LFC Newsletter

A publication of the **Legislative Finance Committee**
Representative Luciano "Lucky" Varela, Chairman
Senator John Arthur Smith, Vice Chairman
David Abbey, Director

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From the Chairman

Hidden Costs

Several years ago – in 2007, to be precise – the Legislative Finance Committee recommended legislation that would have required the Taxation and Revenue Department to create a "tax expenditure budget" to identify the cost in reduced tax collections of the state's tax credits, deductions, exemptions, and preferential rates. The governor vetoed the bill, but the proposal never really died. Now, with a critical need for every tax dollar we can collect, it is time to revive the legislation. Most tax incentives are aimed at promoting a specific activity. A well-publicized example is the tax credit for film productions. The state forgoes tens of millions of dollars in tax collections each year in exchange for growth in a desirable industry that pays well. The question of whether the state gets back a reasonable economic return on its tax investment in the movie industry has been closely examined, but most tax incentives are not examined that carefully.

We don't know how much the state loses every year through tax credits and other incentives but it is likely in the hundreds of millions of dollars. We don't want to shut down those tax incentives that give back more than they take, but in many cases, we just don't know what kind of bang the state is getting for its buck.

The committee will hold a hearing September 29 on the most effective expenditure reports. We need more information to make responsible decisions.

Representative Luciano "Lucky" Varela
Chairman

State Needs $361 Million To Cover Fed Medicaid Cuts

The state would need to increase spending on the Medicaid program by $360.7 million in FY12 to maintain programs, a preliminary look at the program's budget request shows.

Although the Human Services Department has taken steps to cut FY12 spending in the program by $62 million, the end to the infusion of federal support, enrollment growth, and expenses carried over from prior years add up to the request to increase general fund appropriations to the program from $591.3 million to $952 million.

The committee is scheduled to hold a preliminary hearing on the Medicaid budget request and the department's proposal for the Temporary Assistance for Needy Families program at 1:30 p.m. on September 29.

Although the cost of the program grew $800 million from FY08 to FY11, most of the cost was covered by an increase in the federal matching rate that was mostly the result of the American Recovery and Reinvestment Act.

Covering the drop in the federal match rate from the current 80.5 percent to 69.8 percent in FY12 is estimated at $360.6 million.

The department is also estimating that increased enrollment and greater use of healthcare services will add $26 million to Medicaid expenses in FY12. Enrollment in Medicaid and Medicaid-supported programs has risen 20 percent since FY08, partially as the result of a recession-driven increase in demand. The number of individuals in Medicaid and similar programs is expected to hit 590,000 in FY12. Federal law prohibits restricting eligibility to cut costs.

Unexpectedly high use of the services available under the Coordination of Long-Term Services program is also part of the projected increase in expenses, the department says.

The department's budget request also anticipates the loss of $23 million in revenue from tobacco company settlement payments and includes $33 million of FY11 expenses pushed onto FY12 books.

By statute, half of the some $40 million a year the state receives as its share of the settlement with tobacco companies is deposited in a permanent fund and half is available for appropriation. However, legislators passed a temporary provision making all of the money available for appropriation from FY09 to FY11. That provision is scheduled to end but could be extended.

The department is asking for $16.6 million more from the general fund for the TANF program, mostly to cover the loss of federal stimulus funds, higher caseloads, and a bookkeeping error.

The department has already started to cut cash assistance to poor families, bonuses to those who stay employed, and support for domestic violence, senior employment, teen pregnancy prevention, prekindergarten, and childcare.

Mash Up of Healthcare Tax Breaks Costs Millions

New Mexico has some 20 different laws on the books that give tax preferences to the health care sector that might cost the governments as much as $300 million a year in lost revenues.

A report on health care taxation policy prepared by LFC staff and presented to the committee in August says precise estimates are unavailable but state and local governments likely are losing $200 million to $300 million a year as a result of the various tax exemptions, deductions, and credits for the health care industry.

Among the tax benefits are a gross receipts tax deduction for services purchased through managed care plans, gross receipts tax credits for hospitals, income tax preferences for health insurance, a variety of tax exemptions for nonprofit healthcare providers, and a credit paid for insurance provider payments to the high risk insurance pool.

Because the state is both losing potential revenue and spending a growing part of its budget on health care, the state's budget is getting "a double-squeeze from the health sector: slower revenue growth and faster spending growth," the hearing brief says.

In addition, it says the tax preferences are applied inconsistently, so that a private doctor must pay an effective tax rate of 7.2 percent on income from services provided to Medicaid patients but no tax at all on revenue for services provided through a private managed care organization.

This uneven treatment for similar services, in addition to being unfair, discourages some providers and payers to consider doing business in New Mexico.

It is also unclear if the tax policy achieves the intended benefit. For example, the gross receipts tax exemption on prescription drugs is intended to help consumers but much of the cost of prescriptions is covered by insurance companies. Whether the tax benefit is passed on is unknown.

NM Lags on Recovery

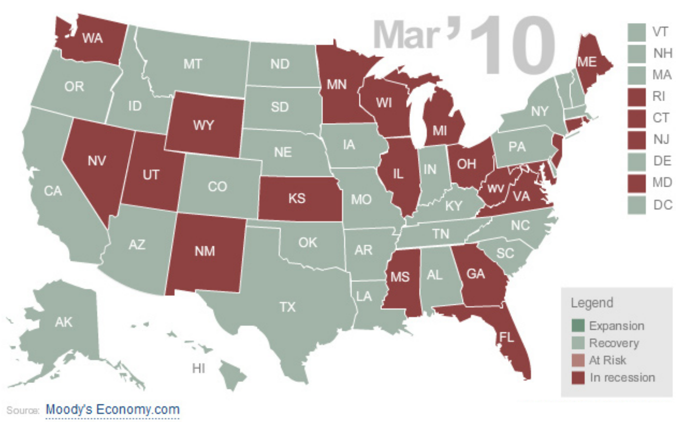
New Mexico is one of eight states still in recession, according to the *Adversity Index* produced by Moody's Analytics and msnbc.com.

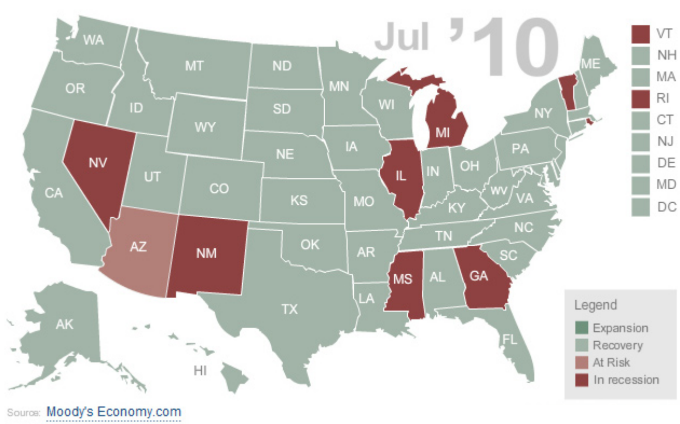
The index, based on changes in employment, housing starts, industrial production and house prices, indicates while more than 20 states were still in recession in March, most of those are now showing signs of economic recovery. However, Nevada, New Mexico, Illinois, Michigan, Mississippi, Georgia, Vermont and Rhode Island are still listed as in recession.

The analysis uses three-month moving averages to avoid spikes and dips distorting the figures.

The report shows both Santa Fe and Albuquerque still in recession but a recovery underway in Farmington and Las Cruces, the two other metro areas highlighted.

The state has strong numbers on industrial production but its recovery appears to be hampered by low employment and slow housing starts.





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On the Table

Gross Receipts Tax Revenue Up

Monthly taxable gross receipts fell slightly in July compared with the same month last year but, because of strong June receipts, the three-month moving average was up again for the fourth straight month. The three-month moving average is now at its highest level since February 2009, when the economy was falling into recession. Mining, utilities and transportation companies reported higher incomes than last year, but the construction industry is still weak. Retail sales are down compared with last year but better than earlier this year.

University Enrollment Up

Enrollment at both Eastern New Mexico University and New Mexico State University was up this fall. Enrollment across all campuses of NMSU was up 4.7 percent, with a 12.9 percent increase at NMSU-Grants, 11.4 percent at NMSU's Dona Ana Community College, and 10.9 percent at NMSU-Alamogordo. Enrollment at NMSU-Carlsbad dropped 5.6 percent.

Eastern New Mexico University fall enrollment of 5,080 was an 8.4 percent increase and pushed enrollment over 5,000 for the first time in the school's history.

State Agencies Seek 23 Percent Increase

In budget requests submitted September 1, state agencies seek a 23 percent increase in appropriations from the general fund, a $493 million jump. The largest increases were in the budget requests for the Human Services and Health departments, mostly to replace the federal Medicaid dollars. The federal match had been increased for the last two years but the enhanced rate is scheduled to expire.

Retirement Fund Position Deteriorates

Preliminary numbers on the condition of the Educational Retirement Board fund at the end of the fiscal year show that the funded ratio, the comparison of assets to obligations, was 64.2 percent, down from 67.5 percent at the end of the previous fiscal year. The minimum industry standard is 80 percent. In addition, the funding period, the estimated time needed to pay off the unfunded liability, grew from 45 years to 67 years, compared with the industry standard of 30 years. However, the fund performed strongly this year, returning 18.2 percent on investments.

State Fends Off Cyber Attacks

The state's information technology network is undamaged despite 96,000 cyber attacks in August, the Department of Information Technology reports. The department continues to experience hundreds of phishing attacks and relies on users to disregard suspicious emails.

Transitions

Carolyn Ingram, director of the Medical Assistance Division at the Human Services Department, resigned and took a position with Health Care Strategies, a consulting group based in Princeton, New Jersey.

Benjamin E. Woods, formerly a vice president at New Mexico State University, is the new chairman of the Spaceport Authority. Patrick H. Beckett, of Las Cruces, was appointed to fill the seat vacated by Woods.

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