About Think New Mexico

Think New Mexico is a solution-oriented think tank serving New Mexicans. We fulfill our mission by educating the public, the media and policymakers about the serious problems facing New Mexico and by developing comprehensive, long-term solutions to those problems.

Our approach is to perform and publish sound, nonpartisan research. Unlike many think tanks, **Think New Mexico** does not subscribe to any particular ideology. Instead our focus is on promoting effective and pragmatic solutions.

Consistent with this approach, **Think New Mexico**'s Board is comprised of Democrats, Independents and Republicans. They are the brain trust of this think tank. They are also statesmen and stateswomen, who have no agenda other than to see New Mexico succeed. Their brief biographies follow on pages four and five.

As a solution-oriented think tank, **Think New Mexico** will measure its success based on changes in law or policy that it is able to help achieve and which make New Mexico an even better place to live. We will use advocacy and, as a last resort, legal action but only within the constraints of Federal tax law.

SETTING PRIORITIES

If New Mexico had been admitted to the Union in 1999, instead of 1912, and the budget for New Mexico was built from scratch today, it would probably look very different from the budget that we have now.

For example, a budget for New Mexico built from scratch in 1999 would likely include money for basic and essential services that are not currently funded, like full-day kindergarten. It would, however, be less likely to incorporate some of the spending that has, almost inevitably, accumulated over the 87 year span since statehood.

This report focuses on one way in which the Legislature and the Governor could pay the cost of implementing full-day kindergarten by re-allocating General Fund dollars from non-essential and duplicative spending and by eliminating wasteful and inefficient subsidies.

It is important to understand that while businesses are able to re-allocate spending from under performing areas to high performing areas, sometimes on a daily basis, this is an inherently more difficult task for governments to accomplish. Democracies are designed through checks and balances to favor deliberate decision-making instead of streamlined decision-making. Further, elected officials, more so than corporate executives, must deal with powerful constituencies which grow up around specific programs and protect them long after they have outlived their usefulness.

This report follows our inaugural report in September that described how full-day kindergarten could increase student achievement in New Mexico. We recognized that our proposal carried a large price tag and, therefore, we felt an obligation to explain how the State could pay for it.

Passage of full-day kindergarten does not need to depend on our re-allocation proposals. There are many good alternative approaches to pay for full-day kindergarten, such as using some of the $150 million of new General Fund revenues that are estimated to be available this year.

In looking for ways to pay for full-day kindergarten, we reviewed this year's 203 page New Mexico budget statute line by line. We read both the 330 page Executive Budget and the 644 page Legislative Finance Committee Report on the budget page by page. We interviewed dozens of appointed officials and state employees who are listed in the Acknowledgments. We scrutinized the 5,384 contracts and amended contracts that State government entered into between July 1, 1998 and June 30, 1999. We analyzed the Hobbs Committee Report on Government Operations (1996) and the Professional Tax Study Committee Report (1996) and several dozen other fiscal reports and documents that are listed in the Bibliography.

The most important thing that we did, however, was to talk John Gasparich out of retirement to help us in this endeavor. He has 27 years of experience in state government and served as State Budget Director under three Governors. John has also served as the Deputy Director of the Legislative Finance Committee and Deputy Cabinet Secretary of the Department of Finance and Administration.

Conspiracy theorists looking for massive fraud, waste and abuse in state government will be disappointed by our report. The $37.5 million identified here represents only about one percent of the $3.3 billion General Fund. We hope, however, that those who are looking for a sensible way to pay for implementing full-day kindergarten will be pleased with what they read and will act on it.

Fred Nathan

Fred Nathan
Founder and Executive Director

P.S. We welcome your comments, suggestions and, naturally, any tax-deductible financial contributions that you might wish to make. ❧

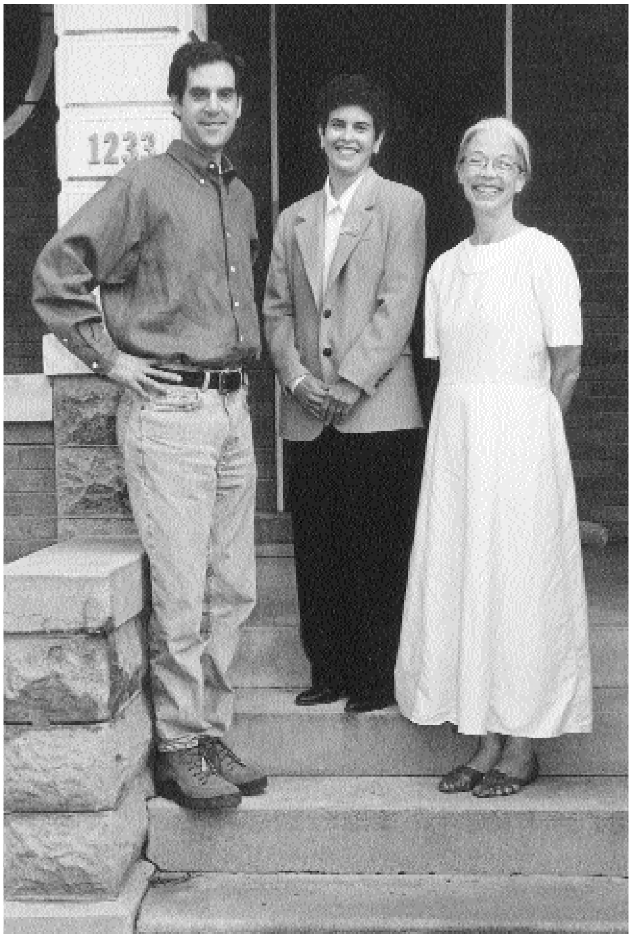


Photo Credit: Kathleen Dudley

Think New Mexico's Staff

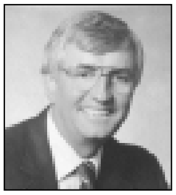
Fred Nathan, Founder and Executive Director, Carol Romero-Wirth, Assistant Director and Susan R. Fleischmann, CPA, Chief Financial Officer, in front of the Headquarters of **Think New Mexico** *in the Digneo-Moore House, across the street from the New Mexico State Capitol in Santa Fe.*

Think New Mexico's Board of Directors

Edward Archuleta is the Director of the Santa Fe office of 1000 Friends of New Mexico, a not-for-profit organization that advocates responsible land-use planning, growth management and sustainable development. Edward previously served as the top assistant to New Mexico Secretary of State Stephanie Gonzales.

Paul Bardacke served as Attorney General of New Mexico from 1983-1986. Paul is a member of the American College of Trial Lawyers. He currently handles complex commercial litigation with the firm of Eaves, Bardacke, Baugh, Kierst & Kiernan.

David Buchholtz has served on a long list of New Mexico boards and commissions and has advised several New Mexico governors on fiscal matters. David recently served as Chairman of the Association of Commerce and Industry. He is a senior shareholder and former President of Sutin, Thayer & Browne.



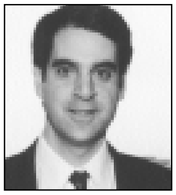
Garrey Carruthers served as Governor of New Mexico from 1987-1990. Currently, Garrey is President and CEO of Cimarron Health Plan. He is a member of the Board of Directors of the U.S. Chamber of Commerce, Association of Commerce and Industry, the National Center for Public Policy and Higher Education, and the New Mexico Foundation for Educational Excellence.

Elizabeth Gutierrez is an organizational development consultant who is pursuing a doctoral degree in public policy. Liz was a marketing executive with IBM for nearly two decades. She has also served as Director of Administrative Services Department for the city of Santa Fe.

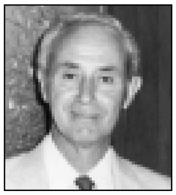
LaDonna Harris is an enrolled member of the Comanche Nation. LaDonna is President and Founder of Americans for Indian Opportunity, a national not-for-profit organization that serves as a catalyst for new concepts and opportunities for Native peoples. She was a leader in the effort to return the Taos Blue Lake to Taos Pueblo.

Rebecca Koch is the owner of Rebecca Koch & Associates which provides management consulting services in the areas of development and strategic planning to local and national not-for-profits. Rebecca was the organizational development consultant for the Santa Fe Business Incubator, Inc. She is a former President of the Board of New Mexico Literary Arts.

Fred Nathan founded Think New Mexico and is its Executive Director. Fred served as Special Counsel to New Mexico Attorney General Tom Udall from 1991 to 1998. In that capacity, he was the architect of several successful legislative initiatives and was in charge of New Mexico's lawsuit against the tobacco industry that settled for approximately $1.25 billion.



Frank Ortiz, a career Foreign Service Officer of the United States, has served as United States Ambassador to several countries, including Argentina, Guatemala and Peru. Frank serves on many other boards throughout New Mexico.



Roberta Cooper Ramo is the first woman elected President of the American Bar Association. Roberta is a former President of the Board of Regents of the University of New Mexico. She is a shareholder with the Modrall law firm and serves on many national boards.

Stewart Udall served as Secretary of the Interior under Presidents Kennedy and Johnson. Prior to that, Stewart served three terms in Congress. He is the author of *The Quiet Crisis* (1963) that tells the story of humankind's stewardship over the planet's resources, and *To the Inland Empire: Coronado and Our Spanish Legacy* (1987) which celebrates Hispanic contributions to our history.

Photo Credit for Mr. Archuleta, Ms. Gutierrez and Ms. Koch: Kathleen Dudley

FULL-DAY KINDERGARTEN:

HOW MUCH IT WILL SAVE TAXPAYERS AND HOW NEW MEXICO CAN PAY FOR THE CAPITAL COST

The biggest obstacle to implementing full-day kindergarten in New Mexico has always been its cost, according to all the experts with whom we spoke.

The cost can be divided into two categories: the annual or recurring operational costs (e.g. teacher salaries and classroom supplies) and the up front, one-time capital cost to build the additional classrooms that will be necessary. (At present, most kindergarten classrooms house a half-day class in the morning and then another half-day class in the afternoon.)

These costs are addressed in greater detail in the last section of our inaugural report, "Increasing Student Achievement in New Mexico: The Need for Universal Access to Full-Day Kindergarten" (Fall, 1999). Below is an updated summary.

The cost, however, needs to be placed into perspective. **The Children's Defense Fund states that every dollar spent on quality early childhood education programs saves seven dollars by increasing the likelihood that the participants will be literate, college educated, employed and by making them less likely to be dropouts, dependent on welfare, or arrested for criminal activity or delinquency.**

ANNUAL OPERATIONAL EXPENSES

The annual recurring cost to completely implement full-day kindergarten is $37,427,400, according to an October 23, 1998 analysis performed by the New Mexico Department of Education. The Department simply multiplied the projected number of students by the standard cost per pupil taking into account the weighting factor included in the School Equalization Formula.

But the Department's calculation failed to take into account several significant areas of savings that would be realized if New Mexico were to move from half-day to full-day kindergarten. **Specifically, these are reduced transportation costs, reduced Special Education costs and reduced State subsidized child-care costs.**

Transportation Savings

One significant area of savings missing from the Department's estimate is the reduced transportation cost even though The Department's School Transportation Unit estimated that there would be a $5,773,725 annual savings if New Mexico were to implement full-day kindergarten, according to an internal memo of November 20, 1997.

The Transportation Unit's figure was based upon eliminating the 651 midday bus trips that take place daily across New Mexico to transport half-day kindergarten children between school and home. Those trips, generally with only a handful of kindergartners aboard, amount to 14,646.5 midday miles traveled daily or 2,612,545.5 miles traveled annually, according to the School Transportation Unit. The savings at $2.21 per mile would be derived mainly from reduced labor, operation and maintenance, and fuel costs.

While most full-day kindergarten students can be absorbed on existing school buses, the School Transportation Unit believes that full-day kindergarten may require as many as 25 additional school buses. The cost to rent 25 additional buses would be approximately $300,000 annually, according to the School Transportation Unit. Thus, the net annual transportation savings from implementing full-day kindergarten would be nearly $5.5 million, as the chart below demonstrates.

Special Education Savings

Another important area of savings missing from the Department's analysis is the reduced cost of Special Education. Full-day kindergarten teachers teach a maximum of 20 students for approximately six hours. Half-day kindergarten teachers teach a maximum of 40 students in two shifts for two and a half hours each. (Under New Mexico law "half-day kindergarten" means only two and half hours of class per day). Because full-day kindergarten teachers have fewer students and more time with each of them than half-day kindergarten teachers, full-day kindergarten teachers are more likely to diagnose and

Net Annual Transportation Savings From Implementing Full-Day Kindergarten

Savings from Reduced Labor, Maintenance and Fuel	**$5,773,725**
Minus Cost to Rent 25 buses Annually	**-$ 300,000**
Net Transportation Savings	**$5,473,725**

Source: School Transportation Unit, New Mexico Department of Education treat learning problems earlier. That translates into less Special Education intervention later on, which is generally more costly and often less effective.

Special Education savings are difficult to quantify. However, New Mexico's Early Childhood Interagency Action Team points to a two-year study in the Gallup-McKinley County School District, where they used Federal funds to implement full-day kindergarten. That study found that, "[t]he referrals to special education are as much as 73% reduced in kindergarten and 64% in first grade when children attend full-day kindergarten."

We simply used a 10% figure to calculate the Special Education savings in kindergarten through third grade that would result if full-day kindergarten were implemented statewide. That calculation yielded a savings of $3,755,798. Maria Landazuri, Pre-School Coordinator, Special Education, New Mexico Department of Education told us that our 10% figure was a "very conservative assumption."

Government Subsidized Child Care Savings

A third area of savings not taken into account in the Department's calculation is reduced State payments for child-care. Of course, if 5 year olds are in school for a full day, rather than two and a half hours each day, that will mean that the State can spend less on subsidized child-care.

The New Mexico Children, Youth and Families Department estimates that New Mexico could save approximately $849,900 of the $15,463,500 that is currently appropriated from the General Fund to subsidize child care services in New Mexico. (This calculation does not include any savings in the $46,725,700 of Federal money that will be spent on child-care in New Mexico this year, nor does it include savings for parents of kindergartners who pay for private child care programs.)

With the advent of welfare reform and more parents leaving the welfare rolls for work, the amount of money that the State will need to pay for subsidized child care is likely to skyrocket in the upcoming years. By implementing full-day kindergarten, the Governor and the Legislature can mitigate this expense.

Another financial benefit to the State from implementing full-day kindergarten is that it would enable some parents to choose to re-enter the work force. That, in turn, would cause an increase in the State's tax revenue. This is somewhat speculative and we have, therefore, not included it in our financial analysis.

The sum of the potential annual transportation savings of $5,473,725, the annual Special Education savings of $3,755,798 and the annual child-care savings of $849,900 is $10,079,423. If that figure is subtracted from the Department's overall operational estimate of $37,427,400, it yields the net annual operational costs to implement full-day kindergarten of $27,347,977.

To place that figure in perspective, it represents slightly less than one percent of New Mexico's General Fund for 1999-2000 of approximately $3.3 billion.

How should we pay this annual operating expense? We believe it can be done by re-allocating dollars

Net Annual Operational Cost to Implement Full-Day Kindergarten

Annual operational costs (e.g. teachers and supplies)	**$ 37,427,400**
Minus:	
Net Transportation Savings	**- $ 5,473,725**
Special Education Savings	**- $ 3,755,798**
Government Subsidized Child-Care Savings	**- $ 849,900**
Net Annual Operational Cost of Full-Day Kindergarten	**= $ 27,347,977**

Source: Think New Mexico

from non-essential and duplicative spending and by eliminating wasteful and inefficient subsidies. In the next section, we will identify specific spending and subsidies that could be cut back or eliminated to pay the annual operational expenses of implementing full-day kindergarten. But first we discuss the second major cost, one time capital expenses.

ONE TIME CAPITAL EXPENSES

In October 1998 the State Department of Education (the Department) surveyed New Mexico's 89 school districts and asked what their classroom needs would be to implement full-day kindergarten.

The districts replied that they would need a total of 570 new classrooms statewide to implement full-day kindergarten. Specifically, the districts requested 463 regular brick and mortar classrooms and 107 portable classrooms. In the chart on the next page we show which school districts requested classrooms as well as the number of classrooms they requested.

We believe that 570 classrooms is higher than what is actually necessary. For example, we found at least two school districts that would have approximately five kindergarten students per classroom if they received all of the new classrooms that they requested, given their enrollment figures.

Moreover, some school districts requesting new kindergarten classrooms have declining enrollments. In some cases those districts have classrooms that are standing empty. Naturally, those classrooms should be used for new kindergarten classes before the State constructs new classrooms in those districts.

Another option is to use appropriate existing local community facilities that have available space.

Some school districts are so desperate to offer full-day kindergarten that they are willing to assume the

New Mexico School Districts Requesting New Classrooms for Full-Day Kindergarten

DISTRICTS	ADDITIONAL CLASSROOMS NEEDED	DISTRICTS	ADDITIONAL CLASSROOMS NEEDED	DISTRICTS	ADDITIONAL CLASSROOMS NEEDED
Alamogordo	*14*	*Eunice*	*2*	*Moriarty*	*12*
Albuquerque	*162*	*Farmington*	*22*	*Pojoaque*	*4*
Artesia	*14*	*Ft. Sumner*	*1*	*Portales*	*5*
Aztec	*7*	*Gadsden*	*30*	*Questa*	*1*
Belen	*10*	*Hagerman*	*4*	*Raton*	*3*
Bernalillo	*5*	*Hobbs*	*42*	*Rio Rancho*	*20*
Cimarron	*2*	*Jal*	*1*	*Roswell*	*14*
Clayton	*2*	*Jemez Mtn.*	*2*	*Santa Fe*	*19*
Cloudcroft	*1*	*Jemez Valley*	*1*	*Silver City*	*8*
Clovis	*22*	*Las Cruces*	*43*	*Socorro*	*4*
Cobre	*6*	*Las Vegas City*	*4*	*Springer*	*1*
Deming	*12*	*Las Vegas West*	*8*	*T or C*	*4*
Dexter	*3*	*Lordsburg*	*2*	*Taos*	*11*
Dulce	*6*	*Los Alamos*	*4*	*Tatum*	*1*
Elida	*1*	*Los Lunas*	*9*	*Texico*	*1*
Espanola	*10*	*Lovington*	*5*	*Tucamcari*	*1*
Estancia	*2*	*Maxwell*	*1*	*Vaughn*	*1*

Source: New Mexico Department of Education (October 23, 1998)

capital costs of providing additional classrooms, if the State will appropriate the operational costs (e.g. teacher salaries and supplies). For example, last year the Lovington School District told the Department that they would need five classrooms to implement full-day kindergarten. However, this year Lovington is offering to assume the capital costs, if the State will pay the operational costs, according to a September 24, 1999 article in the *Hobbs News-Sun*, entitled “Full-Day Kindergarten Supported by Lea Schools.” The Jal School District has made the same offer.

The average cost to build a regular classroom is $128,000 and the average cost to build a portable classroom is $70,000, according to the Capital Outlay Unit of the Department.

Given this expense, we recommend that the State conduct a professional, independent assessment of how many new classrooms will actually be needed to implement full-day kindergarten. This assessment should take into account the projected student enrollment, the declining enrollment patterns in several New Mexico school districts and the availability of appropriate local community facilities.

We believe that such an assessment would reveal that the real statewide one-time capital cost of building the classrooms necessary for full-day kindergarten is between 35 and 40 million dollars.

How should we pay this one-time capital expense to construct classrooms for full-day kindergarten? We recommend dedicating approximately one-third of the proceeds of the so-called "Christmas Tree Bill" for the 2000 Legislative Session to a Full-Day Kindergarten Classroom Construction Fund. We believe that this would be sufficient to pay the entire cost of building the necessary classrooms.

The "Christmas Tree Bill" is the legislation that is passed toward the end of each legislative session to pay for public works projects around the State. The available revenue is, by political tradition, divided into thirds with the Governor receiving a third, the Senate receiving a third and the House receiving a third. The House and Senate then divide their respective portions among their individual members. Legislators then typically select roads, sewer systems, senior citizen centers and ball fields.

The Albuquerque Journal has been particularly critical of this process. In a February 18, 1999 editorial, the Journal stated "[n]ot only does [the Christmas Tree Bill] divert scarce capital resources from needed infrastructure to pork projects, it denies money to necessary projects—which must either be funded from other sources, or go undone."

The Governor and the Legislature allocated more than $91 million in the Christmas Tree Bill during the 1999 Special Session. Of that total, approximately $12.7 went to the New Mexico Department of Education for capital outlay projects in New Mexico's public schools, according to an analysis by the Legislative Council Service, but none of that went for the construction of kindergarten classrooms.

By jointly making it a priority, the Legislature and the Governor could pay the entire cost of constructing all the classrooms necessary to implement full-day kindergarten in the "Christmas Tree Bill" that they will enact in the 2000 Legislative Session. That would still leave tens of millions of dollars available for other important and necessary capital projects. We believe that making classrooms a priority for the capital outlay bill is appropriate because children are, after all, our most important capital.

An overlay of the New Mexico's 89 school districts with New Mexico's 42 state senate districts and 70 state house districts indicates that virtually every legislative district in New Mexico would receive full-day kindergarten classrooms, under our proposal. ❧

FULL-DAY KINDERGARTEN:

HOW NEW MEXICO CAN PAY THE ANNUAL OPERATIONAL EXPENSES

In this section we examine New Mexico's budget to see how the Legislature and the Governor could cut non-essential and duplicative spending and eliminate wasteful and inefficient subsidies to pay the annual, recurring costs of implementing full-day kindergarten.

We begin by noting that during the 1999 legislative session, the Legislature passed a law, entitled, "Accountability in Government Act," which was sponsored by Senator Ben Altamirano of Silver City and signed by Governor Gary Johnson.

The new law is currently being implemented under the capable direction of David Abbey, Director of the Legislative Finance Committee (LFC), and David Harris, Cabinet Secretary for the Department of Finance and Administration (DFA). Specifically, they have begun a pilot project of performance-based program budgeting (PBPB) for several State agencies. This approach stresses program outcomes by tying agency budgets to performance in providing services to the people of New Mexico.

They expect that the General Appropriation Act will show performance objectives and measures next to the appropriation for each agency by 2002: two years ahead of schedule. In the meantime, we want to salute both the Executive and the Legislature for this innovation which will ultimately pay big dividends for New Mexico taxpayers.

CUT NON-ESSENTIAL SPENDING IN PROFESSIONAL SERVICE CONTRACTS

During the last fiscal year State agencies spent slightly more than $363 million in professional service contracts. That is equivalent to 11.5% of the State General Fund.

Each month the Contracts Review Bureau of DFA prepares a detailed report that lists a brief description of each professional services contract and amendment that the State entered into for that month. Under the Inspection of Public Records Act, we were able to obtain all twelve of the reports for the last fiscal year, which we reviewed contract by contract.

(The DFA reports do not include construction contracts, including highway construction contracts, contracts for health insurance for state employees and retiree health insurance, Medicaid contracts and contracts for equipment and maintenance which are not considered professional services contracts. Therefore, those contracts are not part of our analysis here.)

In all, the State entered into 5,384 professional services contracts or contractual amendments between July 1, 1998 and June 30, 1999, nearly 450 per month on average.

These contracts range in variety and size from a $350,000 contract between the Energy, Minerals & Natural Resources Department (EMNRD) and a Missouri company to "provide design and fabrication of interpretive exhibits at Living Desert State Park, nocturnal exhibit," and a $1,586.25 contract between the Taxation and Revenue Department and the Verbal Judo Institute to "provide a one day workshop on the subject of Verbal Judo. Verbal Judo teaches powerful strategies to help resolve tense situations," according to the description of services.

Professional service contracts are often amended. For example, the $350,000 EMNRD contract mentioned above was amended for "additional interpretive banners and animal exhibit for Living Desert State Park" at an additional expense of $50,000. A $100,000 contract between the Public Health Division of the Department of Health and Kelly Temporary Services was amended 17 times for a total of $2,640,000 during a four year period. The Division is now "committed to reducing these contractual expenditures," according to a letter accompanying the last contract amendment.

Sometimes the description of services seemed somewhat misleading. For example, we found a $19,813 Department of Public Safety contract to "provide advanced law enforcement training services." When we examined the contract, we discovered that it was with the Cooper Institute for Aerobics Research in Dallas, Texas. The scope of work calls for teaching two courses: "Advanced Physical Fitness" and "Up-Date (sic) Physical Fitness Specialist."

We also found a number of professional contracts to subsidize marketing expenses for private industries that already have an incentive to pay those expenses themselves. For example, the Public Health Division of the Department of Health entered into a $18,981 contract with Dairy Max Inc. of Texas to "provide New Mexico Schools with Dairy Councel (sic) of California validated education nutrition units along with the information on Osteoporosis Prevention relevant to the student population." Among the contract's requirements: "make phone follow-up calls during February of 1999 to a sample of teachers who do not order materials, either convincing them to order or documenting the reasons for their lack of interest."

Some other examples include a contract between the Department of Tourism and the New Mexico Wine Growers Association to provide $17,500 worth of advertising services. The Department also contracted with the New Mexico Racquetball Association for $1,500 of advertising services. EMNRD entered into an $8,000 contract with the Albuquerque International Balloon Fiesta to “promote the use of a park and ride shuttle service during the Balloon Fiesta activities through a media marketing program.” The Apple Commission spent $5,300 for a contractor to “manage the New Mexico apple cart sales at the Winrock Shopping Mall.”

Several agencies contracted for services that it appears state employees should be able to provide. For instance the State Engineer’s office spent $21,262.50 for a contractor to “provide assistance to the Office of the State Engineer Legal Division relating to administration and budgeting issues.” The Department of Tourism spent $5,312.50 for a contractor “to assist Department Managers in the preparation of the performance appraisal plans for their employees.”

Lobbying and legislative consulting are another area of questionable spending for professional contractual services. The PERA and the State Auditor spent $6,000 each for lobbyists during the 1999 legislative session. EMNRD spent $10,000 for a Montana man “to help the Department formulate responses to the significant public policy issues that electric restructuring legislation raises in the State of New Mexico.” Three agencies spent a total of $54,163 for bill tracking and related services.

We also found a variety of contracts for public relations, ranging from promotional films, promotional television shows and even a seminar “on how to handle the news media.” The Department of Tourism spent $10,700 for two contractors “to travel to and from Spain to attend the Spain Trade Mission and provide photography services.”

Our purpose is not to embarrass the State agencies mentioned here, but to simply suggest that a significant number of professional service contracts would be better spent on making full-day kindergarten available to every New Mexico family.

Accordingly, we recommend that the Legislature reduce appropriations for professional contractual services by $14.52 million or 4% and use those savings to pay part of the cost of implementing full-day kindergarten. Because General Fund revenues are expected to grow by 5% in the upcoming fiscal year, our recommendation would not cut but only limit the growth in professional contract services to 1% in the upcoming fiscal year.

Finally, we recommend that DFA to be given more authority to review professional service contracts. Currently, the DFA contract review is focused on contract form and budget availability because DFA does not have either the authority or the staff to make qualitative judgments on every contract it reviews. Likewise, we want to encourage the Legislature to continue to exercise oversight in this area. Although State agencies often complain that the Legislature “micromanages” their budgets, we believe professional contractual services is an area for greater scrutiny, not less.

END THE VOLUME DISCOUNT ON TAXES PAID BY TOBACCO DISTRIBUTORS

For more than half a century, New Mexico has had a tax loophole on its books that benefits tobacco distributors.

The tobacco industry lawyers pointed to this provision in 1997 in defending New Mexico's Medicaid reimbursement lawsuit against them. Specifically, Philip Morris, RJR, Brown & Williams, Lorillard and U.S. Tobacco in their joint brief used this statute as evidence of their claim that the State had "unclean hands." New Mexico, the tobacco lawyers alleged, has been a "willing and eager partner with the cigarette industry in the commerce of cigarettes."

The statute dates back to 1943 and it provides a "volume discount" of between two and four percent for each purchase of tax stamps by tobacco wholesalers.

The apparent rationale for the discount is that tobacco wholesalers incur an expense when they affix the tobacco stamps. But lots of other taxpayers receive no compensation for complying with the law. In fact, this is the only instance of a discount that we could find anywhere in New Mexico's tax code.

Who benefits from this loophole? Mostly people from other states. According to the Special Tax Program Unit of the New Mexico Taxation and Revenue Department," there are 43 active cigarette distributors [in New Mexico]. 12 distributors are located in the state and 31 distributors are located outside of New Mexico."

Estimated Medicaid Smoking Attributable Medical Expenditures, New Mexico

TYPE OF EXPENDITURE	1995 (IN MILLIONS)
Ambulatory Care	$12.9
Prescriptions	$ 3.3
Hospital	$21.7
Home Health	$ .3
Nursing Home Care	$ 9.9
Total	$48.1

Source: New Mexico Department of Health, Public Health Division: Office of Epidemiology and ASSIST Program. (1995 data)

According to Robert Olcott of the Department's Tax Research Office, the "value of the discount allowed to all distributors during fiscal year 1998-1999 was $550,125."

Within the larger context of New Mexico's budget, $550,000 is not a lot of money. It could, however, help to pay the cost of implementing full-day kindergarten.

Moreover, if this provision is not repealed, members of the public might legitimately wonder why those who sell cigarettes in large quantities receive a tax discount when they have to pay their taxes in full.

ABOLISH NON-ESSENTIAL AND DUPLICATIVE BOARDS AND COMMISSIONS

By our count, New Mexico has at least 154 statutory boards, commissions, and councils. This number is closer to 300, if committees and task forces are included. This is for a State with only 1.7 million people.

These boards, commissions and councils range from the prominent to the obscure. The 35 licensing and regulatory boards, for example, include the Board of Medical Examiners, the Interior Design Board and the Board of Thanatopractice (i.e. funeral parlors and embalmers). Commissions range from the Cumbres & Toltec Scenic Railroad Commission to the Veterans' Service Commission. Councils include the State Investment Council and the Armory Board Council which is attached to the State Armory Board which is a division of the Department of Military Affairs.

Some of these entities charge fees that reimburse only a portion of their actual expenses (as we will explore in the next section), while some other entities are paid for exclusively by the General Fund (i.e. New Mexico taxpayers).

From this bewildering array, we examine below just three entities that receive a total of $243,400 from the General Fund and that have either outlived their usefulness or are duplicative. In each case, we recommend that they be abolished.

The Border Authority

The Border Authority was established in 1991 as part of the Border Development Act. Its original mission was to increase trade between Mexico and New Mexico by establishing a border crossing in close proximity to Ciudad Juarez. That goal was accomplished in April of 1994 when the crossing opened at Santa Theresa.

At that point, the Border Authority might have closed shop and graciously faded into the sunset, having accomplished its mission.

Instead, the Border Authority set out to create a new mission for itself and has developed a new, ambitious work plan filled with activities that seem largely duplicative of the Trade Division of the Department of Economic Development and other State agencies.

These activities, for example, include "recruitment of industries by assigning a recruiter from the Economic Development Department to the Border Authority."

Another activity in its work plan is "development of hazardous materials response capability for the Santa Teresa area." However, New Mexico already has a State & Local Preparedness Bureau, a Technological Hazards Bureau and an Emergency Operations Bureau within the Technical & Emergency Support Division of the Department of Public Safety that could handle a hazardous materials problem for the Santa Teresa area.

Perhaps, most tellingly, the work plan calls for, "seeking state funding for a five-year border area strategic plan" beyond its current $100,000 appropriation.

A five-year strategic plan would probably not be a very wise investment given the LFC's recent analysis of the Border Authority's work:

"The Border Authority frequently does not appear to be a central player in the major infrastructure and economic development initiatives in the border area. Major water and wastewater programs have been initiated by Federal and County governments; major economic development efforts tend to be the work of private developers with assistance from county government and from the state Economic Development Department."

Indeed, the State gave the Border Authority the legal power to issue bonds to help address the infrastructure problems at the border, but the Border Authority has never used that power.

There is still work to be done to make Santa Theresa more of a high volume border crossing. We question, however, whether the Border Authority is the most effective public vehicle to get the job done.

The Criminal and Juvenile Justice Coordinating Council

The Criminal and Juvenile Justice Coordinating Council (the Council) was created in 1994. The Council is composed of 23 members, representing the three branches of government and several public members.

The Council's statutory purpose is to advise the three branches of State government on policy matters relating to criminal and juvenile justice and to make recommendations to the Legislature concerning proposed changes to laws relating to the criminal and juvenile justice systems.

In practice, many of the Council's recommendations, particularly its legislative recommendations, have been routinely opposed by several of the Council's own members. These include representatives of the Attorney General, the District Attorney's Association, Department of Public Safety, the Department of Corrections and the Sheriffs' Association. As a consequence, their legislative proposals have not met with much success in the Legislature.

In its last budget report, the LFC stated that it was "concerned about the effectiveness of the Council's reports in influencing public policy. The [LFC] requests that the Council report to the [LFC] on the impact of its studies." Although the Council is, by statute, administratively attached to the Office of the Governor, the Executive introduced legislation in the 1999 session to repeal the Council and recommended against any appropriation.

Nevertheless, the Council survived although its budget was cut back to $100,000. However, its FY 2001 budget request seeks to more than quadruple its current budget to $441,037.

Recently, the Council has struggled to get a quorum at their meetings. For example, the Council's September and November meetings failed to achieve a quorum.

We recommend that the Council, although well intentioned, be abolished. All of the State agencies and citizens groups represented could meet and study specific policy issues on a case-by-case basis without the Council and, in fact, already do through a variety of other *ad hoc* groups.

Another existing vehicle for this type of work that already exists is the New Mexico Council on Crime and Delinquency (NMCCD), a very effective and widely respected, private, not-for-profit founded in 1962. The NMCCD describes itself as "the first statewide citizens' organization committed to the reduction of crime and delinquency and the improvement of the criminal and juvenile justice systems."

The Apple Commission

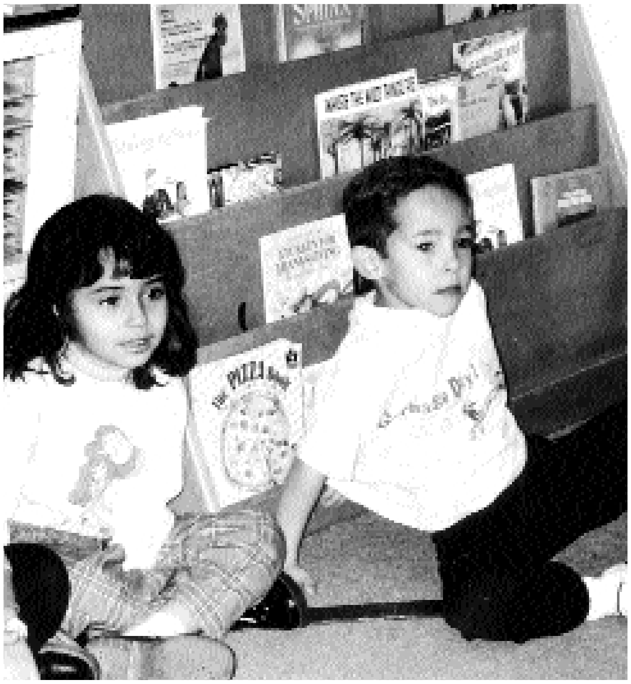
The Apple Commission was established in 1996. According to statute, the Apple Commission is dedicated to enhancing the market position of New Mexico apples and apple products. By statute the Commission, for example, is required to "conduct public relation programs promoting New Mexico apples and New Mexico apple products."

Normally, this type of work is done through private trade associations with funds supplied by the industry. In fact, the apple industry in New Mexico already has such an organization. It is called the Apple Council and it has and continues to receive contracts from the Apple Commission for its services, according to LFC budget documents.

Even more disturbing is that before they resigned, the Chairman and the Vice-Chairman of the Apple Commission held similar positions with the Apple Council. In fact, we learned that all seven of the Commissioners also serve on the Board of the Apple Council.

For the coming fiscal year, the Apple Commission is seeking to more than double its General Fund budget from $43,400 to $95,000. We recommend instead that the Apple Commission be abolished or, in the alternative, require that the entity be funded exclusively by the industry, like the Peanut Commission and the Beef Council.

On a final note, we recommend that the Executive and the Legislature ask its staff at the LFC and DFA to conduct a systematic review of all of the statutory boards, commissions and councils in State government. Staff could then recommend candidates to be either abolished or spun off into the not-for profit sector, where there is a constituency that is willing to support the work of a particular board, commission or council.



Full-Day Kindergarten

Because the State does not pay for full-day kindergarten, Alvord Elementary School in Santa Fe uses Federal monies and grants from private foundations to fund its full-day kindergarten class.

END SUBSIDIES FOR BOARDS AND COMMISSIONS AND NON-GENERAL FUND AGENCIES

One of the reasons for not cutting back the number of boards and commissions in New Mexico is that it is believed that they are financially self-sufficient. For example, licensing boards charge license and examination fees to the members of the profession that they regulate.

In theory, the fees cover all of their expenses. In reality, the fees generally do not cover overhead expenses which in some cases can be substantial.

Overhead includes things like office space provided by New Mexico's General Services Department and payroll, employee benefits, accounting and banking services provided by the State Personnel Office, the State Treasurer and DFA.

Fortunately for us, subsidized overhead is documented on an annual basis in the "Statewide Cost Allocation Plan."

Cost Allocation Plans are required by Federal regulation and calculate the overhead expenses for all state agencies, as well as boards and commissions, using a rigorous methodology. We obtained the latest annual Cost Allocation Plan, dated September 29, 1998.

It reveals that there are a total of 48 state agencies, mostly boards and commissions, that received a total of $2,513,200 in subsidized overhead expenses by taxpayers through the General Fund in the Fiscal Year ended June 30, 1998.

The $2,513,200 in subsidized overhead expenses include allocations as small as $5,400 for the Engineer/Land Survey Board and as high as $907,600 for the Department of Highway and Transportation, a non-General Fund agency that receives support from certain earmarked taxes like gas and truck taxes.

In addition, to the more than $2.5 million of subsidized overhead expenses, we discovered that the Attorney General's office, through its Civil Division and its Litigation Division, provides free legal services to boards and commissions that amounted to $1,472,392 of the AG's General Fund budget for the last fiscal year. This involves legal representation at board hearings and administrative prosecutions, spread all across New Mexico.

Charging non-General Fund agencies, boards and commissions for their overhead is not a new concept. The State of Colorado has a long-established policy of assessing indirect costs incurred by all of its non-General Fund agencies, boards and commissions.

We are confident that these boards and commissions can afford to pay their overhead. In fact, many of them already maintain a surplus cash balance with the State. Therefore, we recommend that New Mexico follow Colorado's lead and henceforth make certain that all boards, commissions and non-General Fund agencies meet their full costs of operations.

Eliminating these subsidies would produce approximately $3,985,592 for the General Fund which could pay part of the cost of making full-day kindergarten available to every New Mexico family.

ELIMINATE NON-ESSENTIAL SPENDING FOR LOCAL GOVERNMENTS

New Mexico has 33 counties, 102 municipalities, and hundreds of Special Districts (e.g. conservancy districts, flood control districts, special hospital districts, irrigation districts, soil and water conservation districts, and sanitation districts.)

Over the years a complex maze of funding sources and appropriations to assist these local government units has developed. For example, the so-called "Christmas Tree Bill" funds new roads, sewer systems and other local infrastructure needs. In addition, a variety of ongoing local government grant and loan programs have been established for wastewater, drinking water, roads, fire protection, public safety and general infrastructure needs.

Some of this funding, however, does not always make for good public policy. Here, we examine just two that we believe should be eliminated as they serve no essential State purpose.

The Town of Cochiti Lake

Buried on page 37 of the General Appropriations Act for the current fiscal year is a one-line entry of $131,200 for something called "community leasehold assistance" without any further explanation. That piqued our interest.

Our search led us to the Leasehold Community Assistance Act, which the Legislature enacted in 1985. That statute requires that there be created within the State treasury a "leasehold community assistance fund." The Statute also explains that "the purpose of the fund is to provide leasehold communities with assistance in meeting their operating budgets."

Under this statute "leasehold communities" are defined to be communities which are located on lands leased from an Indian Pueblo, have a mayor-council form of government and have a net tax property valuation of at least $5 million.

Only one community fits all of these criteria: the Town of Cochiti Lake, which is leased from the Cochiti Pueblo. This small suburban community southwest of Santa Fe has been receiving a subsidy that has jumped from $60,000, as recently as fiscal year 1994, to its current level of $131,200. This deal is even sweeter when you consider that the residents of Cochiti Lake do not pay property taxes.

The apparent rational for this subsidy is that because the town's land is leased from the Pueblo, it cannot impose the general taxes that other incorporated communities use for government operations.

However, we were able to obtain a copy of the Town of Cochiti Lake's budget for the current fiscal year. It indicates that the Town receives revenue from the following sources: enterprise revenues, miscellaneous fines and fees and distributions from the State for emergency medical service and fire protection on top of the "leasehold community assistance."

Even more revealing is that the budget shows a surplus, or estimated ending cash balance, this year of $1,352,938. That is nearly three times the Town of Cochiti Lake's operating budget of $476,048.

To place their surplus in perspective, the Legislature and the Governor aim each year to have cash reserves equivalent to 5% of the State's operating budget. The Federal government has no surplus, but rather a debt of several trillion dollars. It is also worth noting here that, according to the Town's own budget documents, the Town's interest on investments is estimated to be $78,000 this fiscal year.

We believe that the Town of Cochiti Lake's resources are more than adequate. If in the future, the community needs additional operating revenue, it can be accomplished by simply charging a local fee or an assessment. Therefore, we recommend repealing the Leasehold Community Assistance Act.

The Councils of Government

New Mexico has seven Councils of Government (COGs). They were formally established by the passage of the Planning District Act in 1973, which divided the State into seven planning districts. However, the impetus for the COGs originated with President Lyndon Johnson's Great Society program which generously funded and encouraged the creation of local economic districts or councils.

Today the mission is essentially the same, but the direction comes from local governments. Mostly, the COGs focus on improving local infrastructure and facilitating local economic development through projects dictated by the needs of local governments in their region. COGs also play a useful function in assisting with regional transportation and water planning issues.

Accordingly, the primary source of revenue for COGs comes from membership fees paid by the cities and counties that they serve. COGs also charge an administrative fee to administer Federal grants for projects in their region. In addition, the State distributes $275,000 from the General Fund to the COGs, or a little less than $40,000 per COG, on top of their membership and administrative fees.

It is difficult, however, to discern a tangible benefit to the State and its taxpayers from this appropriation.

We strongly support the concept of COGs because we believe regional planning is a worthwhile function of government and the services that they provide are essential to local governments. At the same time, we recognize that COGs are purely local in nature and should be funded by those whom they benefit: local governments.

Not surprisingly, we are not the first organization to call for the end of this subsidy. In 1996 the Hobbs Committee on Government Operations suggested "eliminating the intermediary role State government plays in providing assistance to the Council of Governments."

CUT NON-ESSENTIAL SPENDING AT THE PUBLIC REGULATION COMMISSION

In 1996 the voters of New Mexico passed a constitutional amendment to abolish the State Corporation Commission (SCC) and the Public Utility Commission (PUC) and replace them with a Public Regulation Commission (PRC) with broad regulatory authority over a variety of public utilities and corporations. The amendment went into effect on January 1, 1999.

Several months after the constitutional amendment was passed the Legislature established a Regulation Commission Reorganization Committee to implement the amendment. Representative Bob Perls of Corrales, the primary sponsor of the constitutional amendment, testified to the Committee at its August 27-28, 1997 meeting about the legislative intent in proposing the amendment. The minutes of that meeting state that, “[i]n terms, of government efficiency, the sponsors hoped consolidation would result in a 30-40 percent decrease in personnel, with the attendant budget reduction.”

Although Representative Perls’ estimate may have been too optimistic, there has been no reduction in personnel. In fact, the PRC’s current 243 positions are identical to the number of positions that the SCC and the PUC had before they went out of existence. One would have expected, however, that by merging, for example, the two divisions that handle administrative functions for the SCC and the PUC that some duplicative positions in accounting, budget, human resources, payroll and information technology might have been eliminated.

To learn more, we reviewed the Table of Organizational Listing (TOOL) report, as of September 10, 1999, for the PRC. (The TOOL report is the official staffing pattern for state agencies as approved by the DFA and State Personnel.)

We were surprised that 28 of the PRC’s positions, more than ten percent of the PRC’s total number of positions, were for “student aide” or “student intern.” Customarily, when state agencies hire students they do it through their vacancy savings and on an as needed basis. (Vacancy savings result from under spending budgeted salaries and benefits due to personnel turn over.)

Perhaps, this is what the LFC was referring to when it stated in its January, 1999 report on the budget, “[t]he [LFC] directs the PRC to revise its table of organizational listing (TOOL) to accurately reflect only those FTE (full-time equivalent employee) authorized by the Legislature and approved by the Department of Finance and Administration.”

By cutting the FTE student positions and only hiring students through vacancy savings, the State could save approximately $114,000 annually.

The PRC also appears top-heavy with administrators. Sixty of the 215 non-student positions are administrators. Twenty of these administrators, with positions entitled “administrator,” “executive assistant” or “administrative assistant” appear to have no direct supervisory responsibilities. Yet, their salaries are as high as $65,000 with a median salary of $40,000. Assuming standard benefits at 25%, the cost of these positions are as high as $81,250, with a median of $50,000.

State and Local Government Employment, by State

Full-Time Equivalent Employment Per 10,000 Population

STATE	TOTAL	STATE	LOCAL
United States	536	151	385
Alabama	579	190	388
Alaska	756	365	390
Arizona	519	138	381
Arkansas	556	192	364
California	468	107	361
Colorado	547	153	394
Connecticut	503	193	311
Delaware	576	307	269
Florida	500	123	377
Georgia	622	159	463
Hawaii	552	433	119
Idaho	577	179	397
Illinois	494	119	376
Indiana	527	153	374
Iowa	596	187	409
Kansas	647	187	461
Kentucky	534	190	343
Louisiana	607	214	393
Maine	535	172	363
Maryland	501	161	341
Massachusetts	497	135	362
Michigan	486	147	339
Minnesota	583	158	425
Mississippi	639	186	453
Missouri	510	149	361
Montana	647	208	439
Nebraska	647	181	466
Nevada	480	135	346
New Hampshire	481	147	335
New Jersey	550	157	393
New Mexico	657	252	405
New York	614	142	472
North Carolina	549	159	390
North Dakota	597	257	340
Ohio	509	128	381
Oklahoma	599	206	393
Oregon	529	166	363
Pennsylvania	432	126	306
Rhode Island	492	204	288
South Carolina	582	213	369
South Dakota	559	194	365
Tennessee	519	161	359
Texas	601	143	458
Utah	537	215	322
Vermont	579	216	363
Virginia	548	175	373
Washington	521	176	345
West Virginia	516	189	326
Wisconsin	518	126	393
Wyoming	790	226	564
DC	845	0	845

Source: The Book of The States 1998-1999 (Table 7.17) (October 1995 Data)

That leaves 40 administrative positions with direct supervisory responsibilities. These include commissioners, the chief of staff, the chief clerk, division directors and bureau chiefs. When the students are subtracted, each of these 40 supervisors is only responsible for about five employees on average. Good public sector management ratios are generally in the vicinity of eight to one. Thus, the remaining number of administrators should be more than sufficient.

We recommend a three-fourths reduction in the 20 non-supervisory administrators or 15 positions. This would yield savings of approximately $737,289 in salary and benefits. With the cut in student positions, the total savings would be $851,289 annually.

If such a reduction in force were to take place, the classified employees would be given a right of first refusal when administrative jobs become vacant elsewhere in State government, as required by State Personnel Board rule. In this way, their talents could be put to better use.

The PRC presumably disagrees with our conclusions. In the PRC's Strategic Plan for 2001-2005, the PRC assessed its strength and weaknesses. Among their weaknesses: "inadequate number of employees."

Nationally, the percentage of five year olds attending full-day kindergarten was 54.7 in 1997. In the 1998-1999 school year the percentage of New Mexico five year olds attending full-day kindergarten was 14.7 percent.

END NEW MEXICO'S ANIMAL DAMAGE CONTROL SUBSIDY

The U.S. Department of Agriculture's (USDA) Animal Damage Control (ADC) program was established during the Great Depression to help private farmers and ranchers eradicate and control wildlife predators.

Fast forward to 1999 and New Mexico. What began as an effort to help Depression-era farmers and ranchers, who were just trying to eke out a living on the land, has too often become instead a boon to those who do not need the government's help. They include Georgia billionaire Ted Turner who owns the 320,000 acre Laddar Ranch in southern New Mexico and ABC investigative journalist Sam Donaldson of Virginia who owns a large ranch in Lincoln County. (According to the agency's records, ADC agents visited Donaldson's ranch 412 times between 1991 and 1996.)

In New Mexico, the USDA spends approximately $2.2 million for ADC—recently renamed the U.S. Wildlife Services (USWS) by the Department—and has a staff of 44 people. These Federal agents killed 10,439 animals in New Mexico in fiscal year 1997.

Those who use USWS, simply invite the Federal agency onto their private land and Federal agents, at taxpayer expense, trap or kill the offending animals.

Although the Federal appropriation to USWS in New Mexico does not require matching State money, the State nonetheless has helped fund both ADC and USWS for many years. Recently, this appropriation has become highly controversial in part because of the secrecy surrounding it.

For example, in this year's budget law there is no reference to it. Senator Patrick Lyons of Cuervo, who represents the northeast corner of New Mexico, explained to the *Albuquerque Journal* that "[t]he language is not in there because it could have gotten line-itemed"

Indeed, in 1997 Governor Johnson went on record as wanting to line-item veto this appropriation. Prior to that the Legislature had included a specific appropriation for animal damage control.

New Mexico's Constitution inadvertently assists those legislators seeking a hiding place for this controversial appropriation. The Constitution places the New Mexico Department of Agriculture (NMDA), although a cabinet-level agency, within the control of the Regents at New Mexico State University (NMSU), as opposed to the governor. It is also the only cabinet department that does not submit a budget request to the Legislature. NMDA receives its budget from the Legislature as a single line-item within NMSU's budget. (This year that line-item was $7.11 million which was understood to include $300,000 for animal damage control.)

Thus, if the Governor wanted to line-item veto the animal damage control subsidy, he would need to line-item veto the entire budget of NMDA, which, of course, is not advisable.

How much does this subsidy cost New Mexico taxpayers? According to NMDA Secretary Frank Dubois, the NMSU Regents approved $266,750 which his department intends to give to the USWS for animal damage control.

This secret subsidy should be stopped. Public spending hidden from public view is never appropriate.

TRANSFER THE STATE'S WELCOME CENTERS TO THE LOCAL COMMUNITIES IN WHICH THEY ARE LOCATED OR CLOSE THEM

In her keynote speech at the annual Governor's Conference on Tourism in Silver City on October 15, 1999, Department of Tourism Secretary Janet Green highlighted the increase in the number of people using the Internet for travel planning. According to Green, 34 million people used the Internet for travel planning in 1998, a 1000-percent increase in two years.

The Department of Tourism has smartly taken advantage of this trend by improving its tourist-directed site (www.newmexico.org) to include links to Native American sites, local tourism related businesses as well as stories and photos from New Mexico magazine.

There has also been a corresponding increase in visits to New Mexico's tourist-directed web site, which has received 260,000 "hits," or user clicks, since the beginning of 1999. That represents about half the hits it has received in the past four years combined.

The site has fielded more than 53,000 e-mail inquiries as a result of the hits it has received this year at a cost of only $3,500, or less than seven cents per request.

At the same time, the Department maintains and operates nine "welcome centers" around the State at a cost of $882,600, according to the current year's budget. The welcome centers or "visitor information centers," as the Department recently renamed them, are located in Anthony, Chama, Glenrio, Gallup, La Bajada, Lordsburg, Raton, Santa Fe and Texico.

The State began a Welcome Center Pilot Program in 1968, but the legislature decided against funding it the following year. The program was then reinstituted in 1972, but the centers were only open in the summer. Eventually they became year-round and grew to ten centers, but several years ago the Center in Aztec was transferred by the State to the City of Aztec.

There are some serious questions though involving duplication. Visitor information centers have racks with maps and brochures about different tourist attractions and tourist counselors to answer questions. But most of the hotels, motels and bed & breakfasts in New Mexico also have racks with the same maps and brochures as well as staff who can answer tourist-related questions. Some airports and restaurants in New Mexico also provide these same services to tourists.

We personally enjoyed our visit to the State's Santa Fe Visitor Information Center, which is adjacent to the Department's offices in the Lamy Building and found the staff to be charming. We believe, however, that the Santa Fe Visitor Information Center is duplicative with the city of Santa Fe's Convention & Visitor Bureau which is several blocks away and which also offers tourist information and advice.

New Mexico law specifically allows municipalities and counties to use their Lodgers' Tax receipts on "tourist related facilities." As a consequence, 62 New

Mexico localities—ranging from Alamogardo to Tularosa—offer tourist assistance either through visitor bureaus or local chambers of commerce, according to the New Mexico Magazine Vacation Guide, published by the New Mexico Department of Tourism.

The State's visitor information center in Gallup, which is pictured nearby, was not built on Route 66, the main thoroughfare that tourists would most likely use. Even more surprising, it can only be accessed by tourists as they *leave* New Mexico since it was built on the west-bound (out-going) side of the road. Former Department of Tourism Secretary John Garcia jokingly refers to it as New Mexico's "good-bye center." We were able to determine that it has been on the wrong side of the road for at least eight years and, naturally, has continued to be funded by the General Fund throughout that period of time.

Arizona has only one visitor information center, which is in Lupton. According to Kathy Dahnk, Arizona Director of Visitor Services, Arizona is very pleased with their decentralized system of distributing tourist information to a network of 75 local visitor bureaus and chambers of commerce. Arizona also certifies local program staff.

We recommend that New Mexico follow Arizona's lead and either turn the visitor information centers over to the local communities in which they are located or close them.

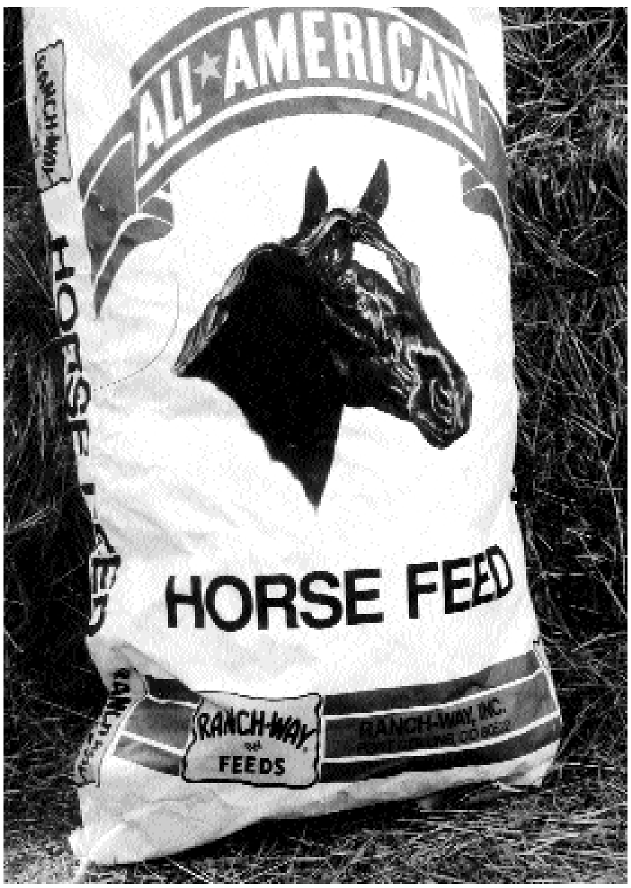
Photo Credit: Lydia Dulski

The "Good-Bye Center" in Gallup

SUNSET VARIOUS TAX EXPENDITURES

Under New Mexico law, the gross receipts tax is a tax imposed for the privilege of engaging in business in New Mexico. It is imposed on both retail sales of property and services.

The New Mexico gross receipts tax rate is 5%. In addition, State law allows local governments to stack various local option gross receipts taxes on top of the State's share. Thus, in some parts of New Mexico the gross receipts tax is as low as 5.125% and as high as 6.9325% in other parts. The State receives approximately 47% of its General Fund revenues from the Gross Receipts Tax.



Some of these tax exemptions and deductions can more appropriately be referred to as "tax expenditures" when they are simply spending disguised as tax relief. However, unlike other expenditures in the budget which receive scrutiny during the budget process each year, tax exemptions and deductions, once enacted, rarely receive any further scrutiny.

Some legislators, like Senator Lee Rawson of Las Cruces, have suggested that tax deductions and exemptions should "sunset" or have a time limit of a few years. This would cause lawmakers and special interest groups to re-visit these tax breaks every few years. We believe that is a good idea worth pursuing.

New Mexico Taxes Baby Food But Not Horse Feed

Below we examine various tax expenditures that should sunset immediately.

Exemption for Horse Feed and Sale of Recreational Horses

One interesting anomaly of New Mexico's tax code is that gross receipts tax is imposed on baby food, but not horse feed. The sale of recreational horses is also exempt which presumably dates back to the days before automobile travel.

We could not identify any rationale for what the Taxation and Revenue Department simply classifies as a "tax preference" for horse feed and the sale of recreational horses. Removing these exemptions would produce $1.7 million, according to the Taxation and Revenue Department.

Exemption for Jockeys' and Horsemen's Purses and Race Track Commissions

In 1970, when the horse racing industry in New Mexico was apparently declining, the State enacted an exemption for purses paid horsemen and trainers. In 1971 the State added an exemption for jockey purses. This law also exempts the commissions received by racetracks as their portion of the pari-mutuel handle.

The purses are the receipts to owners, jockeys and trainers for entry of the horses in races or for the service of training and riding horses.

In 1996 the Professional Tax Study Committee (PTSC), chaired by Robert Desiderio, Dean of the University of New Mexico Law School and a nationally recognized tax law expert, reviewed all of New Mexico's tax laws. Among their conclusions: "no tax policy reason exists for the exemption of racetrack purses." The PTSC reasoned that "because other taxpayers who rent or license property or who receive payments when using the property are subject to gross receipts tax, the receipts of purses also should be subject to gross receipts tax."

The Taxation and Revenue noted in an August 18, 1997 report on gross receipts tax exemption descriptions and rationales: "testimony of the [horse racing] industry leaders indicate that a deal was struck with the State. 'Provide a favorable regulatory and tax environment and we will deliver a viable and job-rich industry to the state.'"

The State has certainly kept its side of this bargain. First, by maintaining these exemptions and second by recently allowing the tracks to have 300 video gaming machines each in addition to horse racing. As a result of the video gaming machines, the industry is expected to increase the number of live racing days from 194 in 1998 to 296 in 2000.

The LFC estimates that horse racing tracks will generate nearly $2 million of revenue this year from slot machines. Further, the LFC expects those revenues to jump to nearly $17 million next year and almost $25 million the year after.

Clearly, the justification for the gross receipts exemptions that the horse racing industry received in the early 1970s when their industry was dying is no longer applicable in 1999 and should be repealed. That would produce approximately $2 million in General Fund revenues.

CLOSE THE SOUTHERN NEW MEXICO REHABILITATION CENTER AND PROVIDE PATIENT SERVICES ELSEWHERE

The Southern New Mexico Rehabilitation Center (SNMRC) is located in Roswell. It was formerly the hospital annex on the old Walker Air Force Base, which closed in 1967. When the base closed, the State acquired the hospital annex and developed a program of rehabilitation services there under the direction of the then Department of Hospitals and Institutions (DHI). The idea was to help alleviate the economic disruption that was caused by the base closure.

In 1972 DHI transferred SNMRC to the Division of Vocational Rehabilitation (DVR) which eventually abandoned it due to its inefficiency. Then in 1983 the Legislature transferred SNMRC from DVR back to DHI, which had then become the Health and Environment Department.

Since then SNMRC has increasingly struggled in the rapidly changing health market place that puts an increasing emphasis on economics and efficiency. Department of Health Secretary Alex Valdez has noted that state institutions, like SNMRC, operate at a severe competitive disadvantage to private providers.

For example, state institutions cannot enter into partnerships with private institutions to help attract patients. In addition, state personnel rules restrict state institutions from paying salaries at the competitive level necessary to attract the medical personnel that they need. Moreover, State procurement law makes it relatively difficult for state institutions to use bulk purchasing to get the lowest prices for medical supplies.

Medicaid dollars that used to be the lifeblood of the SNMRC have steadily drained away. To compound matters, SNMRC's physical plant was built in 1955 during the Eisenhower era and is in need of extensive capital improvements "to make it compliant with all federal regulations for a health facility," according to the LFC's January, 1999 budget report.

It is this set of circumstances that has prompted the Hobbs Commission on Government Operations and both the Executive and the Legislature before the 1999 Legislative session to recommend closing SNMRC. Nonetheless, the SNMRC received a total appropriation of $5.4 million for this fiscal year, which is the same appropriation they received last year.

Because the Walker Air Force Base closing has long since been absorbed, the facility is obsolete and the associated programming is inefficient, we recommend that SNMRC be closed. This would create savings of approximately $2 million in overhead from General Fund monies. That would still leave $3.4 million to provide the same level of patient services through contracts with private providers elsewhere.

We note that the Eastern New Mexico Medical Center in Roswell has an agreement with SNMRC to provide medical services for SNMRC's patients in an emergency. ❧

CONCLUSION

Our public spending decisions should reflect the best interests of all New Mexicans, rather than the special interests of a few. Full-day kindergarten would benefit the entire State by increasing student achievement in the short term and by reducing crime and welfare dependency in the long term.

What we have proposed cutting and eliminating benefits only a few and not all of those who benefit are even New Mexico citizens (e.g. the recipients of the volume discount on tobacco taxes and the Animal Damage Control subsidy.)

We acknowledge that some of the spending and subsidies that we have identified here as "non-essential" or "inefficient" may, on some level, have some value. However, none of them, either alone or together, can be considered, by any measure, to be a greater priority than implementing full-day kindergarten.

Our proposals are summarized in the chart on the following page. **We wish to emphasize that there are alternative sources of revenue to pay for full-day kindergarten. These include the $150 million of new General Fund revenues that are estimated to be available this year, the proceeds of the Tobacco settlement which will total $1.25 billion within the next 25 years and the $70 million produced by the Tax Amnesty Program, most of which will be recurring revenue. Another approach would be to develop a hybrid of these revenue sources. The bottom line is that there is already sufficient revenue to pay the cost of implementing full-day kindergarten without the need to raise taxes.**

As we stated in our inaugural report, full-day kindergarten is a smart investment. For every dollar New Mexico taxpayers spend today to implement full-day kindergarten, they will receive an immediate rebate of approximately 27 cents in savings on transportation, special education and subsidized child-care.

Further, every tax dollar invested today on implementing full-day kindergarten would also return seven dollars in long-term benefits such as less crime, higher tax revenues and less welfare dependency, based on the results of the Perry Pre-School Project, the most-widely cited Head Start study.

It is time to re-set our priorities in New Mexico and to make full-day kindergarten accessible to every family in New Mexico.

How to Pay for Full-Day Kindergarten by Setting Priorities

The annual recurring cost to completely implement full-day kindergarten is $37,427,400, according to the New Mexico Department of Education. Below we summarize our proposals, which represent one way in which the Legislature and the Governor could pay for implementing full-day kindergarten. Specifically, our proposals seek to use General Fund revenues by re-allocating dollars from non-essential and duplicative spending and by eliminating wasteful and inefficient subsidies.

THINK NEW MEXICO'S "SETTING PRIORITIES" PROPOSALS	SAVINGS
Net Savings from Transportation	$ 5,473,725
Special Education Savings	$ 3,755,798
Government Subsidized Child Care Savings	$ 849,900
Cut Non-Essential Spending in Professional Service Contracts	$ 14,520,000
End Volume Discount on Taxes Paid by Tobacco Distributors	$ 550,000
Abolish Border Authority	$ 100,000
Abolish Criminal & Juvenile Justice Coordinating Council	$ 100,000
Abolish Apple Commission	$ 43,400
End Subsidies for Boards & Commissions & Non General Fund Agencies	$ 3,985,592*
End Town of Cochiti Lake's Subsidy	$ 131,200
End Council of Government's Subsidy	$ 275,000
Cut Non-Essential Spending at the Public Regulation Commission	$ 851,289**
End New Mexico's Animal Damage Control Subsidy	$ 266,750
Transfer the State's Welcome Centers to the Local Communities in Which They Are Located or Close Them	$ 882,600
Sunset Tax Exemption for Horse Feed & Sale of Recreational Horses	$ 1,700,000
Sunset Tax Exemption for Jockeys' & Horsemen's Purses & Race Track Commissions	$ 2,000,000
Close Southern New Mexico Rehabilitation Center & Provide Patient Services Elsewhere	$ 2,000,000
Total Savings from Think New Mexico's "Setting Priorities" Proposals	$37,485,254

* of the $3,985,592 in savings, $2,513,200 is overhead expenses and $1,472,392 is legal expenses.

** of the $851,289 in savings, $114,000 is in cuts in student FTE positions and $737,289 is in a reduction in non-supervisory administrators.

Source: Think New Mexico 1999

SELECTED BIBLIOGRAPHY

Government Reports

Department of Finance and Administration, Administrative Services Division, Contracts Review Bureau, Professional Services Contracts Monthly Reports from July 1998 to July 1999.

Government Operations Advisory Committee, Final Report, To Improve the Quality of New Mexico State Government, August 1996.

New Mexico Criminal & Juvenile Justice Coordinating Council, Strategic Plan, Fiscal Year 2001.

New Mexico Department of Health, Rehabilitation Center Strategic Restructuring Plan, Response to the Legislative Finance Committee, August 1, 1998.

New Mexico Public Regulation Commission, Strategic Plan Fiscal Years 2001-2005.

New Mexico Racing Commission, Annual Report, 1998.

New Mexico State University, The Center for Hospitality and Tourism Studies, Visitor Information Center Master Plan, 1993.

New Mexico Taxation & Revenue Department, Special Report: Tax Policy Analysis / Alternative Considerations, Appropriate Taxation of the Horse Racing Industry, September 18, 1995.

New Mexico Taxation & Revenue Department, Special Report: Gross Receipts Tax Exemptions & Deductions-Description, Rationale, Resource Allocation & Other Issues, August 18, 1997.

Post-Session Fiscal Review, Legislative Finance Committee, May 1999.

Professional Tax Study Committee Report, November 21, 1996.

Report of the Regulation Commission Reorganization Committee to the Forty-third Legislature, Second Session, December 1997.

State of Colorado, Fiscal Rules, Indirect Cost Recoveries, Chapter 5, Section 6.00 to Section 6.40, p. 5-22.

Budget Documents

Forty-fourth Legislature, First Special Session, Laws 1999, Chapter 3, House Appropriations and Finance Committee Substitute for House Bill 9, as amended with certification of correction.

OMB A-87 State-Wide Cost Allocation Plan Based on Fiscal Year 1997 Actual Expenses (85th Fiscal Year) Revised September 29, 1998, State of New Mexico.

Report of the Legislative Finance Committee to the Forty-fourth Legislature, First Session, January 1999 for Fiscal Year 1999-2000.

Town of Cochiti Lake, Final Budget, Fiscal Year 7/1/99 to 6/30/2000.

Executive Budget, State of New Mexico, Fiscal Year 2000 (1999-2000).

State Statutes

Section 9-3-10 to Section 9-3-11 NMSA 1978 Criminal & Juvenile Justice Coordinating Council; Creation; Membership; Duties.

Section 58-27-4 to Section 58-27-26 NMSA 1978 Border Authority Created.

Section 6-6A-1 to Section 6-6A-5 NMSA 1978 Leasehold Community Assistance.

Section 7-9-1 to Section 7-9-90 NMSA 1978 Gross Receipts and Compensating Tax.

Section 76-23-1 to Section 76-23-9 NMSA 1978 Apple Commission Act.

Section 76-12-6 to Section 76-12-8 NMSA 1978 Wavier of Stamps Affixed to Packages & Containers of Cigarettes.

Section 4-58-1 to 4-58-6 NMSA 1978 Planning District Act.

Laws of 1999, Chapter 15, The Accountability in Government Act.

Newspapers & Periodicals

Coggan, Catherine, "How Nearly 300 State Councils and Commissions Spend Your Money; and No One Pays Much Attention," *Crosswinds*, April 1998.

Jadarnak, Jackie, "Health Centers Told to Adapt," *Albuquerque Journal*, 27 September 1997, p. A1.

Maresh, Michael, "Full-day Kindergarten Supported by Lea Schools," *Hobbs News-Sun*, 24 September 1999.

Massey, Barry, "Predator Control Program Used By Many Groups," *Santa Fe New Mexican*, 29 October 1999.

Pentz, Michelle, "State Finds Web Site Bringing in Tourists," *Albuquerque Journal*, 16 October 1999, p. A1.

Propp, Wren & McGhee, Tom, "Plan for State Tax Stirs Controversy," *Albuquerque Journal*, 15 November 1998 p. A1.

Taugher, Mike, "Fed Agency Allotment Invisible," *Albuquerque Journal*, 16 May 1999, p. B1.

1999 *New Mexico Magazine Vacation Guide*

Letters & Memorandum

Bunch, Steven, Executive Director, State of New Mexico, Criminal & Juvenile Justice Coordinating Council, Letter to Alicia Armijo, Legislative Finance Committee, Policy Analyst, regarding response to Legislative Finance Committee Request on Policy Issues, (October 1, 1999).

Coll, Max, State Representative, Letter to Fellow Legislators regarding FY2000 budget recommendation of the Legislative Finance Committee, (December 30, 1998).

Fernandez, Martha, Administrative Assistant, State of New Mexico, Criminal & Juvenile Justice Coordinating Council, Letter to Alicia Armijo, Legislative Finance Committee, Policy Analyst, regarding updated version of the FY01 proposed budget and related materials, (October 1, 1999).

Fernandez, Martha, Administrative Assistant, State of New Mexico, Criminal & Juvenile Justice Coordinating Council, Memorandum to Alicia Armijo, Legislative Finance Committee, Policy Analyst, regarding CJJCC Proposed Legislation and History, (October 13, 1999).

Lama, Albert J., Director, Civil Division, Attorney Generalís Office, Letter to Fred Nathan regarding Budget for the Office Of Civil Division for Period Ending 6/30/99, (November 3, 1999).

Olcott, Robert, Tax Research Office, State of New Mexico Taxation & Revenue Department, Letter to Fred Nathan regarding discount allowed under Section 7-12-7 NMSA 1978 (persons who purchase state cigarette tax stamps), (October 27, 1999).

Miscellaneous

The Book of the States, Volume 32, 1998-1999.

Minutes of the New Mexico Criminal & Juvenile Justice Coordinating Council, September 24, 1999.

Office of the Attorney General, State of New Mexico, History, Powers & Responsibilities, 1846-1990.

New Mexico Rehabilitation Center, Brochure.

ACKNOWLEDGEMENTS

We wish to acknowledge the work of several dozen people who helped us with this report.

First, Arlyn Nathan once again donated her exceptional talents and designed this report. We also were fortunate to have photographs taken by Arlyn, Kathleen Dudley and Lydia Dulski who made a special trip for us to photograph "the Goodbye Center" in Gallup. Many thanks to our printer, Roller Printing and the digital production of Get Type. To the extent that this report is enjoyable and easy to read, it is because of Arlyn, Kathleen, Lydia, Roller Printing and Get Type.

Second, our thanks to Laura Jean Hobbs Hobbs and her full-day kindergarten students at the Alvord Elementary School in Santa Fe who are the subjects in all of the classroom images.

Third, we would like to thank the many officials and experts who allowed us to interview them and generously provided us with their insights and time. They should not be held responsible for our conclusions with which they may or may not agree. They were: David Abbey; Director, Legislative Finance Committee; Alicia Armijo, Intern, Legislative Finance Committee; Bob Best, member, Hobbs Committee on Governmental Operations; Michael Browne, Bureau Chief, Division of Training and Career Development, Department of Health; Steve Burrell, Director, School Finance Analysis & Capital outlay Unit, New Mexico Department of Education; Tom Clifford, Chief Economist, Department of Finance and Administration; Bennett Cohn, Director, Litigation Division, Attorney General's Office; Kathy Dahnk, Director of Visitor Services, Arizona; Robert Desiderio, Dean, UNM School of Law; Tony Elias, Southeastern New Mexico Council of Government; Jolene Gonzales, Senior Fiscal Analyst, Legislative Finance Committee; Laird Graesser, Chief Economist, Department of Taxation and Revenue; David Harris, Secretary, Department of Finance and Administration; Al Lama, Director, Civil Division, Attorney General's Office; Maria Landazuri, Pre-School Coordinator, Special Education, New Mexico Department of Education; Anita Lockwood, former Cabinet Secretary; David Martinez, Director, Prevention and Intervention Division at the New Mexico Children, Youth and Families Department; Paulius Narbutas, Economist/Research Manager, Department of Tourism; Robert Olcott, Tax Research Office, Department of Taxation and Revenue; George Parascondola, Deputy Secretary for Finance and Administration, Department of Health; Gilbert A. Perea, State Transportation Director, School Transportation Unit, New Mexico Department of Education; Rob Perry, Secretary, Department of Corrections; Jeff Riggs, Assistant Division Director, Department of Finance and Administration; Michael Spanier, Deputy Budget Director, Department of Finance and Administration; Lawrence Trujillo, Senior Financial Analyst, Legislative Finance Committee; Alex Valdez, Secretary, Department of Health; Jonni Valdez-Silva, Tourist Counselor Coordinator, Department of Tourism; and Arley Williams, Chief Economist, Legislative Finance Committee.

Fourth, a special thanks to Gloria Segura and Rose Apodaca in the Contracts Review Bureau Division of the Department of Finance and Administration for their patience in helping us to locate copies of the state contracts that we reviewed in the course of putting together this report. Many thanks also to our hard-working volunteers: Doralei Davis, Libby and George Stone and Miriam Kastner.

Finally, we would again like to thank our consultant, John Gasparich, who graciously came out of retirement to help us with this project and donated his guidance, based on his more than a quarter of a century's worth of experience dealing with New Mexico budgets.