



LFC Newsletter

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Legislative Finance Committee

Representative Luciano "Lucky" Varela, Chairman

Senator John Arthur Smith, Vice Chairman

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From the Chairman

Road Less Traveled

For visitors and residents alike, perceptions of our diverse state are driven by the Rio Grande corridor and the interstate that runs through it. But there is much more to New Mexico and every summer the Legislative Finance Committee, usually pinned down in Santa Fe, takes to the road to get a better view.

In June, the committee traveled to Clovis and got a lesson on that area of the state that far exceeded testimony in a committee room in the Capitol. Connected to a tour of the Southwest Cheese Company, the committee learned the dairy industry is 43 percent of the New Mexico agricultural sector and the industry is struggling. Nevertheless, the company is planning an expansion of the plant, already the producer of 10 percent of the cheddar cheese in the United States.

Clovis is also the base for Curtis and Curtis Seed and Supply, a leading supplier of grass and other seed for pastures, rangeland, and reclamation projects that is little known outside the industry.

The visit ventured away from agriculture with a trip to Cannon Air Base and a discussion of its changing mission and a visit to Eastern New Mexico University and a hearing on its efforts to help students finish their degrees.

Particularly enlightening was a presentation by the principal of Barry Elementary where the staff is using testing results to improve student performance. More than half of the students at the school qualify for free lunch and most schools with low-income students struggle with test scores. But some 70 percent of the students at Barry are proficient in reading and math, way above the state average. The school is demonstrating that student performance is not just a money issue, and educators throughout the state – all struggling with student performance – certainly could learn from the Barry Elementary staff.

And that's the bottom line. The committee members are not the only ones who can learn from leaving the beaten path. The problems we face in New Mexico aren't reserved to the central corridor and neither are the solutions.

Representative Luciano "Lucky" Varela
Chairman

Enforcement Could Help Fund

Efforts to beef up road fund revenue will include more aggressive compliance of a commercial trucking tax but could possibly include dropping the tax in exchange for raising vehicle registration fees, LFC analysis suggests.

Several studies over the last six years have identified problems with collections of the weight-distance tax on commercial truck traffic and state agencies have received funding to improve enforcement and collections.

Those efforts will include more staff at entry ports, electronic license plate readers and additional auditors.

The committee is scheduled to hear about efforts to improve collections on July 9 during its meeting in Gallup.

LFC analysis suggests an alternative to improving collections could be increasing vehicle registration fees, either on commercial trucks alone or on all vehicles.

New Mexico is one of just four states that collect a weight-distance tax, while its commercial truck registration fee, \$170 a year for most trucks, is 1/10th to 1/15th of the fee in some other states.

Proponents of dropping the tax argue registration fees are easier to enforce. Supporters of keeping the weight-distance tax argue the tax is more directly linked to the use of the highways.

A Motor Transportation Division survey during an eight-month period earlier this fiscal year identified about 41,000 instances of trucks passing through entry ports registered to operators who are likely out of compliance with the tax.

About half of the instances involved truck operators who had not filed a weight-distance tax report. The other half involved operators who had filed a tax report but had reported they did not drive in New Mexico and had no tax liability. Although citations were issued in some cases, a commissioned officer was not always present.

Another informal survey in Albuquerque suggested a third of commercial trucks on New Mexico roads are not paying the tax.

LFC analysis indicates the investment in increased enforcement should substantially improve collections.

Nearly \$1B in Stimulus Funds on Way

The Human Services Department is getting ready to receive some \$700 million in federal stimulus funds, about a third of the total the state expects to receive through federal efforts to stimulate the economy.

The department has completed the bureaucratic steps necessary to increase the revenue figures in the operating budget to reflect the influx of federal dollars to the Food Stamp, community development, child support and Medicaid programs.

The committee is scheduled to hear the details of the budget adjustments 4:30 p.m. July 8 during its meeting in Clovis.

The biggest budget adjustment, a \$494 million increase for FY09 through FY11, is a result of an increase in the federal matching rate for the Medicaid program. The reimbursement rate for New Mexico, initially set at about 71 percent for the fiscal year that ended June 30, is now projected to be 77 percent to 80 percent for the last three-quarters of the year through December 2010.

Including \$152 million in stimulus funds already incorporated in the General Appropriation Act, total funds from the FMAP stimulus are \$646 million.

Anticipating the federal stimulus money, lawmakers created a special

fund for Medicaid reversions for FY09 that can be used to offset shortfalls in general fund revenue.

LFC analysis indicates FY09 revenues may be \$200 million or more short when the books are reconciled. Medicaid reversions could end up covering some \$130 million of that. The rest must come from general fund reserves.

The Human Services Department budget has also been adjusted to reflect \$173 million more in federal funding for the Supplemental Nutrition Assistance Program, better known as the Food Stamps program. The additional money for the program fully funded by the federal government will be used to increase benefits, cover an increase in caseload, and pay for additional staff.

Another some \$6 million is slated for the Income Support Program, mostly for community development block grants to anti-poverty nonprofit organizations. The state is also getting about \$690,000 worth of additional food for the commodities program.

The budget adjustments also include an \$8.5 million increase for the child support enforcement program, reflecting a restoration of federal matching funds and incentive payments. The department plans to hire 72 non-permanent employees with the funds.

Trucking Tax Collections Likely To Grow

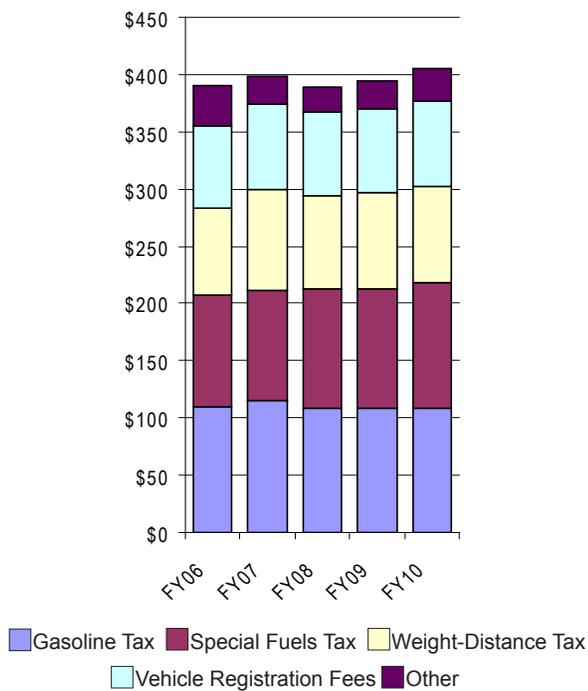
The weight-distance tax on commercial truck operators, a tax based on the weight and distance traveled on state roads, has typically generated about a fifth of the total revenue in the state road fund over the last five years.

The tax raises about \$80 million a year, but program managers believe compliance is spotty and that the tax could easily raise millions more. An informal eight-month survey of the state's entry ports indicated tens of thousands of trucks operators are driving in New Mexico without paying the tax. However, only a fraction of those drivers identified at the ports were cited because no officer was available.

The Motor Transportation Program received \$1 million from the general fund in FY09 to add nine transportation inspectors and three police officers to New Mexico's major ports of entry with the goal of raising an additional \$7 million more through the weight-distance tax.

Although truck traffic is down because of the poor economy, LFC analysis suggests the Motor Transportation Program should be able to reach its \$7 million easily because of the high estimated number of drivers failing to pay.

Road Fund Revenues
(in millions)



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On the Table

Fed Payment Higher Than Expected

Federal impact aid payments to New Mexico are coming in higher than planned and are expected to result in as much as \$24 million going back to the state general fund at the end of the fiscal year, the Public Education Department reports. The amount includes back payments for federal fiscal years 2005, 2006 and 2007. The payments are compensation for the state's inability to collect property taxes on federal land. Some of the money goes to offset the operational cost in some districts.

Retirement Funds Earn Money

Both the Educational Retirement Board and the Public Employee Retirement Association earned money on their funds in April, although the PERA did not meet its internal goals. The PERA had a one-month return of 6.24 percent while ERB reported a one-month gain of 7.2 percent.

Assistance Caseloads Grow

The number of New Mexicans in the Supplemental Nutrition Assistance Program, better known as Food Stamps, neared 121,000 in April, a 26 percent increase from April 2008 and a 4 percent increase from March. The number of families receiving cash assistance through the Temporary Assistance for Needy Families program was 16,625, a 19 percent increase from April 2008 and a 2 percent increase from March 2009.

Fire Departments Get Money

Forty-one fire departments in 20 counties will receive \$3.2 million in fire protection grants. The awards ranged from \$8,000 to \$100,000, with most of the large grants typically for fire engines. To qualify for the awards, fire departments must demonstrate they are providing "exemplary" fire protection as rated by a national Insurance Service Office. The departments also must provide 20 percent of the funding and complete annual equipment tests.

Firm Keeps State Advertising Contract

M&C Saatchi, the state's tourism advertising agency since 2006, beat out 16 other national and state agencies to win the nearly \$3 million contract again this year. The agency won national awards for its "The Best Place in the Universe" campaign highlighting the state's link to UFOs.

Transitions

Tom Clifford, vice president and research director of the New Mexico Tax Research Institute, will be the new chief economist for the LFC. He has been chief economist at the Taxation and Revenue Department and was deputy secretary at Department of Finance and Administration. Clifford, who has a masters and doctorate in economics from the University of California at Santa Barbara, starts July 13.

Austin Buff is the new administrative services director at the Public Education Department. He was the director of the Information Systems and Technology Support Bureau at PED.

Jim Noel, formerly director of the Judicial Standards Commission, is the new deputy secretary of the Energy, Minerals and Natural Resources Department.

Assistant Attorney General James Jacobsen is the New Mexico Business Weekly's Bankruptcy Attorney of the Year. He currently represents the state in bankruptcy matters with the Taxation and Revenue Department.

The New Mexico Finance Authority hired Michael Zavelle as chief of investor services. Zavelle has a masters in business administration from Harvard and experience with Chase Manhattan Bank, the New York Public Library and Santa Fe Community Foundation.

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