aside from whether tax cuts are popular or not, New Mexico's decision-makers have an obligation to the people of New Mexico to collect only enough taxes to pay for important services.

The LFC developed two bills during the legislative session that would have helped lawmakers make better decisions on taxes. One would have required the Labor Department to provide information on the jobs created by tax incentives to certain industries. The other would have created an annual report on the loss in state revenues from tax credits and exemptions. Both died, one in the Senate and one on the governor's desk, but committee members will continue to work on legislation that will help the state make responsible tax decisions.

Taxpayers will soon benefit from a package of tax cuts aimed at improving the lives of the working poor and middle class, boosting access to health care and encouraging economic development and alternative energy use – all good causes. But we must keep a close eye on the impact of these tax cuts on the tax base. Like any construction project, New Mexico's tax system must be built on a strong foundation. A tax base that is too narrow, or unsound in other ways, could collapse, taking with it essentials like law enforcement and education and hurting the very people we hope to help with the tax cuts.

Senator John Arthur Smith
Chairman

New Members

Senate leadership has appointed the Senate members of the committee. They will serve for the next two years. The members:

Tim Jennings, D-Roswell
Phil Griego, D-San Jose
Pete Campos, D-Las Vegas
Carlos Cisneros, D-Questa
Leonard Lee Rawson, R-Las Cruces
Sue Wilson Beffort, R-Sandia Park
Joe Carraro, R-Albuquerque

The new chairman is Senator John Arthur Smith, D-Deming. The chairmanship alternates every two years between the House and Senate.

House leadership has not named its members yet.

Conservative FY07 Estimate Allowed for Expansion in FY08

A conservative revenue estimate for the 2006-2007 fiscal year helped create room for legislators working on the budget for the 2007-2008 fiscal year, allowing them to provide adequate funds for state programs and give New Mexicans a tax cut, LFC analysis shows.

The revenue forecast used to develop the FY08 budget put revenue growth at 3.1 percent over FY07 revenues, but spending in FY07 was based on a revenue estimate that was too low by 7.8 percent, or \$412 million. The conservative forecast was prompted by concerns about the volatility of energy-related revenues. That meant FY08 estimated revenue exceeded planned FY07 spending – what's called "new money" – by a record-setting \$721 million.

The impact of fiscal and other legislation passed during the 2007 legislative session is discussed in the LFC's *Post-Session Fiscal Review*, scheduled to be published in May.

During the 2007 legislative session, legislators approved a spending package for FY08 that includes

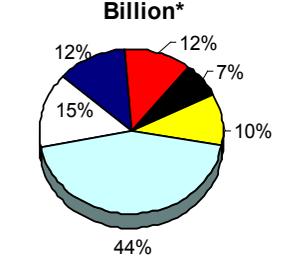
\$5.65 billion in recurring spending, a \$537 million, or 10.5 percent, increase over recurring spending in the current year.

Although just 10 percent of the total budget pie, general government saw the greatest increase in spending, almost 14 percent. Education, more than half the budget, saw an increase of about 9 percent.

Lawmakers also approved tax-cut bills that will cut state revenues by a total of \$82.7 million in FY08, a figure expected to grow to \$140 million by FY11. The package includes more than \$50 million in tax cuts aimed at families, including a credit for working families and exemptions for active military personnel and middle-income taxpayers.

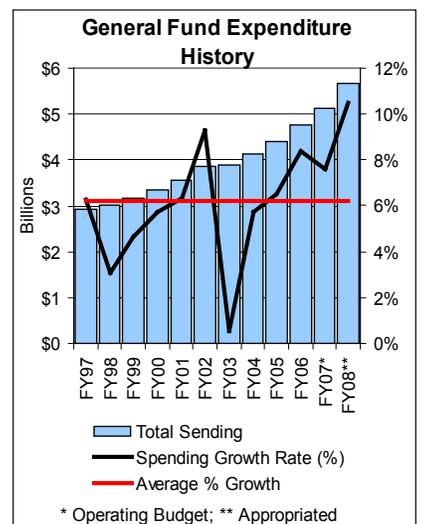
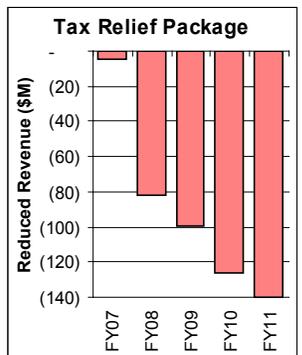
Despite increased spending and tax cuts, general fund reserves are still at about 10 percent of planned spending, well above the 5 percent considered responsible. The strength of this "rainy-day" account – money set aside in case of budget shortfalls – reflects ongoing concerns about fluctuating oil and gas revenues and a commitment by the executive to ample reserves. Although the impact of energy-related revenues on total revenues is down, it still remains strong.

FY08 Recurring General Fund Appropriation: \$5.7 Billion*

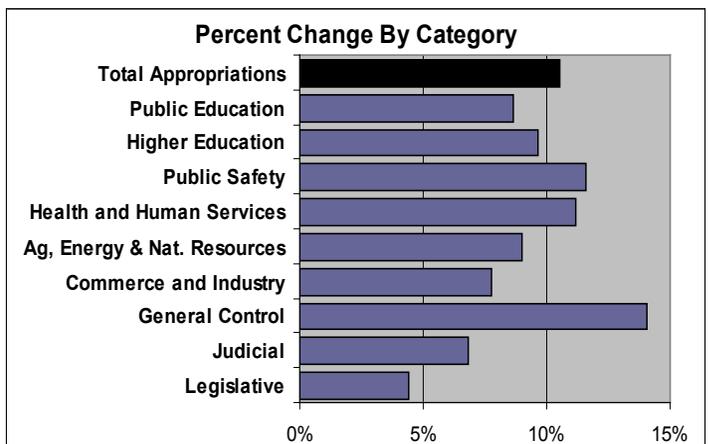


□ Public Education
□ Higher Education
■ Medicaid
■ Other Health & Human Services
■ Public Safety
■ All Other Government

* Includes Laws 2007, Ch.28 (HB 2) and Ch.1(HB 1)



* Operating Budget; ** Appropriated



Public School Boost Smaller than Planned

An underestimate of both enrollment growth in certain school districts and the need for certain ancillary services for special-needs children will mean less of an increase for other public school costs, LFC analysis shows.

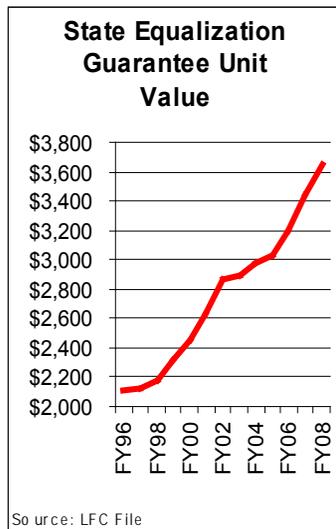
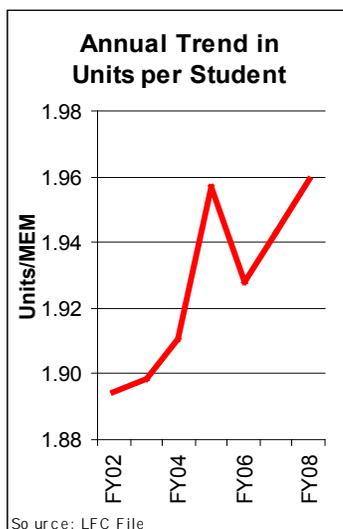
Although the General Appropriation Act includes a 7.3 percent increase in funding for the State Equalization Guarantee Distribution – the money distributed to schools through a formula mostly based on the number of children in each district and their specific needs – the state Public Education Department has set a preliminary value for the distribution just 5.8 percent over the current year value.

LFC analysis of public school enrollment shows a higher-than-expected number of funding formula “units” both for school districts with strong enrollment growth and for special education “related services,” such as those provided by psychologists and speech therapists.

In the last two years, the unanticipated and unbudgeted cost of the growth in related services units has been greater than \$30 million, diluting the impact of increases to the distribution.

Two-thirds of the related unit growth in the last two years was in the Albuquerque Public Schools.

The annual audit of the Public Education Department in FY05 found the department does not audit student counts or units reported by the districts.



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Published monthly in the interim by the Legislative Finance Committee.

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On the Table

Schools Get Funds for Cost Overruns

The Public School Capital Outlay Council has approved \$9 million in spending for construction cost overruns at Columbus Elementary School in the Deming district, Escalante High School in the Chama district and Cuba Elementary in the Cuba district.

The council also agreed to waive \$5 million of the local match requirement for the schools because Cuba and Chama are bonded at capacity and Deming is dependent on taxes from the volatile copper industry.

The council denied a waiver request for Animas, where voters recently rejected a bond issue, and suggested the district scale down the project and try another election in six months.

New One-Stops Scheduled To Open

The Central and Eastern regional workforce development boards have announced they will open one-stop employment centers in the next few months – one in Albuquerque and one in Clovis. One-stop shops already are open in Belen and Ruidoso.

Meanwhile, the executive has hired consultants to work out the details of merging the Office of Workforce Training and Development and state Labor Department. The office was pulled out of the department a few years ago after the LFC raised concerns over the management of federal training funds.

Zero Returns

The producers of the film *Suspect Zero* have repaid the \$7.5 million principal on a loan from the State Investment Council. The loan matured in December. The SIC has rated it a “C,” meaning the council has little expectation of return other than the original loan amount.

Meat Inspections Fall Short of Fed Standards

A U.S. Department of Agriculture review of the state’s meat and poultry inspection program found the program run by the Livestock Board does not meet federal requirements and is not in compliance with the board’s own self-assessment. The federal Agriculture Department has the option of taking over meat and poultry inspection and cutting funding to the state.

Transitions

Bobby Griego and George McGeorge have resigned from the LFC performance audit unit. Griego has joined the Quality Assurance Bureau of the State Personnel Office and McGeorge is the new finance director with the Risk Management Division of the General Services Department. Brian Schuss has been hired by LFC as a performance auditor. Brian worked for LFC during the legislative session.

The Health Department has hired Katrina Hotrum as the new deputy secretary for facilities and Michael Mulligan as deputy administrative services director. Hotrum formerly was the director of the Developmental Disabilities Division and Mulligan was the finance director of the Office of Workforce Training and Development. Adolfo Alarid has retired as ASD director.

Cindy Padilla is the new deputy secretary of the Environment Department. She will be replaced as director of the Water and Waste Management Division by Jon Goldstein of the Governor’s Office.

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