RIO GRANDE FOUNDATION

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Policy Brief
August 2016

What to Cut

Solutions to New Mexico's Budget Crisis

By Paul Gessing and D. Dowd Muska

Introduction

New Mexico's underperforming economy, outsized government, and years of overspending have caught up with the Land of Enchantment. Long-term expenditure trends, combined with low prices for oil and natural gas, have put New Mexico's fiscal health in jeopardy.

According to one account, the state's budget deficit for the fiscal year that ended June 30 is $150 million. In the current fiscal year, the gap between revenue and expenditures could be as much as $500 million.[1]

Much of the budget crisis can be traced to surging Medicaid enrollment. The federal-state healthcare program for "the poor" has grown by 216,600 due to its Obamacare-enabled expansion. Total enrollment is expected to reach an astonishing 900,000 by 2020 – a figure that approaches *half* the state's population.[2] According to the Legislative Finance Committee, New Mexico will spend more than $1.1 billion in general-fund revenue on Medicaid during the 2020 fiscal year.[3]

Additional threats to New Mexico's fiscal health include oil-and-gas prices continuing "to remain low," a hydrocarbon-production "decline … as active drilling rigs have fallen to 13 from 53," "higher rates for payment of tax credits," and subpar job and income growth.[4]

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[1] "Another 9-Figure Shortfall Requires a Special Session," *Albuquerque Journal* (editorial), July 26, 2016, http://www.abqjournal.com/814636/another-9figure-shortfall-requires-a-special-session.html.

[2] Susan Montoya Bryan, "New Mexico Among States where Medicaid Enrollment Surges," *Albuquerque Journal*, July 19, 2015, http://www.abqjournal.com/615068/new-mexico-among-states-where-medicaid-enrollment-surges.html.

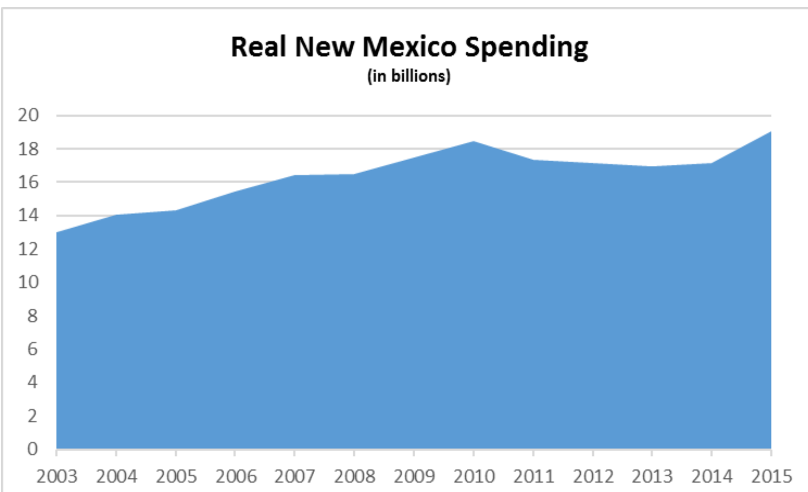
[3] *Ibid*.

[4] David Abbey, "General Fund Revenue and Economic Update," Legislative Finance Committee, New Mexico Legislature, March 21, 2016, https://www.nmlegis.gov/lcs/handouts/ALFC%20032116%20Item%201%20LFC%20Revenue%20Update%20-%20Brief.pdf.

Raising taxes is always an attractive "solution" for many policymakers, but making New Mexico even less economically competitive would be a serious mistake. The state already suffers from one of the worst jobless rates in the nation.[5] The employment-to-population ratio is disturbingly low.[6] Prospects for an immediate economic rebound, and the growth in tax revenue that would result from such an expansion, appear slim. With neighbors such as Texas, Arizona, and Utah offering lower and simpler tax burdens, lighter regulations, and right-to-work laws, there's little chance that the state will soon draw a large influx of entrepreneurs and investors.

To her credit, Governor Susana Martinez has reiterated her opposition to raising taxes on hard-working New Mexicans. According to administration spokesman Chris Sanchez, "The governor does not believe raising taxes on families and businesses is the right way to respond to this oil and gas price crash."[7]

New Mexico's budget should be balanced not with tax hikes, but through intelligent cuts – reductions that restore state government to its proper role and ask more of its public employees. Fortunately, opportunities abound to make New Mexico's budget smarter. Despite the Great Recession and a very weak "recovery," policymakers in Santa Fe have made no serious efforts to right-size state spending. As the chart below indicates, in the dozen fiscal years between 2003 and 2015, New Mexico's total expenditures, adjusted for inflation, rose by 46.5 percent. In contrast, population growth was just 9.8 percent.



Sources: Comprehensive Annual Financial Reports, State of New Mexico, various years; inflation adjustments made via online calculator of the Federal Reserve Bank of Minneapolis

Comparing New Mexico's spending to its neighbors, it is clear that there are ample areas to economize. With annual spending of $8,197 per capita in 2015, the Land of Enchantment spends considerably more than Colorado, Oklahoma, Arizona, Utah, and Texas.

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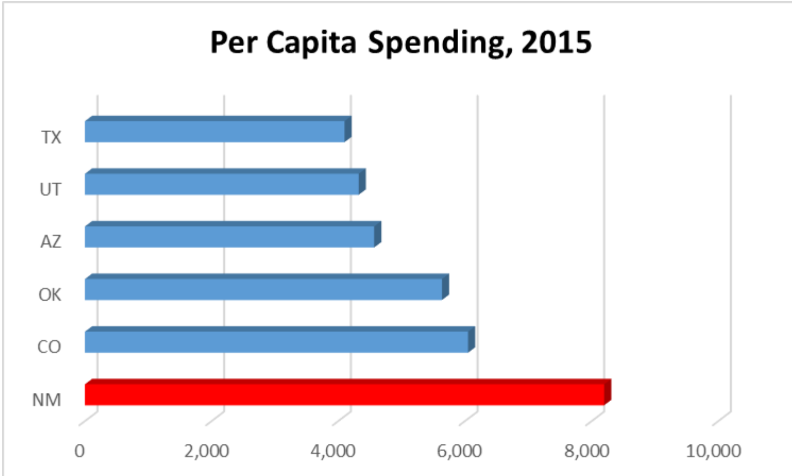
5 "Unemployment Rates for States," Local Area Unemployment Statistics, U.S. Bureau of Labor Statistics.
6 Jeff Chapman and Julie Srey, "Employment Rates Creep Closer to Pre-Recession Levels," Pew Research Center, March 1, 2016.
7 "Dan Boyd, "Governor repeats no tax-increase pledge," *Albuquerque Journal*, August 2, 2016, http://www.abqjournal.com/818845/notaxhike-pledge.html.



Source: Ballotpedia analysis of National Association of State Budget Officers, "State Expenditure Report: 2013-2015,"; United States Census Bureau, "State and County QuickFacts"

Herewith, the Rio Grande Foundation outlines its suggestions for more than $600 million in cuts to New Mexico's annual expenditures. All estimates are based on general-fund appropriations for the 2017 fiscal year. In addition to implementing these reductions, legislators and the governor should explore the privatization of state assets and entities that do not belong in government's hands, and thoroughly investigate the potential revenue benefits of a Colorado-style legalization of marijuana for recreational use.

Primary and Secondary Schools: $252 million

The state equalization grant (SEG), administered by the New Mexico Public Education Department, "is an attempt to ensure that every public school in the state receives a fair share of a statewide pool of education dollars."[8] In the 2017 fiscal year, the SEG is slated to distribute $2.52 billion to school districts.[9] Thus, a 10 percent cut to the disbursements would yield $252 million in savings.

Teacher unions and other members of the education establishment are sure to argue that New Mexico's K-12 government schools cannot bear a 10 percent cut in SEG funding. But consider the per pupil expenses of the state's neighbors. At $9,012, New Mexico spends more than Utah ($6,555), Arizona, ($7,208), Oklahoma ($7,672), Texas ($8,299), and Colorado ($8,647).[10]

New Mexico's government schools generate a poor return on this considerable "investment." A 2015 analysis ranked the state above only Nevada and Mississippi on the list of America's worst

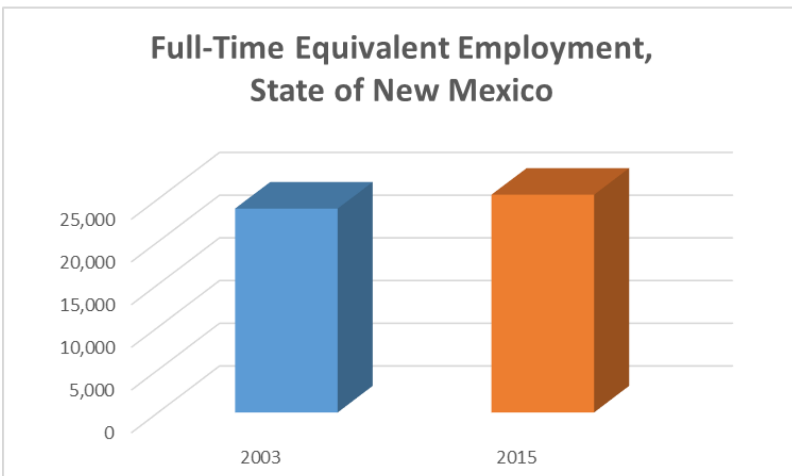
[8] "Finance Facts," Legislative Finance Committee, New Mexico Legislature, July 2013, https://www.nmlegis.gov/Entity/LFC/Documents/Finance_Facts/finance%20facts%20public%20school%20funding%20formula.pdf.
[9] "2016 Post-Session Review," Report of the Legislative Finance Committee to the Fifty-Second Legislature, Second Session, March 2016.
[10] "Public Education Finances: 2013," Educational Finance Branch, U.S. Census Bureau, June 2015.

school systems, noting that the "four-year high school graduation rate … was less than 74 percent in 2012, below the national graduation rate of 81 percent. New Mexico's students also performed poorly on standardized assessment tests, with just 21 percent of fourth graders deemed proficient in either math or reading. Nationally, 34 percent of fourth graders were proficient in either subject."[11]

With overwhelming evidence that there is no connection between expenditures and student achievement,[12] it is past time to rein in spending by New Mexico's school districts. The most promising tactic for immediate savings to is to renegotiate the collective-bargaining agreements that excessively compensate teachers and administrators, especially through an unfair and broken pension system that incentivizes longevity over quality.[13] In the long term, school choice – e.g., expansion of charter schools, scholarship tax credits, education savings accounts, and the facilitation of more home-schooling – should be pursued for significant, permanent reductions in education expenditures.

Personnel: $165 million

New Mexico has too many bureaucrats, and they are compensated too generously. "Doing more with less" is not the motto of New Mexico's state government Between 2003 and 2015, a period when taxpayers might have expected advances in information technology and management reforms modeled on successful practices in the for-profit sector to cause labor productivity to rise, it actually *fell*. Full-time equivalent employment grew from 23,872 to 25,496 positions.



Sources: Comprehensive Annual Financial Reports, State of New Mexico

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[11] Thomas C. Frohlich and Alexander Kent, "States With the Best (and Worst) Schools," 24/7 Wall St., January 9, 2015, http://247wallst.com/special-report/2015/01/09/americas-best-and-worst-school-systems/.
[12] Eric A. Hanushek, "What Matters for Student Achievement," *Education Next*, Spring 2016, http://educationnext.org/what-matters-for-student-achievement/.
[13] Marcus Winters, "The Hidden Bill Young Teachers Pay," Manhattan Institute, January 21, 2016, http://www.manhattan-institute.org/html/hidden-bill-young-teachers-pay-8431.html.

In addition to excessive staffing, research has repeatedly confirmed that pay and benefits for New Mexicans who work in the private sector are worth less than the compensation awarded to state employees. A 2014 study by the American Enterprise Institute found a 24 percent advantage when total compensation, including the value of job security, was scrutinized.[14]

A 10 percent reduction in the total cost of state-employee compensation is a reasonable goal. (Some might argue that, in fairness to taxpayers, a 24 percent cut is justified.) Fortunately, there are many opportunities to reduce personnel costs. Layoffs of non-essential workers would be a good place to start. Benefits provide another savings option worth exploring. Employees who earn under $50,000 annually and are covered by the state's collective bargaining agreement with the American Federation of State, County, and Municipal employees contribute just 20 percent toward their healthcare premiums.[15] In the private sector, the share is significantly more – 34 percent, according to United Benefit Advisors.[16]

The governor should make it clear that unless unions agree to compensation packages for their members that more closely resemble pay and benefits in the private sector, significant layoffs will occur. Tough negotiations are needed to address the present budget crisis, but in the long term, New Mexico should repeal the laws that permit government unionization. Free from the competitive pressures at work in the private sector, public employment is no place for organized labor. In the words of iconic union leader George Meany, "It is impossible to bargain collectively with the government."[17] President Franklin Roosevelt was another opponent of unionizing by government employees.[18]

Corporate Welfare: $137 million

For decades, New Mexico's politicians and bureaucrats have attempted to build a vibrant and diversified private-sector economy. Their efforts have failed, in spectacular fashion. According to 2013 research by the Mercatus Center, 31.9 percent of the state's workforce is employed by government, either directly or through federal contracts. That is the highest rate in the nation.[19] Among the states, New Mexico's disposable per capita income, after adjusting for purchasing power, ranks higher than only three states.[20]

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[14] Andrew G. Biggs and Jason Richwine, "Overpaid or Underpaid? A State-by-State Ranking of Public-Employee Compensation," American Enterprise Institute, April 2014, https://www.aei.org/publication/overpaid-or-underpaid-a-state-by-state-ranking-of-public-employee-compensation/.

[15] Official Agreement Between the State of New Mexico and AFSCME Council 18, December 23, 2009 through December 31, 2011 (agreement remains in force as of publication), http://www.nmprc.state.nm.us/administrative-services/docs/hr/State_Employees_Contract_12_13_09_to_12_31_11_PDF.pdf.

[16] Stephen Miller, CEBS, "Costs Compared: Public vs. Private Sector Health Plans," Society for Human Resource Management, January 16, 2015.

[17] George C. Leef, *Free Choice for Workers: A History of the Right to Work Movement*, 2005.

[18] Dave Umhoefer, "Did FDR oppose collective bargaining for government workers?," *Politifact*, August 13, 2013, http://www.politifact.com/wisconsin/statements/2013/aug/13/scott-walker/Did-FDR-oppose-collective-bargaining-for-governmen/.

[19] Keith Hall and Robert Greene, "Government-Financed Employment and the Real Private Sector in the 50 States, Mercatus Center, George Mason University, November 25, 2013, http://mercatus.org/publication/government-financed-employment-and-real-private-sector-50-states.

[20] Lyman Stone, "New State-Level Price Data Shows Smaller State Real Income Differences," Tax Foundation blog, May 23, 2014, http://taxfoundation.org/blog/new-state-level-price-data-shows-smaller-state-real-income-differences.

There is a strong relationship between low taxes on productive activity (income)[21] and economic growth and right-to-work laws and economic growth,[22] but no discernable (and perhaps even an inverse relationship) between economic incentives and overall economic growth.[23]

It is time for a new strategy to create jobs and build wealth in the Land of Enchantment – one founded not on crony capitalism and wishful thinking, but policies that reward entrepreneurship, innovation, and investment. Nearly in toto, the major components of "economic development" in New Mexico should be eliminated.

Local Economic Development Act: $55.4 million

Authorized under the Local Economic Development Act, New Mexico's "closing fund" distributes "grants for infrastructure investments and are often used in combination with other economic incentives," with spending for individual investments ranging "from the tens of thousands into the tens of millions of dollars."[24]

LEDA's current "total unencumbered funding level" is $55.4 million.[25] Yet the program's proponents have never proffered any credible evidence that the closing fund is a wise expenditure of taxpayer dollars. Earlier this year, the Legislative Finance Committee (LFC) reported that "the state does not receive sufficient reporting from businesses using … Local Economic Development Act … funds to properly evaluate" the program. Thus, "it is impossible to determine relative effectiveness and cost-efficiency" of the program.[26]

Refundable Film Production Tax Credit: $50 million

Research has consistently shown that subsidies to Hollywood have not produced a sustainable film-and-television industry in New Mexico. A 2014 analysis found that "production activity has

[21] Eric Cederwall, "Economic and Revenue Effects of Changes in the Income Tax Rate," Tax Foundation, June 22, 2015, http://taxfoundation.org/blog/economic-and-revenue-effects-changes-income-tax-rate.
[22] D. Dowd Muska, "Where the Good Jobs Are: A New look at Right to Work and Employment Growth," Rio Grande Foundation, October 2015, http://www.riograndefoundation.org/downloads/rgf_where_jobs_are.pdf.
[23] Council for Community and Economic Research, "State Economic Development Expenditure Trends 2014-2016," http://stateincentives.org/media/2015/2015-06-04_-_State_of_State_Expenditures.pdf.
[24] "Deal Closing Funds: Introduction and Discussion," Legislative Council Service, New Mexico Legislature, August 2013, https://www.nmlegis.gov/LCS/handouts/IPOC%20080913%20Item%202%20Deal%20Closing%20Funds%20Report%20by%20Albuquerque%20Economic%20Development.pdf.
[25] Legislative Finance Committee, New Mexico Legislature, "Post-Session Review: Report of the Legislative Finance Committee to the Fifty-Second Legislature, Second Session," March 2016, https://www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Post_Session_Fiscal_Reviews/March%202016.pdf.
[26] Legislative Finance Committee, New Mexico Legislature, "Legislating for Results: Policy and Performance Analysis, Report of the Legislative Finance Committee to the Fifty-Second Legislature," January 2016, https://www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Budget_Recommendations/2017RecommendVolII.pdf.

produced an estimated $0.43 in state and local taxes ($0.33 in state taxes and $0.10 in local taxes) for each dollar in production incentive granted."[27]

Last year, a follow-up analysis documented that industry spending and job-creation in the state *fell* between 2011 and 2015, and that New Mexico residents accounted for just 46 percent of performing artists, 35 percent of "key creative" employees, and 24 percent of post-production staffers."[28]

Notwithstanding New Mexico politicians' glee over having their pictures taken with Hollywood stars, the film-and-television tax credit has been a disaster for taxpayers. It should be eliminated.

Tourism Department: $16.9 million

The mission of the state's Tourism Department is to "market New Mexico to the world as an enchanting visitor destination."[29] But there are reasons to be skeptical of the "studies" that claim to confirm taxpayer-supported tourism promotion is a valuable economic-development tool. Longwoods International, a Canada-based firm that New Mexico has paid to analyze Tourism Department spending, has disturbing credibility problems.

Research by the Mackinac Center for Public Policy found that in "state after state, the company uses its secret methodology to produce similar reports, nearly all showing positive impacts from similar programs. Longwoods' business model appears to be one of helping state economic development bureaucrats persuade lawmakers to keep their budgets well filled. It's not so surprising, then, that these same officials are not very curious about whether the company's reports are valid."[30]

Furthermore, promoting tourism is not the job of government. Visitors came to New Mexico for its rich culture, fascinating history, and stunning scenery long before the creation of a cabinet-level tourism department in 1991. They will continue to come after the bureaucracy's elimination and replacement with a nonprofit entity funded by the state's tourism-related businesses.

Economic Development Department: $8.3 million

The department has failed in its mission to "facilitate the creation, retention, and expansion of jobs and increase investment through public and private partnerships to establish a stable

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[27] MNP, "New Mexico Film Production Tax Incentive Study: Phase I Report," New Mexico Film Office, July 21, 2014, http://www.nmfilm.com/uploads/files/Phase%201%20Report%20-%20Final%20Report%20(July%2021%2C%202014).pdf.

[28] MNP, "New Mexico Film Production Tax Incentive Study: Phase II Report," New Mexico Film Office, October 2015, http://www.nmfilm.com/uploads/files/Phase%202%20Final%20Report%20(October%205,%202015).pdf.

[29] Legislative Finance Committee, New Mexico Legislature, "Legislating for Results: Appropriation Recommendation, Report of the Legislative Finance Committee, New Mexico Legislature, to the Fifty-Second Legislature," January 2015, https://www.nmlegis.gov/lcs/lfc/lfcdocs/budget/2016RecommendVolII.pdf.

[30] Michael D. LaFaive, "Puffery or Proof? The Business of Tourism Subsidy 'Budget Justification,'" Mackinac Center for Public Policy, March 30, 2016, http://www.michigancapitolconfidential.com/22301.

diversified economy that will improve the quality of life."[31] While its regulatory duties, such as the issuance of licenses and permits, should remain, the department has proven incapable of drawing significant jobs and economic development to New Mexico. Eliminating the department's non-regulatory tasks would yield savings of approximately $8.3 million.

Job Training Incentive Program: $6 million

"JTIP" is a program that "funds classroom and on-the-job training for newly-created jobs in expanding or relocating businesses for up to 6 months.[32] While the program is a treasured tool for New Mexico's economic-development bureaucrats, there is no evidence that the program makes meaningful, lasting contributions to job- and wealth-creation in the state.

Perhaps most disturbing of all, as reported by the LFC, the Economic Development Department has pursued "less reporting and oversight for JTIP by asking to reduce the performance measures for JTIP from four to two. The agency wanted to stop reporting the average hourly wage of jobs funded through JTIP and discontinue reporting the percent of employees whose wages were subsidized by JTIP still employed in New Mexico after one year. However, these are critical measures to ensure jobs funded are not low or minimum wage positions and that the workforce the state is training remains employed and in the state after the training. If a majority of funds are used to fund poorly paid positions and those employees then leave the state to find better job opportunities, it would be a clear signal JTIP is not serving its intended purpose."[33]

Colleges and Universities: $30 million

New Mexico's government-run universities and colleges face severe accountability and efficiency issues. A 2015 report found that the state ranks 49th in the percentage of students who graduate on time.[34] The result was hardly surprising, given that more than half of freshmen need to take at least one remedial course.[35]

Clearly, a major overhaul of higher education in the Land of Enchantment is in order. While sweeping reforms will take years, a reasonable place to start is with the problem of "campus sprawl."

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[31] New Mexico Economic Development Department, "About Us," https://gonm.biz/about-us/.

[32] "Job Training Incentive Program," New Mexico Economic Development Department website, https://gonm.biz/business-resource-center/edd-programs-for-business/job-training-incentive-program/.

[33] Legislative Finance Committee, New Mexico Legislature, "Legislating for Results: Policy and Performance Analysis, Report of the Legislative Finance Committee to the Fifty-Second Legislature," January 2016, https://www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Budget_Recommendations/2017RecommendVolII.pdf.

[34] Legislative Finance Committee, "Higher Education Department On-time Graduation and Degree Production," December 7, 2015, https://www.nmlegis.gov/lcs/lfc/lfcdocs/perfaudit/Higher%20Education%20%E2%80%93%20On-Time%20Graduation%20and%20Degree%20Production.pdf.

[35] Rob Nikolewski, "Not ready for college: Report says 51 percent in NM take remediation classes," Watchdog.com, January 24, 2014.

Asked by a legislative committee, in 2010, "how many university branch campuses are in New Mexico, Higher Education Department Secretary Viola Florez did not have an immediate answer."[36] In 2016, the University of New Mexico has five branch campuses: West, Gallup, Valencia, Los Alamos, and Taos. New Mexico State University has five as well: Alamogordo, Carlsbad, Albuquerque, Doña Ana, and Grants. New Mexico Highlands University has seven: Albuquerque, Española, Farmington, Raton, Rio Rancho, Roswell, and Santa Fe. Eastern New Mexico University has two: Roswell and Ruidoso. Western New Mexico University has four: Deming, Gallup, Lordsburg, and Truth or Consequences.

Substantial savings can be obtained through the closure of branch campuses. For example, the fiscal 2017 appropriation for UNM Taos is $3.7 million. The university's Valencia facility received $5.6 million. The budget for NMSU's Carlsbad branch campus is $4.5 million. NMSU Alamogordo received $7.6 million.

In addition to branch campuses, policymakers in New Mexico should end taxpayer subsidies for college sports. The University of New Mexico alone receives $2.9 million annually from state taxpayers, but according to recent news reports the UNM Athletic Department ran a deficit of $1.54 million for the fiscal year that ended June 30.[37] This doesn't even include annual infusions of $4 million worth of student fees which drive up the cost of tuition for all students regardless of their interest in sports.

UNM is not alone. According to the *Huffington Post*, between 2010 and 2014, New Mexico State University's athletic department has received $98,354,004.[38] This more inclusive number includes both direct state support as well as cross-subsidies from the university itself.

UNM and NMSU are the state's two Division I sports programs and thus the most costly to operate, but given the dire state of the state budget, subsidies to college sports programs must be on the chopping block.

Preschool: $52 million

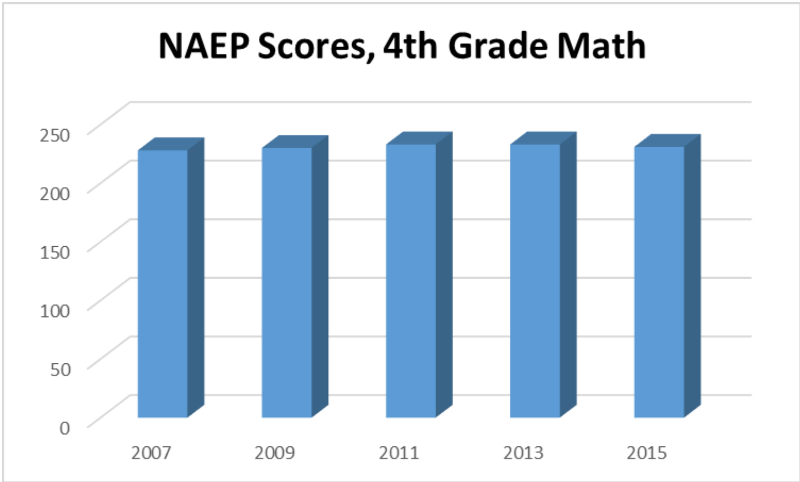
According to the LFC, New Mexico's "early childhood care and education system begins prenatally and spans through age 8."[39] Despite the system's good intentions, it is not at all clear that the *$238 million* it is expected to spend in fiscal year 2017 will produce any lasting results.

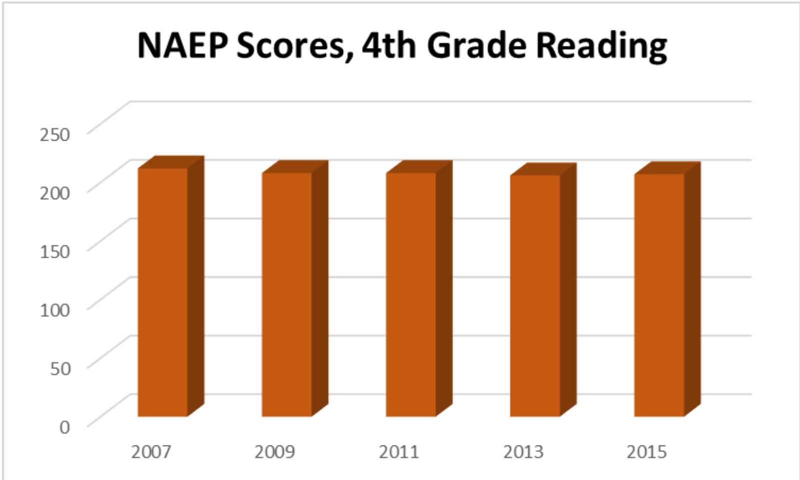
While pre-k enjoys the backing of powerful lobbying groups and a large portion of the public, proof of the program's efficacy is nonexistent. Child psychologist and education researcher Grover J. "Russ" Whitehurst has likened it to "organic food – a creed in which adherents place

[36] James Monteleone, "Lawmakers: Too Many N.M. Colleges," *Albuquerque Journal*, October 23, 2010.
[37] Geoff Grammer, "Bleeding Cherry Red," *Albuquerque Journal*, August 2, 2016, http://www.abqjournal.com/818491/unm-athletics-department-has-1-54-million-deficit.html.
[38] "Substantially Subsidized," *Huffington Post*, http://projects.huffingtonpost.com/projects/ncaa/subsidy-scorecards/new-mexico-state-university.
[39] Legislative Finance Committee, New Mexico Legislature, "2016 Post-Session Review: Report of the Legislative Finance Committee to the Fifty-Second Legislature," March 2016, https://www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Post_Session_Fiscal_Reviews/March%202016.pdf.

faith based on selective consideration of evidence and without weighing costs against benefits."[40] Reviewing the research, the scholar noted that "the best available evidence raises serious doubts that a large public investment in the expansion of pre-k for four-year-olds will have the long-term effects that advocates tout."[41]

New Mexico provides sobering data of preschool's limits. The state began subsidizing early childhood education a decade ago. But convincing, measurable results have not been documented. For example, the scores of 4th graders on the National Assessment of Educational Progress (NAEP) have been stagnant.





Source: NAEP website (http://nces.ed.gov/nationsreportcard/)

New Mexico's early childhood care and education system includes many programs, including home visitation, childcare assistance, and "K-3 Plus." The *entire* system deserves long-overdue

[40] Grover J. "Russ" Whitehurst, "Can We Be Hard-Headed About Preschool? A Look at Head Start," Brookings Institution, January 16, 2013, http://www.brookings.edu/research/papers/2013/01/16-preschool-whitehurst.
[41] Grover J. "Russ" Whitehurst, "Does Pre-k Work? It Depends How Picky You Are," Brookings Institution, February 26, 2014, https://www.brookings.edu/research/does-pre-k-work-it-depends-how-picky-you-are/.

oversight, and in all likelihood, significant rollbacks. One place to start is with preschool. At the very least, the program should be suspended for the 2016-17 school year, pending a serious investigation of its costs and benefits. Savings would total $52 million.

Privatization Possibilities

The state's land, buildings, equipment, vehicles, infrastructure, and other assets are valued at tens of billions of dollars.[42] Surely a significant share of those assets could be transferred to the private sector. Two prime options include the New Mexico State Fair and "Spaceport America."

As economic-development consultant David Vogel put it, the state fair's property "is a totally underutilized resource and needs a revisioning."[43] The LFC has noted that the "state fairgrounds suffer from decades of neglect and deferred maintenance."[44] It is likely that a private, profit-oriented owner would make far better use of the facility.

Spaceport America has been a blunder of astronomical proportions. Opened ten years ago, it has never launched a payload into orbit, and has not sent a single tourist on a suborbital voyage. Nearly $220 million in various types of subsidies were awarded to the spaceport for design and construction. Operating appropriations from the state are not particularly large – $440,000 in general-fund appropriations for 2017 – but selling the facility, as a bill drafted for the 2015 regular legislative session proposed to do, could at least return some revenue to taxpayers.

In addition to land and infrastructure, New Mexico's taxpayers fund "component units," which are "legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion [from financial statements] would cause the state's financial statements to be misleading or incomplete."[45]

Major component units include the New Mexico Finance Authority, New Mexico Mortgage Finance Authority, New Mexico Lottery, and Sandoval Regional Medical Center. Nonmajor component units include the University of New Mexico Alumni Association, Cumbres & Toltec Scenic Railroad, Lobo Development Corporation, New Mexico Tech Research Park Corporation, and Arrowhead Center.

All of these entities receive some manner of taxpayer funding – as the *Albuquerque Journal* recently reported, the University of New Mexico Alumni Association "is an autonomous nonprofit, but the school subsidizes its rent, staff and utilities, and relinquishes to it rights to

[42] Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, State of New Mexico, http://www.nmdfa.state.nm.us/uploads/files/Financial%20Control/CAFR/FInal%20Version%20State%20of%20NM%20CAFR%20FY15%20(Reduced).pdf.
[43] Stephanie Guzman, "Businessman seeks private support to make fairgrounds an economic engine," *Albuquerque Business First*, May 12, 2015, http://www.bizjournals.com/albuquerque/blog/real-estate/2015/05/vogel-business-support-fairgrounds-park.html.
[44] Legislative Finance Committee, New Mexico Legislature, "Legislating for Results: Policy and Performance Analysis, Report of the Legislative Finance Committee to the Fifty-Second Legislature," January 2016, https://www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Budget_Recommendations/2017RecommendVolII.pdf.
[45] *Ibid.*

money from special license plate sales and some special credit card income."[46] State-supported financial institutions, technology-development enterprises, and nonprofit organizations should be fully privatized.

Revenue from Legal Marijuana?

In 2012, voters in Colorado chose to legalize marijuana for personal consumption. Recreational pot is now permissible in four states and the District of Columbia. Voters in Maine, Nevada, California, and Massachusetts will decide marijuana ballot initiatives in November.

Gallup's most recent polling on the issue found that 58 percent of Americans favor the legalization of marijuana.[47] Many now believe that it is only a matter of time before pot for personal use is legitimized nationwide. More and more voices in New Mexico are pushing to emulate the Land of Enchantment's neighbor to the north. One of the pro-pot community's strongest arguments for legalization is the revenue benefits the Centennial State has enjoyed since legalization.

A recent analysis by the Tax Foundation documented the fiscal impact of legal weed in Colorado: "After an initially slow start … Colorado marijuana tax revenues now greatly exceed original estimates of $70 million per year. Collections of $56 million in calendar year 2014 grew to $113 million in calendar year 2015, and will likely exceed $140 million in calendar year 2016. The state has scheduled a tax reduction for July 2017."[48]

With a smaller population, New Mexico could not expect a revenue windfall comparable to the one Colorado received from legalization. Still, the potential contribution to a balanced budget would not be trivial. The Foundation estimates that a 25 percent retail tax on recreational marijuana in New Mexico would yield annual revenue of $57 million.[49] Furthermore, the lessons learned in Colorado and other states about proper regulation of taxation of the formerly illegal substance could be implemented at the start in New Mexico, thus ensuring that the new revenue stream would commence quickly.

Conclusion

New Mexico's state government spends too much. The arrival of the Great Recession and the subpar "recovery" that followed offered governors and legislators – Democrats and Republicans – an opportunity to prioritize and economize. Instead, federal "stimulus" money was grabbed, Medicaid was expanded, and no fundamental modifications to the state's fiscal habits were made.

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[46] Maggie Shepard, "Regents halt work on UNM alumni association project," *Albuquerque Journal*, August 2, 2016, http://www.abqjournal.com/818820/regents-halt-work-on-unm-alumni-association-project.html.
[47] Jeffrey M. Jones, "In U.S., 58% Back Legal Marijuana Use," Gallup, Inc., October 21, 2015, http://www.gallup.com/poll/186260/back-legal-marijuana.aspx.
[48] Joseph Henchman Morgan Scarboro, "Marijuana Legalization and Taxes: Lessons for Other States from Colorado and Washington," Tax Foundation, May 2016, http://taxfoundation.org/article/marijuana-legalization-and-taxes-lessons-other-states-colorado-and-washington.
[49] *Ibid*.

The results of such irresponsibility are now apparent. New Mexico must cut its budget. Fortunately, there are many opportunities to right-size, from wasteful government-school spending to the consistently ineffective policies aimed at fostering economic development. Privatization could produce substantial one-time savings, and the legalization of marijuana for personal use holds much promise as a revenue-generation tool.

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