New Mexico VOICES for Children

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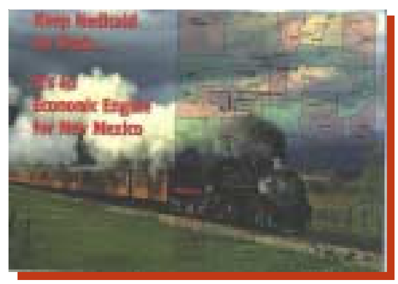
Viewpoint

Medicaid: Penny Wise, Pound Foolish

The outcome of the 2004 legislative debate about Medicaid funding is a classic example of penny wise, pound foolish. The Human Services Department recognized that about $110 million more is needed in the Medicaid budget this year in order to maintain the level of services now offered. That increase over last year's budget is due to inflation of health care costs and modest increases in enrollment. The final Medicaid budget will provide roughly $70 million in new money - 40 million less than is needed to maintain 2003 enrollment and service levels. This reduced investment weakens the Medicaid program and our state economy.



Reduced spending on health weakens the very infrastructure of support that enables businesses to function: children who are healthy due to Medicaid miss less school and their parents miss less work.

The Medicaid program is an economic engine in New Mexico and one of the best economic investments available to the state. For every dollar the state spends on Medicaid, we receive $3 from the federal government – tripling our initial investment in the first year, and in subsequent years. A one million investment of state dollars generates an additional $3 million and creates 80 jobs in the state – including jobs in rural areas. These jobs pay an average weekly wage 13% higher than the state's average weekly wage *for all other industries.* What other investment has the state made to create jobs and stimulate the economy that comes close to the return on investment New Mexico gains from Medicaid?

The debate about funding for Medicaid revealed how little understanding there is about the economic impact of some of the state's 'social' spending, and about the interdependence of the public and private sectors. Tax dollars invested in Medicaid are subject to intense scrutiny, while decisions about investing tax dollars in private enterprise (either through direct investments in companies, or investments in workforce training, or tax abatements that amount to uncollected revenues) are made under the radar screen of public debate or accountability. There is great reluctance to see the economic value of some of our social spending. In the case of Medicaid, this short-sightedness has led to self-defeating policymaking.

The public and private sectors are intersecting and interdependent parts of the same engine. The return on

(Continued on page 2)

NM Voices' Publications:

Special Reports

- Minority/Majority: A Profile of New Mexico's Children 2003 (A Kids Count Special Report)*
- The Bare Bones Budget Report (summary)
- The Bare Bones Budget Report (full report)
- The Economic Impact of Increasing Food Stamp Utilization
- New Mexico Kids Count Data Book 2003

Policy Briefs

- Policy Brief #1: The Low Income Comprehensive Tax Rebate
- Policy Brief #2: Health Insurance for Low-Income Children
- Policy Brief #3: Benefits of Tax Rebates and Credits
- Policy Brief #4: Medicaid Look Back Periods Are Barriers to Health Insurance for Children
- Policy Brief #5: Parents' Health Insurance Benefits Children
- Policy Brief #6: Early Childhood Education
- Policy Brief #7: Taxation of Low-Income New Mexico Families
- Policy Brief #8: Strengthening the New Mexico Economy Through Unemployment Insurance Reform
- Policy Brief #9: The Impact of Medicaid on New Mexico's Economy
- Policy Brief #10: The Invisible Caretaker - Grandparents as Parents in New Mexico

*New reports are indicated with an asterisk.
A complimentary copy of all reports and policy briefs is available to all NMVC members. If you are not a member, please use the enclosed envelope to join today!

(Medicaid continued from page 1)
investment of tax dollars within each sector should be carefully examined. And our efforts to raise the standard of living for New Mexicans should be based on integrated investment strategies that build ladders out of poverty, based on good jobs, and a safety net designed to support families when they need it.

The personal income tax cut passed last year resulted in an $83 million reduction of general fund dollars this year, and will benefit primarily upper-income people. Any job creation stimulated by the tax cut will be cancelled out by the job loss resulting from decreased funding of Medicaid. Lower-income families, children, the elderly, the disabled – and the economy – are the losers.

For more on Medicaid and state economies see: *USA Today*, February 29, 2004, (reporting Mississippi's efforts to hold on to Medicaid dollars because of the impact on that state's economy).

http://web.mhanet.com/asp/Governmental-Relations/medicaid/myths-facts.asp (reports by the Missouri Hospital Association on Medicaid and its relationship to Missouri's budget and general revenues).

Photo credit: Health Action New Mexico (Medicaid as Economic Engine)

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Add your voice to ours.

Join New Mexico Voices for Children to address the urgent needs of New Mexico's children.

Please return the enclosed membership form today.

For more information, call Felicia Griffin, Director of Development, 505-244-9505. ext. 21.

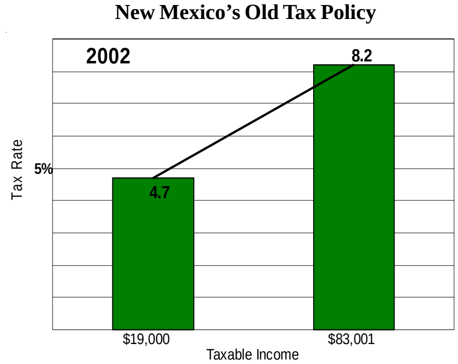
New Mexico's Tax Policy: The Problem with the Personal Income Tax Cut

Fairness and revenue adequacy are two important principles of good tax policy. Taxes should generate enough funds to pay for the state's essential services. In addition, taxes should distribute the tax burden equitably - taking a higher percentage of income from higher income households. Unfortunately, with the personal and capital gains income tax cut passed in 2002, New Mexico's tax policy now fails to comply with either of these principles.

Fairness

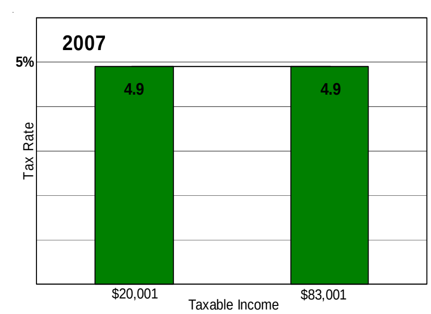
Until the personal income tax cuts were passed, New Mexico had a *progressive* personal income tax system. People with higher incomes paid a higher percentage of their income in taxes. The rates started at 1.7% for a head of household with taxable income (or income after allowable deductions) of $7,000 and increased to 8.2% for a head of household with taxable income of greater than $83,000. However, the "effective" tax rate for upper income families was lower than 8.2% because of deductions (such as mortgage interest and health care costs) that are often not available to low income families. Still, the personal income tax system was progressive: rates increased from lower rates for very poor people to higher rates for people with more income.

New Mexico's Old Tax Policy



In 2007, when the income tax cuts are fully phased in, New Mexico will have a *regressive* personal income tax system: high income families will no longer be paying a fair share of taxes. In the new law, the rates for very poor people have not been lowered: they still start at 1.7%; but the rates for upper income brackets have been drastically reduced to 4.9%. In 2007, a mother of two children with taxable income of $20,000 will pay 4.9% in personal income taxes. And a mother of two children with taxable income of $90,000 will also pay taxes at the same 4.9% rate.

New Mexico's New Tax Policy

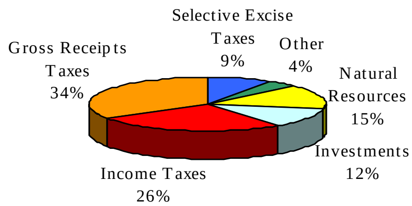


The problem is compounded because the law passed in 2002 also cut capital gains taxes (the taxes paid on the profits from sale of assets, such as stock or commercial buildings.) By 2007, only 50% of capital gains will be subject to tax. This is another windfall for weathly people who are most likely to derive a large share of income from capital gains.

Revenue Adequacy

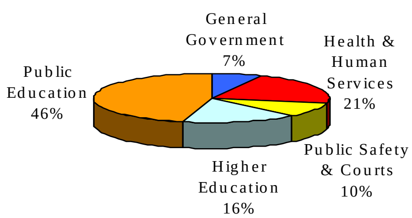
With full implementation of the tax cut, New Mexico's tax policy will also fail to meet the 'revenue adequacy' test. **By 2007, the state will collect $350 million less in taxes each year. Our total budget is only $4.4 billion.** We felt the first wave of the tax cuts this year: there was ***$83 million less*** in income tax-generated revenue available for education, health care, child care and other investments essential to a healthy economy. When fully phased in, there will be $350 million less to spend *every year*. To understand what that will mean to our budget, and to funding essential programs and services, it is important to understand how the tax system works. Taxes are collected from several sources, and become the General Fund:

Taxes: Sources of the General Fund in FY 2004 ($4.4 B)



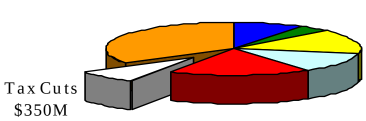
The General Fund, in turn, pays for state programs and services:

Services: What the General Fund Paid for in FY 2003 ($4.4 B)

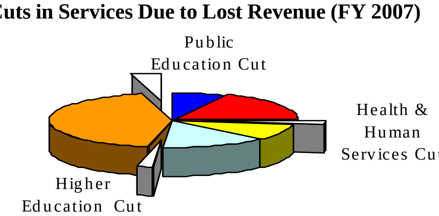


There is a direct relationship between tax policy and funding essential needs. Last year's income tax cuts resulted in $83 million less in this year's General Fund. Much of the 2004 legislative debate was around the Medicaid budget, and finding sufficient revenue to fully fund Medicaid. With the continued reduction of revenue due to the tax cuts, New Mexico will face drastic spending cuts in education and healthcare in the next year. We cannot afford an annual loss of $350 million in revenue.

Money Lost From the General Fund (FY 2007)



Cuts in Services Due to Lost Revenue (FY 2007)



Simply put, we will very soon be faced with the choice either to raise taxes or cut services. So far, the debate has been framed as a *spending* crisis. In fact, it is a *revenue* crisis brought on by the personal income and capital income tax cuts of last year. This is a critical distinction. If we understand that the source of our inability to pay for essential services is insufficient revenues (rather than excessive spending) we arrive at different policy solutions. A *revenue* crisis means that we need to examine our tax policy and make sure that it is fair and adequate. A *spending* crisis means that we will reduce funding and the most likely reduction will be in essential services like education, child care, and health care for vulnerable populations.

Tell Us What You Think

We would like to know your thoughts or questions about the ideas expressed in *Viewpoint*.

Please e-mail us:
viewpoint@nmvoices.org.

Development News

Be a Voice!

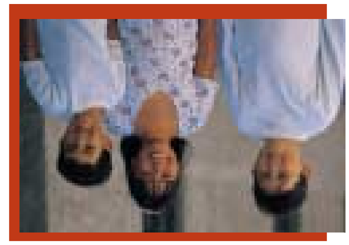
A generous donor will match all new contributions to NM Voices up to $20,000. If you contributed last year, any increase over last year's gift can also be matched. Please help us meet this challenge by sending your check today. You can use the enclosed envelope to become a member and/or to make a contribution. Thank you for helping us to help New Mexico's children.

Amy Biehl Youth Spirit Award

SAVE THE DATE:
JUNE 25, 2004.

The Amy Biehl Youth Spirit Award recognizes New Mexican youth who are working for positive change in their communities, the state and/or the world.

The nomination deadline is April 7th. Please nominate a young person between the ages of 13 and 26. Tickets to the luncheon are available now. Call 244-9505 for a nomination packet or to reserve your seat.



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Winter / Spring 2004

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Newsletter

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