



# 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*

## A Group Project

No one likes taxes but those who scream for no taxes at all are, to put it bluntly, nuts. There are simply some things we cannot do unless we do them together. Raise an army, educate children, care for the poor and elderly – projects that are too big or lack a profit incentive – these are the kinds of things that we choose to do as a society. And we need money to pay for them.

It's no mystery why the no-tax-niks are so popular. Everyone would like more money in his pocket and it can be hard to connect taxes with their benefits. It's not like the typical financial transaction, where you give someone money and they give you something back.

All that said, that doesn't mean we can't debate who and how much to tax and how to spend the money. With the sluggish economy and the need for jobs, it's more important than ever to have that debate. What's more effective fuel for the economic engine: tax cuts for all or tax credits targeted at specific activities? What about investing in schools, roads, health care and the myriad of services that improve our quality of life and make New Mexico a place that business leaders want to live and raise their children.

No, discussing tax policy isn't nearly as exciting as screaming for tax cuts. Frankly, it can be boring and hard. But it's necessary, for all of us to move ahead – together.

**Senator John Arthur Smith**  
Chairman

## School Funding Formula Inefficient, Open to Misuse

Nearly half of the state's general fund revenue goes to public schools but the system for distributing the funds is complicated and open to abuse, a joint report of the LFC and Legislative Education Study Committee shows.

Factors in the formula intended to cover the higher cost of educating certain groups of children and operating small schools and districts can be used by savvy school administrators to generate extra income at the expense of the rest of the districts, the evaluation of the funding formula says.

In addition, the factor intended to steer extra resources to children at risk of failing school might not do enough to help schools meet the needs of those children, according to the report.

The committee is scheduled to hold a joint hearing with the LESC to review the evaluation at 8:30 a.m. on November 16.

New Mexico distributes the some \$2.4 billion of state funds appropriated to 173 school districts and charter schools through a formula intended to address the higher needs of certain students.

The formula contains factors that multiply a base amount for the number of students in each grade and for the number of students who participate in bilingual education, qualify for special education, or have other special needs.

The formula also has factors intended to address the cost inefficiencies of operating small schools or districts and the higher cost of teachers who have higher salaries because of experience and education.

The New Mexico formula has 24 factors, more factors than almost any of the other 22 states with similar base-plus-multipliers formulas. New Mexico has five factors for grade level, two for teacher qualifications, four for school and district size, two for home-and charter-school students who use district resources, and five for developmentally disabled students, including one for staff who provide related services that has been a concern for several years.

While funding for direct services for disabled students is tied directly to the number of students diagnosed with a disability, districts face no restrictions on the number of related-services staff they can claim. In addition, state funding to public schools is not earmarked, meaning the districts have complete discretion on spending no matter how the money was generated through the formula.

The report also notes that New Mexico's method for identifying at-risk students is more complicated than that used by most states. However, New Mexico provides less for educating at-risk children than most states provide or experts recommend.

## State Collects \$4 Billion in Earmarked Revenue

The state collects about \$4 billion a year in taxes and fees that never makes it to the general fund because its earmarked for special programs, LFC analysis shows.

Local governments get the bulk of the earmarked funds – about \$1.3 billion a year through property taxes and another \$1.6 billion a year through gross receipts taxes.

The LFC report presented to the committee in October noted that property taxes provided local governments with a relatively stable source of income during the recession, while the state's general fund was taking a dive.

A stable source of income is one of the advantages of earmarked funds, the

report says, along with the ability to better target the taxpayers who benefit most from a service, but earmarks also limit budget flexibility by taking some funds off the table and don't get the same public scrutiny as those that are part of the general budget.

Among the hidden costs of earmarked revenues is the \$130 million a year in gross receipts tax revenues the state turns over to local governments through a provision of the law that protected cities and counties from any revenue loss when the state eliminated the tax on food and medicine.

The hold-harmless provision, along with local option gross receipts taxes and sales taxes set aside for small cities and

counties assistance, means 25 percent of the gross receipts taxes collected by the state bypasses the state's general fund.

In addition, the hundreds of millions set aside for capital outlay and debt service means that sometimes money is funneled to construction projects when agencies have a great need for operational dollars.

Faced with billions in construction and renovation needs in the public schools, the state about 10 years ago earmarked part of the severance tax fund for public school capital outlay. Many of those needs have now been addressed and some policymakers have asked if that money should now go to other school need or to non-school construction.

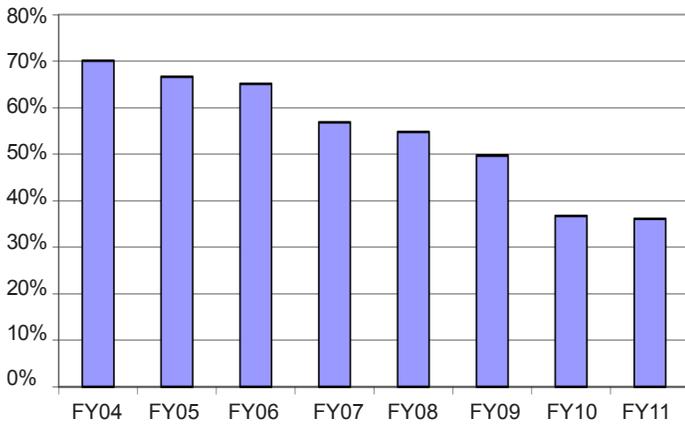
# Public School Facilities On the Mend

The share of public schools buildings in the worst shape has dropped in half since New Mexico approved a plan to set aside certain taxes for public school construction.

The average facilities condition index, a measure of the condition of New Mexico's public school buildings, has dropped from 70 percent to 36 percent since 2003. Buildings with a rating of 60 percent or more are cheaper to replace than repair.

The state pays for public school construction through bonds issued on severance tax revenues.

**Public School Facilities Index**



## On the Table

### Fed Contribution Leaves \$5M for State

The federal government has approved a higher matching funds rate for New Mexico's public assistance computer system revamp, saving the state about \$5 million. The Legislature during the special session approved \$13.6 million in severance tax bond proceeds for the new Human Services Department system dubbed ASPEN for Automated System Program and Eligibility Network.

### NM Medicaid Growth Slower than Average

Enrollment in New Mexico's Medicaid grew by 2.5 percent in FY11, half that of the national average of 5.5 percent, according to a national survey of Medicaid directors. New Mexico is forecasting enrollment in the program will grow about 2 percent in FY12, compared with the projected national average of 4.1 percent.

### Healthcare Reform Could Save State Money

New Mexico could save \$3 million in general fund dollars if it moved certain clients receiving healthcare coverage under the state coverage initiative to the "basic health plan" provided for under federal healthcare reform, the Urban Institute reports.

### Audit Finds Problems at Livestock Board

Auditors declined to issue an opinion on the Livestock Board review because of findings that included inaccurate pay stubs and inadequate records. The board's chart of accounts does not distinguish between the spending on federal money and other revenue and the board has not collected fees owed by the state's beef, sheep and goat councils, the auditors say.

### TRD Refunds \$825,000

The Taxation and Revenue Department has refunded \$825,000 to Native Americans who had state income tax withheld from their military pay, the department says. The improper withholding goes back to 1977. The Legislature appropriated \$1.25 million to a special fund to cover the refunds, leaving \$425,000 in the fund.

### Juvenile Facilities Full

The state's secure juvenile justice facilities have been at capacity for two months, the Juvenile Justice Division reports. Girls, historically 10 percent of the population, currently make up 13 percent of the population.

### Training Programs Helps Create Jobs

The Job Training Incentive Program at the Economic Development Department in FY11 spent \$3.3 million on 34 projects, resulting in 565 new jobs at an average cost of \$5,700 per job.

### Transitions

Brad McGrath, formerly chief executive officer of Eastern New Mexico Medical Center in Roswell, is the new director of facilities management for the Health Department. The department position had been vacant for a year. The Public Education Department has hired Christine Stavem as chief of staff. Stavem has worked on political campaigns and in the public sector. At the Department of Finance and Administration, Ricky Bejarano is the new state controller and Ryan Gleason is the new director of the Local Government Division.

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Writer, Editor - Helen Gaussoin

Staff Editor - Beth Wojahn

Questions, comments: 505-986-4550

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