



LFC Newsletter

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Legislative Finance Committee

Representative Luciano "Lucky" Varela, Chairman

Senator John Arthur Smith, Vice Chairman

David Abbey, Director

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From the Chairman

Fool's Gold

The state's economic forecasters said in August the state will have about 4.5 percent in "new money" next year, the amount next year's revenue will exceed this year's spending. But if you think that means the state is back on economic track, you would be wrong. The misleading income growth is primarily the result of record-setting oil production coupled with strong prices. Because of the strong oil market, revenues from gross receipts, personal income, and corporate income taxes are up. But employment is still 4 percentage points below the pre-recession high and dragging substantially behind the national average. The University of New Mexico's Bureau of Business and Economic Research says the state's economy might actually be contracting.

Too often the state finds itself crossing its fingers for strong oil and natural gas prices. Indeed, many policymakers have their fingers crossed right now that oil prices will stay strong. The July price per barrel of crude of about \$92 was below the \$101 price of a year ago. Over the last three months, the price fetched by New Mexico oil has dropped about \$20 per barrel. Analysts caution that a further drop could make drilling no longer economical and oil production boom of the last three years will be over.

Depending on one industry to keep us afloat is bad public policy and a clear indication that New Mexico needs a major tax policy overhaul. However, while the executive and the Legislature have created at least three different panels charged with proposing major reform, very little of that reform has made it into law. Instead, New Mexico Tax Research Institute Director Richard Anklam testified in September, the state has repeatedly tweaked the gross receipts tax, exacerbating existing problems. Anklam argues that every time the state raises the rate to counteract a new exemption or deduction, the tax becomes more regressive because lower-income New Mexicans spend more of their income buying things. Similarly exacerbated is the problem with pyramiding – the term used to describe the application of the tax at every step of the way from raw product to store shelves.

The New Mexico tax conversation needs to shift from one focused on whether we should cut or increase specific taxes to how we can create an overall tax environment that serves New Mexicans well, a tax package that is fair, and clear, attractive to business, and can support critical public services.

Representative Luciano "Lucky" Varela
Chairman

Good Teachers, Principals Overcome Risk Factors

New Mexico has higher-than-normal rates of students who live in poverty, are still learning English, move often and are chronically absent – all factors that can predict whether a child will fail. But schools that target spending and adopt practices that have worked elsewhere can overcome those barriers, an LFC report says.

The Program Evaluation Unit studied 15 high-poverty elementary schools to identify what makes some of those schools successful despite their high-risk students. The staff is scheduled to present the results of that study to the committee at 8:30 a.m. on October 30.

The study finds high-performing, high-poverty schools look like high-performing schools nationwide. They target funding to where it is most effective, adopt practices known to work, and have high-quality teachers and leadership. Most high-poverty schools

tend to have more beginning teachers and more who scored poorly on licensing exams, the study says.

In addition, while the report finds students who stay in the same school from kindergarten through third grade are 120 percent more likely to pass proficiency tests, less than half of New Mexico's third graders started kindergarten at the same school, a condition that is more likely at a high-poverty school.

The evaluation concludes the state needs to increase funding for high-risk students, provide pay incentives to lure effective teachers to high-poverty schools, and reform the state's turn-around program for failing schools.

The Public Education Department should use the budget process to ensure school districts focus on using best practices to turn around under-performing schools.

Medicaid Seeks 8 Percent Increase

The Human Services Department is asking for \$5.45 billion total to run the Medicaid program in FY16, an 8 percent increase over this fiscal year.

The department, which manages Medicaid along with other assistance programs, presented a preview of its budget request at the committee's hearing in September.

The request for a total \$409 million increase for Medicaid includes about \$40 million more from the state's general fund, a 4 percent increase.

However, an LFC review of the request says the dollar amounts could change because the department has not resolved how it will manage behavioral health services next year.

Under Centennial Care, the department's comprehensive Medicaid program, the managed-care contractors are required to provide behavioral health services. However, the state also provides behavioral health services to non-Medicaid clients and has not decided if it will continue its contract with the current behavioral healthcare manager, OptumHealth, contract with a new "statewide entity," or manage the

program in-house.

New Mexico's lagging economy will mean the federal government will cover an estimated \$10.5 million more than the department has requested for the state's share of Medicaid costs. The federal matching rate, based on the health of a state's economy compared with other states, will increase slightly. The federal government is also covering 100 percent of the costs of newly eligible Medicaid enrollees as part of healthcare expansion.

However, those savings in state spending on Medicaid will be offset slightly by cost increases driven by growth in enrollment in a Medicaid program that does not qualify for 100 percent federal reimbursement, greater demand for care, medical inflation, the need to cover a drop in revenue from the drug-rebate program, and additional payments to hospitals that lost money when the state ended the sole community provider program.

Medicaid enrollment, now more than 644,000, is expected to increase to 723,000 by the end of 2015. More than half of those enrolled are children.

Lottery Scholarship Awards Drop Slightly

The number of lottery-funded scholarships awarded for New Mexico college students is expected to drop this year.

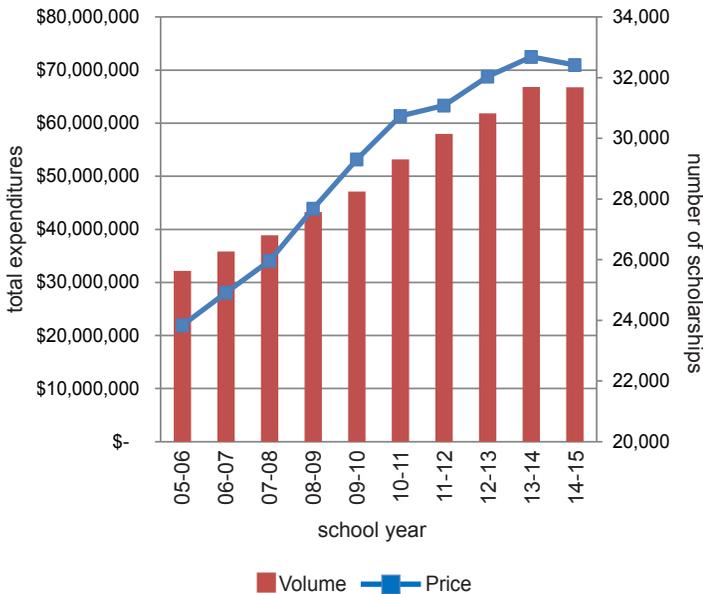
For academic year 2014-2015, total costs are expected to be flat with last year, but the total number of awards is expected to decline slightly because college enrollment is down.

The program started running into trouble a few years ago when it became clear the money raised through the lottery was not enough to support the scholarships.

Lawmakers during the 2014 session adopted a plan that reduces the number of semesters a student is eligible for a scholarship from eight to seven and sets the award amounts based on the total amount available and the average tuition for the type of college.

Data for the current school year is preliminary.

Lottery Expenditures and Awards



On the Table

Microloan Program Gets \$270,000

The nonprofit small business support group Accion will get \$270,000 from the federal Economic Development Administration to expand its microloan program. Accion offers loans up to \$8,000 and has loaned a total of \$939,000 since 1994. The federal agency also award \$511,000 to Santo Domingo Pueblo to renovate its trading post.

NM Wins SNAP Bonus

The New Mexico Supplemental Nutrition Assistance Program has received a \$1.3 million bonus for having the second-best timeliness rate for processing food stamp applications in the nation in federal fiscal year 2013. The award comes from the U.S. Department of Agriculture Food and Nutrition Service high-performance bonus award program. The state Human Services Department processed 98.64 percent of its food stamp applications on time.

Capital Outlay Requests at \$438M so far

State agencies during executive capital outlay hearings in mid-October asked for \$438 million for capital outlay, including \$399 million from severance tax bonds and \$39 million from other state funds. About \$128 million of that is requests from colleges, special schools and tribes.

Feds Fund Scholarships for 200 Teachers

Highlands University will be able to offer scholarships to 200 teachers seeking master's degrees through a \$2.1 million grant from a special program of the U.S. Department of Education aimed at promoting graduate degrees among Hispanics. The five-year grant will also pay for additional faculty and staff.

Racing Commission Ups Testing

The Racing Commission plans to use "super testing" for the Ruidoso Triple Crown races in 2015 that will mean the top-three finishers in every trial race will be tested and all qualifying horses will be subject to pre-race and out-of-competition testing. The commission is requiring that all entrants be on the racetrack grounds 10 days prior to the trials and stay stabled on the grounds through the finals. The six Triple Crown races have a combined purse of \$8.5 million.

Transitions

Rene Montoya and Jessica Eden have joined the LFC support staff. Eden is a former employee of Eastern New Mexico University and the Chickasaw Nation. Montoya worked as a session clerk in 2012 and spent the last two years as a records custodian for the Department of Public Safety and Adult Parole Board.

Sharon Boylan of the LFC support staff will replace Bianca Montoya as committee services coordinator. Montoya is moving to Oklahoma.

Charles Sallee, LFC deputy for program evaluation, is the new staff co-chair of the National Conference of State Legislatures' Health and Human Services Committee. LFC fiscal analyst Jon Clark has been named staff co-chair of NCSL's Labor and Economic Development Committee.

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