

August 17, 2009

TO: ALL
FROM: Linda Siegle

RE: STATE Financial Situation

By now you have probably read that the State's financial situation is quite dire. I attended the Legislative Finance Committee Hearing in Angel Fire August 13 – 15, where the financial status was discussed in detail.

Here are the facts:

- \$309 million deficit for last fiscal year which ended June 30, 2009.
- \$432 million projected deficit for the 09/10 current fiscal year.
- \$3.2 billion in stimulus money targeted for New Mexico.
- \$1.1 billion of the stimulus money has been made available.
- Only \$142.5 million of stimulus money has been actually paid out.

Where is the Revenue down?

- Gross receipts tax (35% of total taxes), corporate income tax, personal income tax (20% to total taxes) and motor vehicle excise taxes are below projections.
- Natural gas and oil prices are actually stronger than budgeted and holding steady.

Historical State Budget:

- 2002/03 total State budget \$4 billion
- 2007/08 total State budget \$6.3 billion
- 2008/09 total State budget \$5.5 billion
- Projected 2009/10 State budget \$5 billion (This means that approximately \$1.3 billion will have been taken out of the New Mexico economy in the last two years and this does not include the cuts to Medicaid which bring in a 3 to 1 match.)

The Legislature MUST cut expenditures or raise revenues. It is likely that they will dip into the reserves for the \$300 million deficit last fiscal year. This will bring the reserves down to about \$479 million. If they were to use the reserves for this fiscal year's deficit, the reserves would be down to almost \$0. **Legislators at the hearing expressed concern about the DEEP cuts that will be necessary to education, Medicaid and safety net services, but most indicated little desire to increase any taxes at least in the special session anticipated for October.**

Budget Breakdown:

- 46% state budget goes to public education
- 16% state budget goes to higher education
- 12% state budget goes to Medicaid

MEDICAID

HSD Secretary Pam Hyde provided a review of the areas of Medicaid that could be cut. She projects a \$35 - \$40 million SHORTFALL just with increased enrollments and increased costs in this fiscal year. Without cost containment and cuts, in the 2010/11 year the shortfall will be up to \$300 million. **The department will begin making cuts this fall.**

Here are areas of possible cuts:

- Provider rate reductions (1% saves \$6.3 million)
- Benefit reductions like
 - a. Eliminate vision benefit for adults
 - b. Eliminate dental benefits for adults (except for emergencies)
 - c. Eliminate podiatry services for adults
 - d. Eliminate hearing aids and hearing evaluation for adults
 - e. Eliminate Physical, occupational and speech therapy for adults
 - f. Eliminate nursing services in schools
 - g. Eliminate school health transportation services
 - h. Eliminate school-based services
 - i. Eliminate many behavioral health services that are not mandated by the federal government.
 - j. Eliminate whole programs that have high cost - For example – SCI, Personal Care, medications
 - k. Eliminate all but mandatory services for mandatory populations
- Slowing enrolment growth
- Administrative changes (they have already reduced MCO administrative allowances to 14% with only 5% profit)

Options mentioned for tax increases:

- Create corporate income tax equity (right now out-of-state corporations pay no income tax while New Mexico corporations do) – could raise \$60-\$80 million.
- Repeal some on the many gross receipts tax exemption (unknown amount)
- Increase cigarette tax \$1 a pack (\$30 million)
- Set a 1% surtax on incomes over \$150,000 (\$64 million).
- Increase alcohol tax (unknown amount)
- Others to be determined

Please let me know your thoughts on these issues. We don't know the date yet of the special session, but is likely to be after the last weekend of Balloon Fiesta.