



LFC Newsletter

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Legislative Finance Committee

Senator John Arthur Smith, Chairman

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From the Chairman Options

The television commentators have been unbridled in their descriptions of the turmoil in the American financial system: "crisis," "nightmare," and, inspired by another recent disaster, "financial hurricane" are among the terms being used.

Even though all the big news is happening on Wall Street, New Mexico is not immune. Already, the state has lost billions from its investment funds and spent tens of millions converting undesirable bonds. The impact on the bottom line of our general budget has been tempered somewhat by the healthy energy industry, but now we are starting to see that line slip as well. The state general fund revenue estimate assumed oil would be selling at \$122 per barrel; the price is now below \$100. The natural gas price in the forecast was \$9.60 per thousand cubic feet; the current price is in the \$7 range nationally and probably lower in New Mexico.

Just this summer, policymakers were talking about a revenue surplus. Now, having moved into the new fiscal year under a financial cloud, we are talking about a shortfall. But we have many options, including tapping the reserve funds created just for this kind of situation. The executive could also take steps to slow spending, such as a freeze on nonessential travel, new hires and contract expansions. More drastic steps include small, across-the-board cuts for state agencies or the suspension of nonessential services.

The situation for New Mexico is salvageable but the Legislature and the executive must work together to limit the impact on New Mexicans.

Senator John Arthur Smith
Chairman

Medicaid Seeks \$3.6 billion, \$853 million from GF

The Medicaid program is asking for \$3.6 billion in total funding for FY10, with \$853 million of that in state money for the Human Services Department.

The \$66 million requested increase in the appropriation from the general fund is driven mostly by a drop in federal matching funds and increased enrollment and utilization, according to the budget request from the Human Services Department.

The committee is scheduled to hear a preview of the Medicaid budget request when it meets September 24 in Santa Fe.

About \$17 million of the general fund increase is needed to make up for the loss of federal funds, the agency says.

However, the LFC received information in mid-September from the Federal Funds Information Service that indicates the federal matching rate could increase, probably changing the agency's request substantially.

The federal matching rate is based on the relative strength of the per-capita income in a state compared with the national average.

Another some \$24 million of the requested general fund increase would cover increased enrollment and utilization.

The Legislature has repeatedly expanded

Medicaid programs over the last several years as a way to improve health-care access to the hundreds of thousands of uninsured New Mexicans.

Enrollment over the last five years has increased 8.9 percent, from 430,205 to a projected 459,772, while state spending on the Medicaid program has increased 66 percent.

Enrollment in the State Coverage Initiative, a program that subsidizes insurance for adults, has increased five-fold in the last two years, substantially faster than projections. As a result, the department plans to take steps to control enrollment, essentially capping the number of clients at 25,000.

In addition, the department is not asking for an increase in the program because of the possibility that the federal government will stop contributing to the program.

The department is also asking for an appropriation for the new Coordinated Long-Term Services program that indicates a \$9 million increase from the general fund for care for the elderly and disabled, a segment that represent a fifth of the total Medicaid financial pie.

COLTS is a managed-care program intended to be more cost-effective than individual nursing home or community-based services. The department did not explain the higher cost in the request.

Film Industry Investment Returns Small

New Mexico gets 14.4 cents in tax revenue for every dollar it spends on a tax rebate for film productions, a study by New Mexico State University shows.

The state spent about \$38 million on the tax rebate through the first three quarters of last budget year, but the analysis indicates eligible film production in New Mexico generated just \$5.5 million in taxes.

The study considered all economic activity spurred by film production – direct, indirect and induced – and took into account gross receipts, personal income and corporate income tax revenue.

Committee members heard a report on the study by the university's Arrowhead Center during their August meeting.

The analysis notes the study assumes all of the companies claiming the rebate

would not otherwise have done business in New Mexico, although it is likely some of the companies would have worked in New Mexico anyway. However, it also notes that a small number of production companies might come to New Mexico for its industry incentives and never claim the rebate.

New Mexico has one of the best film incentive programs in the nation, with the production tax rebate, interest-free and guaranteed loans, and wage subsidies for on-the-job training programs. The state also funds college programs in industry-related fields.

Currently, 14 film projects owe the state \$156 million for outstanding loans, the study says. All the outstanding loans are interest-free, with the state scheduled to receive a share of the profits instead.

So far, none of the films with outstanding loans nor the nine that have paid off their loans have shown a profit, although the state has received \$500,000 as an advance on future profits from the film *Employee of the Month*.

The study did not look at the economic activity generated by the loans because the loan money is for expenses that qualify for the rebate.

The study points out that the analysis is a snapshot of current conditions and does not look at the impact of building a new industry in the state.

"If the provision of these subsidies transforms the New Mexico economy by building a new industry... long-term benefits may outweigh the cost. The question is whether or not the industry will collapse if the subsidies are discontinued."

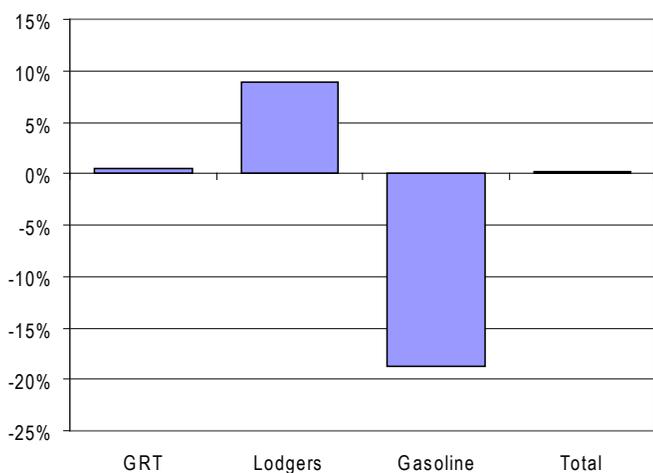
Local Governments Face Financial Risk

The slowdown in the economy has hit gross receipts tax revenue, signaling tough economic times for local governments, which depend on the revenue, LFC analysis indicates.

Gross receipts tax revenue typically represents three-quarters of the revenue for a municipality's general fund, the staff report says. A look at the revenue for the biggest municipalities in each county shows 18 of the 33 cities saw a decline in gross receipts tax revenue in the last quarter of FY08, compared with the same quarter in FY07.

A survey of the totals of gross receipts, lodgers' and gasoline tax revenues for the second and third quarters of FY08, compared with the same period a year earlier, indicates a third of the municipalities are seeing drops in total revenue, primarily because of declines in gasoline tax collections.

Local Government Tax Collections*
(3rd and 4th Quarters FY08 Compared with FY07)



*Data for largest municipality in each county.

On the Table

Agencies Ask for 11 Percent More

State agencies asked for nearly \$300 million for FY10, an 11.4 percent increase over FY08 appropriations. That does not include the budget requests for public school support and colleges, due later in the fall. Among the more significant increases, the Human Services Department asked for \$101 million more; Children, Youth and Families, \$28 million; Health, \$20 million; Corrections, \$19 million; Taxation and Revenue, \$10 million; and Cultural Affairs, \$9 million. In addition, the Tourism Department asked for a \$6 million increase, a nearly 50 percent hike, and the Spaceport Authority is seeking almost \$5 million more, a nearly six-fold increase.

Decision Could Impact Revenue Estimate

A national arbitration panel will decide whether New Mexico will get tobacco settlement payments held up while the tobacco companies challenge the amount they owe. The some \$15 million was included in the FY10 revenue estimate. If the money does not come in, general fund reserve levels will drop and that would affect the contingency appropriation for road infrastructure passed during the special legislative session in August.

The tobacco companies, ordered in 1997 to make ongoing payments to 46 states for costs related to treating smoking-related illnesses, have argued they owe less because states have failed to meet conditions intended to prevent an unfair market advantage for tobacco companies not participating in the settlement. New Mexico officials believe they have met those conditions and hoped to keep the issue in state courts, but the state Court of Appeals ruled in early September the issue must be addressed by the national panel charged with arbitrating settlement disputes.

Convenience Store Rules Seem To Cut Crime

Violent crimes in convenience stores have dropped since the 2004 adoption of state regulations that required the stores to add security, train employees in safety, and revamp cash management systems. The Environment Improvement Board, which regulates worker safety, says a study of six New Mexico studies shows murders have dropped by 44 percent, assaults by 93 percent and robberies by 92 percent since the regulations went into effect.

Colleges Ask for Millions for Capital Outlay

New Mexico's colleges and universities have asked for more than \$291 million for capital outlay, including \$6 million to finish the New Mexico State University arts complex, \$11 million for infrastructure at Eastern New Mexico University and \$20 million for a geology building at New Mexico Tech.

Audits Still Out

The State Auditor reports the Cultural Affairs, Health, Labor and General Services departments and several other large agencies have not released their FY07 audits. GSD's FY06 audit is also still outstanding.

Transitions

The LFC has hired Annamae Salas as receptionist and Samantha Montoya as the committee services coordinator. Salas is a former administrative assistant with a law firm and Montoya previously served as an executive assistant with the Division of Vocational Rehabilitation.

The LFC has also hired Jordan Maril as a performance evaluation. She is a Tufts University graduate and served as an intern at the Public Defender Department.

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