LFC Newsletter

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Senator John Arthur Smith, Chairman
Representative Jimmie C. Hall, Vice Chairman
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From the Chairman

Chipping Away

For more than a decade, tax specialists have been telling New Mexico policymakers that our state's tax system needed major reform. Since then, dozens of changes have been made but not always in line with the overall reform recommended.

In a perfect world, the executive and the Legislature would sit down and work out a comprehensive tax structure that encourages economic growth, treats taxpayers fairly, and is easy to understand. Unfortunately in the real world, one person's tax incentive is another's corporate welfare. More significantly, many pieces of our current patchwork of taxes, credits and rebates are blurry. With sometimes hazy information on the pieces, we can't always predict the impact of change.

Consequently, comprehensive tax reform is unlikely, both because we don't have enough information about our existing system to make big decisions and because the political climate is unfavorable. The piecemeal approach to tax reform might drive the tax policy experts batty but, carefully applied, it can push New Mexico forward.

It's important, however, to stay alert to sound tax policy principles as we make these changes: 1) The state must generate adequate tax revenue to cover the essential services of state government. 2) The tax base should be broad enough to prevent reliance on one type of tax or one group of taxpayers. 3) The tax must be fair, applied similarly to similar taxpayers and equitably to different types of taxpayers. 4) Tax rules should be simple so that compliance is easy and the cost of collection is low. 5) Finally, the process must be transparent so that each component can be evaluated and the impact of change is predictable.

Good tax policy is hard work. New Mexico is a poor state with significant need. Providing a tax break to one industry as an incentive means placing a greater burden on those still paying the tax or cutting services to vulnerable New Mexicans. What might look like a reasonable tax break to a worthy sector reduces the adequacy (principle 1), narrows the base (principle 2), creates inequity in the system (principle 3), and complicates tax-paying (principle 4). So should we disregard all tax breaks? Obviously, no.

Instead, we should develop the information we need to make smart decisions, balance policy principles with economic reality, and continue to build a solid tax structure, one brick at a time.

Senator John Arthur Smith
Chairman

Crashes Complicate Plans

Hopes that Spaceport America would be hosting space tourism launches by now went down with the crash of Virgin Galactic's SpaceShip Two late last year, and space vehicle crashes for two other tenants and a murky business plan make it unlikely aerospace activity will be supporting the site in southern New Mexico any time soon, LFC analysis shows.

Virgin Galactic is paying the Spaceport annual lease fees of $1 million but is expected to up that amount by another $1.3 million when space tourism flights begin.

The company originally planned to start those flights in 2010 but has suffered setbacks. It reports a replacement for SpaceShip Two is 90 percent complete and it now expects to begin commercial flights in late 2016.

The committee is scheduled to hear about the Spaceport's efforts to generate additional income at 9:30 a.m. July 15 during the committee's meeting in Alamogordo. The $220 million spaceport ramped up operations this past fiscal year in anticipation of commercial launches and financially survived the year on balances from past revenue.

However, those balances have run out and the agency received general fund support for FY16.

While Virgin is the Spaceport's anchor tenant, the agency also has launch agreements with SpaceX, which planned to launch test flights from New Mexico starting this fall. However, a SpaceX rocket, launched from Cape Canaveral with supplies for the International Space Station, expoloded in late June.

Spaceport America also had an agreement with Armadillo Aerospace, which has been in "hibernation" since a rocket crash in 2013. Many of Armadillo's employees are now part of Exos Aerospace, which recently announced possible Spaceport America launches of space tourism flights starting in 2016.

UP Aerospace, which carries customer payloads in rockets, also launches from the spaceport but its limited use generates little income. In addition X2nSat, a satellite communications company, has signed an agreement to enter into a long-term lease but it's unclear if that will generate revenue.

The agency's updated business plan notes Spaceport America is a good location for satellite companies, like X2nSat, and others in need of ground stations because the site has clear lines of sight, stable weather, and minimal electromagnetic interference.

However, much of the business plan is vague, failing to detail the plan for attracting new aerospace and listing some activities, like hosting triathlons, with no explanation of why this would be a good fit for the Spaceport, the hearing brief says.

It also notes the Spaceport is possibly overspending on security and firefighter services, with staffing levels exceeding those required by the state or the Federal Aviation and Administration and crews routinely serving surrounding communities.

Medicaid Cost, Enrollment Double

The number of New Mexico Medicaid patients and the cost of their care have about doubled in the last 10 years and the cost for the state is expected to soar as federal support drops off in the next five years, an LFC evaluation says.

State general fund spending on the healthcare program for the poor is expected to grow to $1.16 billion by FY20, up $273 million from FY15.

Much of that growth is the result of the Medicaid expansion that was part of the Affordable Care Act. While the federal government is currently paying the full cost of the new Medicaid clients, federal support is scheduled to drop gradually to 90 percent in 2020.

To control costs and improve care, the Human Services Department implemented Centennial Care, which consolidated most existing Medicaid programs and the expansion into a single managed-care program.

An LFC evaluation, presented to the committee in June, found Centennial Care should provide "modest" savings but those savings are at risk because cost-saving measures were delayed.

The evaluation recommends the department be more aggressive in its negotiations with the managed-care providers. It also recommends more detailed information on Medicaid spending be included in the budget.

Higher-Cost New Enrollees Drive Medicaid Cost Growth

State Medicaid payments for managed physical health care, capped under contracts with managed-care contractors, and total payments to the contractors both grew at faster rates between 2013 and 2014 than Medicaid enrollment.

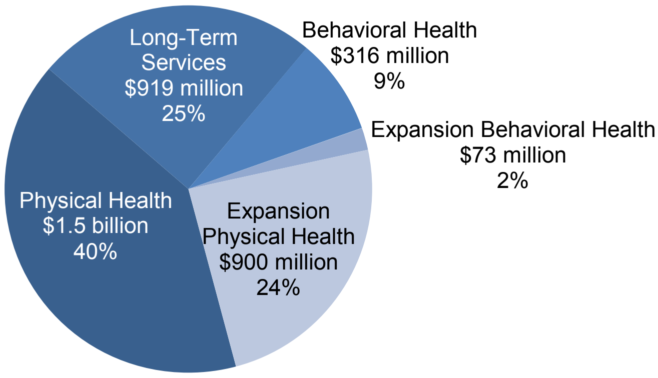
While enrollment grew by 15 percent, total physical health managed-care payments grew by 37 percent and total managed-care contractor costs grew by 42 percent, an LFC evaluation of the state's new Centennial Care program finds. The report notes the Human Services Department is still reconciling its 2014 data.

Some of the increase can be explained by the enrollment of more costly enrollees; a higher proportion of adults, who are more costly than children, are enrolled under Centennial Care, which consolidated most of the existing Medicaid programs and the expansion under health-care reform into one managed-care program.

Managed-care expenses dropped in the four years prior to Medicaid expansion.

Many factors are driving the increase in physical healthcare costs, the evaluation says. The largest increases are in inpatient services, physicians and other practitioners, and the price agreements between the managed-care contractors and the providers. The report says the cost of all managed-care services has increased significantly except for pharmacy costs, which dropped by $8 million.

Centennial Care Managed-Care Payments
Total: $3.7 billion
(based on average enrollment)



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On the Table

State Awards LEDA, JTIP Funds

The Economic Development Department awarded $7 million to Local Economic Development Act projects in FY15, leaving $58 million for future projects from the 2014 and 2015 legislative appropriations. The average cost per job from the FY15 LEDA spending, primarily used on infrastructure to lure businesses to New Mexico, is $3,000, down significantly from the long-term average of $11,900.

The department awarded $11.7 million in Job Training Incentive Program funds in FY15. The money paid for training for new employees for 2,020 jobs with an average wage of $17.63 an hour. The average cost to the state for each job is $5,800, up from the long-term average of $5,200.

AG, Racing Commission Work on Backlog

The Racing Commission is adding another hearing officer to hear appeals on racing and doping violations and the Attorney General's Office is assigning two additional attorneys to the commission with the goal of eliminating a backlog of outstanding appeals and hearings by late August.

Increases Sought for State Insurance Rates

The Risk Management Division plans to ask the Department of Finance and Administration to approve increases for risk and employee health insurance in FY17. The division is seeking a 5 percent increase in the premiums agencies pay for liability coverage. The funds generated would include $10 million for year three of a five-year plan to rebuild the risk fund hit hard by inadequate collections between FY10 and FY15. Premiums for property and workers' compensation would be flat. The division is also asking for up to a 5 percent increase in contributions for employee health benefits, with about 65 percent of the up to $6 million increase coming from the general fund. The division is considering a new tier of coverage that would reduce premiums for meeting certain health standards.

Evaluation Unit Receives National Honor

The LFC Program Evaluation Unit has received the 2015 Excellence in Evaluation Award from the National Legislative Program Evaluation Society. The national award is presented to an office determined to have made significant contributions to the field of legislative program evaluation during a four-year period.

Transitions

The LFC has hired Travis Dulany as the higher education fiscal analyst. Dulany, who has a master's degree in English from New Mexico State University, previously served as a senior research analyst for the Legislative Education Study Committee. The committee has also hired Christina Keyes as an economist. She has a master's degree in business administration from the College of Santa Fe and managed investments for the Public Employee Retirement Association. Finally, Travis McIntyre is joining LFC as a program evaluator. He has a Ph.D. in physics from the University of New Mexico.

Steve McCleery, president of New Mexico Junior College, announced his retirement at the end of the 2015-2016 academic year. He has served 32 years at the college, with 18 years as its president.