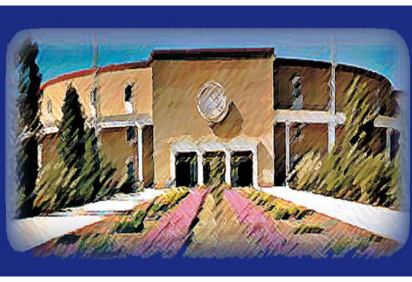

LFC Newsletter

A publication of the **Legislative Finance Committee**
Senator John Arthur Smith, Chairman
Representative Luciano "Lucky" Varela, Vice Chairman
David Abbey, Director

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From the Chairman

No Ice Cream

From time to time, everyone faces the temptation to give in to instant gratification without regard to long-term consequences. But, as good as it sounds, we don't eat ice cream for breakfast because we know we'll pay for it eventually.

With the very mild recovery of state finances, the temptation is to restore some of the cuts of the last few years or even to launch some new initiatives. But the long-term consequences would be serious, much more serious than the health consequences of a bad breakfast.

With the revenue projections for FY13 in flux and a unexciting outlook for FY14, it's best to keep new commitments in check. Once in place, a new program is much more difficult to cut. After eight years of "initiatives" under the past governor, the Legislature has learned its lesson.

The so-called special interest groups, from child health advocates to small business boosters, will be out in force over the next 30 days, looking for some extra help from state lawmakers. It will be tempting to give in but it is important that New Mexico's legislator resist and keep the long-term health of the state in mind.

Senator John Arthur Smith
Chairman

Health Tax Benefits Unclear, Some Programs Could End

New Mexico provides nearly $300 million in tax credits to medical providers but does little to assess the impact of these programs, an LFC review finds.

A review of five of those credits, worth about $195 million, indicates for-profit hospitals and insurers get tens of millions of dollars in tax breaks from the state without a clear purpose and without any measurable benefit to healthcare consumers, the report presented to the committee in December says.

The purpose of the rural healthcare practitioner tax credit, one of the five reviewed, was to promote access outside urban areas, and the growing number of participants suggests the incentive is working. However, the benefits of the other tax credits are not clear.

Under state law, for-profit hospitals are exempt from gross receipts taxes, an exemption intended to level the playing field with tax-exempt nonprofit hospitals, but New Mexico's size and rural nature means competition is already limited. The state foregoes $13 million a year because of the exemption.

The state foregoes another $85 million a year in gross receipts tax revenue through the tax exemption for insurance companies that pay the premium tax.

Although New Mexico's premium tax is relatively high at 4 percent, it is more than balanced out by the exemption from the 5.125 percent state gross receipts tax.

The staff evaluation also notes the tax credit for insurers that pay into the insurance pool will become obsolete when federal healthcare reform eliminates the need for the pool, a publicly funded insurance plan for those who have been turned down by an insurance company.

Under the tax credit, insurers can deduct up to 75 percent of their premium tax obligation. Elimination of the pool and the tax credit could add $50 million a year to state coffers.

The state also has little information on the impact of the $100 million counties collect, mostly in gross receipts taxes, to support health services, the report says.

Most of the money raised by counties is used in the patchwork of programs that provide health care for the poor and many of those programs will be unnecessary with the implementation of healthcare reform.

The report says the Health Policy Commission created databases that could be used to assess the impact of local healthcare spending but the commission is no longer funded and the databases ares inaccessible.

Review Finds Weakness in Capital Outlay Process

By funding big construction projects before they're planned, the state often appropriates more than the project needs, sometimes leading to overspending, a Legislative Finance Committee evaluation finds.

Staff evaluators found the state might sometimes overpay for construction projects because it appropriates funds to "plan, design and construct" projects, instead of funding a planning phase to establish costs then funding the construction project based on the cost estimates. Project managers generally use up any extra funds, the evaluation notes.

The evaluation, scheduled for a hearing at 1:45 p.m. on January 16, looks at five capital outlay projects totaling $21.8 million in appropriations: the J. Paul Taylor Center for juvenile offenders in Las Cruces, the Diné College library at Shiprock, Okay Owingeh Airport improvements and conservation easements and dam rehabilitation statewide.

The review found the state spent more than the industry standards on the juvenile center, even when security features are added in. It also found Diné College spent twice the national and local average costs on the new library, located three miles away from the main campus and on the other side of the San Juan River.

The state might also be overpaying landowners for conservation easements. Under the program, the state has paid landowners $3.5 million to set aside 9,500 acres, mostly to protect natural or cultural resources. However, the state also offers a land conservation tax credit, which serves the same purpose at a lower cost per acre.

The review also found that the General Services Department is effective in tracking and monitoring construction projects but used outdated software to track capital assets. The tracking software is based on DOS, a system that has not been in common use since the 1980s.

The review also raises concerns about the adequacy of funding for dam rehabilitation and a lack of diligent oversight of construction projects under the Indian Affairs Department.

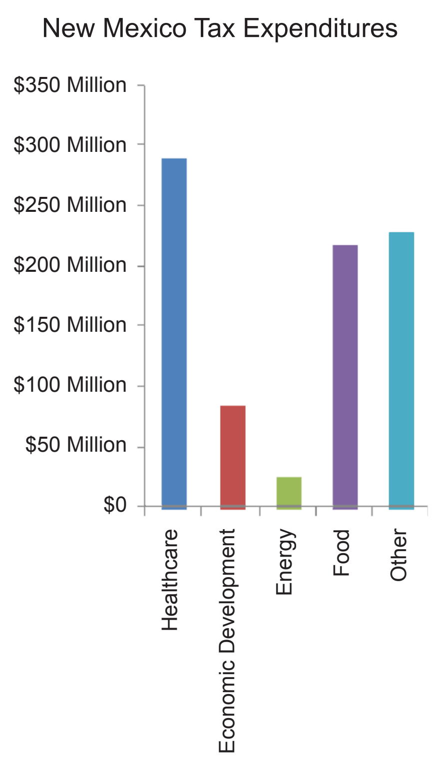
Healthcare Industry Biggest Beneficiary

New Mexico foregoes almost $300 million in tax revenue through credits to the healthcare industry, the biggest beneficiary of what are generally called tax expenditures.

The tax breaks for the industry include a gross receipts tax exemption for for-profit hospitals and a tax credit for insurance companies that pay into the state-run insurance pool for those who have been turned down by insurance companies.

LFC analysis shows the next biggest, single tax expenditure is the some $225 million a year the state foregoes through the exemption of the tax on food.

Tax expenditures for economic development, which include the much-publicized tax credit for the film industry, add up to less than $100 million a year.



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Writer, Editor - Helen Gaussoin   Staff Editor - Beth Wojahn

Questions, comments: 505-986-4550

www.nmlegis.gov/lcs/lfc/

Legislative Finance Committee
325 Don Gaspar Street Ste101
Santa Fe NM 87501

On the Table

General Fund Balances Up

The State Treasurer's general fund balances were approximately $1.6 billion at the end of October, up $400 million over last year.

State Employee Numbers Down for Year

The baseline count of state employees was up in December for the first time since 2009 but is still down 6.2 percent from a year ago. The increase -- less than a tenth of a percent -- put the total at 21,889, 16 more than the count for November. Since December 2010, the number of employees was down 4.3 percent in the largest 20 agencies, and 12.8 percent in other agencies. About 20 percent of authorized positions are vacant.

Hospital Vacancies Put Accreditation at Risk

Staff shortages at the Behavioral Health Institute in Las Vegas have put the state hospital "in jeopardy" with the national accreditation commission and are creating issues with other regulatory and licensing requirements, the hospital administrator has reported to the governing board. The administrator also told the board the inability to implement temporary pay raises is making it difficult to address the staff shortages.

State Salaries Higher than Average

The typical take-home pay of a classified state employee – $41,995 a year – is slightly higher than the average for New Mexicans in private employment – $37,492 – and the overall average for the nation – $40,090. Total compensation for state employees, a total of $69,354 with the employer's share of health and pension contributions, is about average with other public employees in the region and 10 percent higher than those in the private sector.

Zoo, Detention Center among Loans

The New Mexico Finance Authority recently approved five loans and refunding worth more than $10 million from the public project revolving loan fund, including funds for the Alamogordo zoo and the San Miguel County detention center. The largest loan, $8.1 million for Alamogordo, will pay for improvements at the zoo and at city sports facilities. In addition, the Lordsburg Municipal School District will get about $1.5 million for construction and improvements at baseball and softball facilities, the Mora County Buena Vista volunteer fire department will get $305,000 for projects, and San Miguel County will get $388,000 for detention center improvements.

Local Police Gain Access to FBI Services

The FBI has opened a new computer forensics laboratory at the University of New Mexico, giving local law enforcement agencies access to more sophisticated tools for investigating cybercrimes and other crime.

Transitions

The Higher Education Department has hired Jennifer Moseley as Administrative Services Division director. Moseley is the fourth director for the division in the last year.

Pablo Sedillo is no longer the Juvenile Justice Division director at the Children, Youth and Families Department.