

Resolving New Mexico's ~~\$260~~ \$450 million Deficit (without raising taxes or cutting K-12 education and Medicaid)

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According to the latest budget numbers, New Mexico's Legislature will have to address a \$450 million budget shortfall during the 2011 session.¹ With governor-elect Susana Martinez having pledged not to raise taxes or cut K-12 education or Medicaid, two programs that form 60% of the state budget, options are limited.²

Nonetheless, despite constraints that are both political and self-imposed, we believe that it is quite possible to reduce unnecessary and wasteful spending throughout the New Mexico budget. In order to provide a guide for policymakers, the Rio Grande Foundation has compiled a list of specific budget reduction ideas. The incoming governor and legislators can use any number of these ideas to help them arrive at the needed number. We also welcome the input (and critiques) of thinkers and organizations on all sides of the political spectrum who believe they have better ideas for eliminating the budget deficit.

This is just a starting point. There are plenty of reasonable ways to close the \$450 million deficit that address the issue both now and on into the future, without relying on federal "stimulus" money to bail New Mexico out. However, it is important that budget solutions adopted in the 2011 Legislature be long-term changes that seriously address the cost of government going forward, rather than simply patching things together for another year. The ideas below are sustainable and long-term in nature.

For each item, we used the best available cost-savings estimate. We believe them to be accurate, but savings may vary depending on market conditions.

Lastly, before getting to our list of budget reductions, it must be noted that we at the Rio Grande Foundation disagree with the premise that K-12 and Medicaid should not be cut. Both programs are highly dysfunctional and have not created the desired/expected results for New Mexicans. Cutting spending does not necessarily mean reducing the effectiveness of health care or education (or any other area of government necessarily). That said, there is plenty of unnecessary or wasteful spending to be cut and we have listed a few starting points below:

¹ Rob Nikolewski, "Budget Deficit not \$260 million, Try \$452 million!" *Capitol Report New Mexico*, November 12, 2010, <http://www.capitolreportnewmexico.com/?p=2222>.

² Barry Massey, "AP Analysis: Gov Candidates Offer No Budget Solution," October 22nd, 2010, *Albuquerque Journal*, <http://www.abqjournal.com/news/state/apgovbudgetanalysis110-22-10.htm>

Labor

\$80 million in annual savings

- Taxpayers could save \$60 million annually by repealing SB 33 which expanded the impact of New Mexico's law relating to the Prevailing Wage Rate on Public Works Projects.³ This prevailing wage law should be repealed and work should be done at market rates.
- According to economists J. Scott Moody and Wendy P. Warcholik, Ph.D. in their report "The Government Gravy Train," New Mexico spends approximately \$50,000 annually on salary and benefits for each government employee. With 22,000 state employees (not including higher education), New Mexico could save \$20 million simply by reducing the work force by 400, less than two percent of the state's total work force.

Considering that New Mexico's government work force is 51 percent larger than the average state's, a cut of this size is tiny. Such reductions would not require significant layoffs as they could be largely achieved through worker turnover (an average of 6.2 percent of state and government workers quit their jobs annually) and restructuring.⁴

Reducing the government work force would also have the positive, long-term impact of reducing New Mexico's future government pension obligations. The details of these obligations and the burdens they place on taxpayers were laid out in Moody and Warcholik's paper "Understanding New Mexico's Unfunded Retiree Liabilities," which was published by the Rio Grande Foundation.

Transportation

\$20 million in annual savings

- New Mexico taxpayers could save at least \$20 million annually by shutting down the Rail Runner and its "feeder" bus routes and re-directing the state subsidies for that system elsewhere. The \$20 million figure does not include one-time revenues that could be gained by selling off the train sets.⁵ The \$20 million figure is based on the expected annual revenue to fund the Rail Runner that was promised under the Rio Metro 1/8th cent tax hike which voters approved in 2008.

Simply put, in tough economic times, it is silly for taxpayers to continue to subsidize a train that covers only 13 percent of its operating costs (not to mention all of the taxpayer-subsidized "free" buses that are designed to feed the train, thus boosting ridership). Stopping the train now will also save taxpayers from having to foot the bill for \$400

³ New Mexico's Legislative Finance Committee, "Prevailing Wage Rate on Public Works Projects," March 19, 2009, <http://www.nmlegis.gov/Sessions/09%20Regular/firs/SB0033.pdf>.

⁴ Bureau of Labor Statistics, "Job Openings and Labor Turnover Summary," March 9, 2010, http://www.bls.gov/news.release/archives/jolts_03092010.htm.

⁵ *Albuquerque Journal*, "'Surplus' Claim Takes Sanity off the Rails," November 5, 2010, <http://www.abqjournal.com/opinion/editorials/052250322623opinioneditorials11-05-10.htm>.

million or so in future capital costs (train sets and tracks) which are not factored into the operating budget.

Originally, the tax hikes for the Rail Runner were supposed to raise \$26 million annually,⁶ but in the tough economy, our estimate for how much this re-directed money would raise is far more conservative as actual collections have also been disappointing relative to original expectations.⁷

Corrections

\$19.5 million in annual savings

- According to the New Mexico Department of Corrections, there are approximately 850 drug- possession offenders in prison in New Mexico. Many of these offenders could be diverted to probation through increased use of drug courts and mandatory treatment and work programs.⁸

If we assume that half of these drug-possession offenders should not be eligible for diversion from prison because they had large quantities of drugs that are associated with dealing or have too many prior offenses, New Mexico could still save approximately \$13 million based on the state's \$31,000 annual per-prisoner cost of incarceration.

- Another source of potentially significant savings lies in diverting from prison probationers and parolees who are revoked for technical violations of their supervision, not new offenses. In 2008, there were 413 such revocations to prison.⁹

Instead, New Mexico could use a graduated sanctions matrix that relies more on intermediate sanctions such as curfews, electronic monitoring, supervised work crews, and short periods of incarceration in county jails. If this diverted just half of this pool of offenders, it would save \$6.4 million.

Corporate Welfare

\$30 million in annual savings

- New Mexico's 25% reimbursement to companies that film in the state costs the state's taxpayers approximately \$60 million annually. While the Rio Grande Foundation opposes the program entirely and urges legislators and the Governor to abolish it entirely during the 2011 session, this is politically impossible given the strength of the groups lobbying on its behalf.

⁶ Lloyd Jojola, "Transit Tax Could be on Nov. Ballot," *Albuquerque Journal*, June 28, 2008, http://big-abq-things.blogspot.com/2008_06_01_archive.html.

⁷ Lloyd Jojola, "Transit Tax Bringing in Less Than Expected," *Albuquerque Journal*, October 17, 2009, <http://www.abqjournal.com/news/state/17231224state10-17-09.htm>.

⁸ Marc Levin, "Criminal Justice Policy in New Mexico: Keys to Controlling Costs and Improving Public Safety," September 2nd, 2009, http://www.riograndefoundation.org/downloads/rgf_criminal_justice.pdf.

⁹ *Ibid.*

What is needed is a cap of some sort that allows for New Mexico policymakers to direct funds to those projects that seem most likely to result in the best rate of return for taxpayers. Capping the subsidy at \$30 million annually would save taxpayers approximately \$30 million and would allow for greater prioritization and control over how much money is expended within New Mexico's budget.

Higher Education

\$135 million in annual savings

No other state dedicates more of its citizen's personal income to higher education than New Mexico. New Mexico pays for seven four-year institutions, 10 branch campuses and eight community colleges. By comparison, Arizona's post-secondary enrollment is nearly five times that of New Mexico's and has fewer state supported institutions.¹⁰ There is ample opportunity for spending reductions in higher ed and more transparency (in terms of measuring outputs) would result in a greater ability to locate cost savings.¹¹

- If the number of branch campuses found throughout the state were cut in half, with an emphasis placed on preserving the most important and cost-effective branches, taxpayers could save an estimated \$35 million annually. This does not include one-time gains from selling buildings and reducing other infrastructure needs.
- According to the Legislative Finance Committee, New Mexico raised about \$1,827 per student Full-Time Equivalent (FTE) in net tuition in FY09, the second-lowest amount nationally.¹² The national average was \$4,100. With approximately 84,000 FTE students at New Mexico institutes of higher learning,¹³ the state could take in \$190 million annually just by raising tuition levels to the national average.

We recommend gradually increasing tuition to the national average with a goal of \$100 million in additional revenue during the coming fiscal year. As tuition at New Mexico's institutes of higher education approaches the national average, the State could provide direct fellowships and other incentives to attract high-performing students to New Mexico to pursue their educational goals.

Revenue Increases

- Sell naming rights to New Mexico Spaceport complex and runway (an estimated \$2 million annually depending on bids). This is based on similar sales for baseball stadiums¹⁴.

¹⁰ Legislative Finance Committee, "Higher Education New Mexico State University & University of New Mexico," August 11, 2010, <http://www.unm.edu/president/documents/lfc-report-unm-and-nmsu-2010-08-11.pdf>.

¹¹ *Ibid.*

¹² Kevin Rollins, "Poor Performers in New Mexico Higher Ed: Budget Increases and Inefficiency," http://www.riograndefoundation.org/downloads/rgf_nm_higher_ed.pdf

¹³ New Mexico Higher Education Department 2009 Annual Report, <http://hed.state.nm.us/cms/kunde/rtshedstatenmus/docs/479974789-12-30-2009-15-20-57.pdf>.

¹⁴ AT&T Park History, <http://www.ballparksofbaseball.com/nl/AT&TPark.htm>

Cost Savings Summarized

<u>Total Annual Cost Savings</u> <u>(in millions)</u>	
\$80	Labor
\$20	Transportation
\$19.50	Corrections
\$30	Subsidies
\$135	Higher Education
\$2	New Revenue
\$286.5	Total Spending Cuts

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