



# LFC Newsletter

A publication of the

**Legislative Finance Committee**

Senator John Arthur Smith, Chairman

Representative Luciano "Lucky" Varela, Vice Chairman

David Abbey, Director

Volume 09 Issue 05-06

December 2008-January 2009

## *From the Chairman* **A Juggling Act**

Anybody hit with a financial crisis knows that it usually takes more than cutting back to stay afloat. You have to start with eliminating the least necessary expenses, of course, but eventually you will run out of places to cut and then you start juggling both bills and income. And, if you're lucky, dipping into your savings.

New Mexico, rarely flush with money, is facing its worse financial crisis in decades, and it will take more than just "cutting the fat" to get the state through the next few years.

Just finishing this fiscal year will take some creativity. New Mexico state government must cut \$450 million in planned FY09 spending to end the year with the constitutionally required balanced budget. The LFC solvency proposal, a work in progress, starts with cuts – \$138 million in reductions to state agencies – but also identifies over \$100 million in cash balances in other state funds, proposes a change in corporate income tax reporting that would add \$65 million to the general fund, and identifies \$150 million in idle capital outlay appropriations that could be recaptured.

The solvency plan is on the agenda for the committee's Jan. 14-16 meeting, along with reports on the economy and energy markets. Whether the full Legislature likes the plan or not, it is important to remember it will take quick action and strong cooperation to find a workable solution that does the least amount of harm to the most vulnerable New Mexicans.

The "long" legislative session starting on Jan. 20 is supposed to be open to all topics, unlike the budget-focused short sessions of even-numbered years. But this upcoming long session is likely to be more focused on the budget than any long or short session of last 20 years. It feels like a very long time ago that we had the luxury of discussing anything else.

**Senator John Arthur Smith**  
**Chairman**

## **LFC Recommends Cuts**

The Legislative Finance Committee budget recommendation for the 2009-2010 fiscal year calls for spending \$5.88 billion from the state's general fund and emphasizes education, health care while addressing the severe economic downturn.

The spending plan for the budget year that starts July 1, 2009, is a 2.4 percent decrease from current year appropriations. Even with program cuts, general fund spending would exceed the expected general fund revenue of \$5.76 billion, necessitating a recommended \$94 million transfer from reserves among other steps to increase the amount of available revenue.

"For the last few years, soaring tax revenues from the energy industry have masked weakening revenues from broad-based sales and income taxes," said Sen. John Arthur Smith, LFC chairman. "Those weaknesses were dramatically unmasked over the last six months."

General fund revenue estimates for FY10 have dropped 8 percent over the last year. Forecasts being prepared for the halfway point of the session may cut the figure for anticipated revenue further. State revenues are not expected to return to FY08 levels until FY12.

The committee's recommendation for public school support is a 1.5 percent cut from the current year appropriation that reflects an expected drop in enrollment-driven funding units. Funding for pre-kindergarten, early elementary education, elementary physical education and other vital programs is substantially intact. With funding for

the states' colleges, education would continue to represent 58 percent of the state's general fund spending.

As with public schools, the committee recommendation for higher education, while a 2.3 percent reduction from the FY09 appropriation, would preserve the programs that most directly serve students.

While the proposal for the Human Services Department is essentially flat compared with this year, savings in administrative and overhead costs and greater leveraging of federal matching funds should ensure the continued expansion of Medicaid healthcare coverage and the maintenance of the cash assistance program for poor families. The general fund recommendation for Medicaid represents a 5.6 percent cut, but the total recommendation, with the nearly 3-to-1 match in federal funds, is flat compared with the current year.

The recommendation for the Health Department is a 1.3 percent cut in general fund support and a 3.8 percent cut in total spending. The recommendation emphasizes spending on facilities management, an agency priority, and services to the developmentally disabled, a legislative priority.

"It took an intensive review of spending and revenue to make this budget work in the face of the state's dramatic fiscal downturn," said Rep. Jeanette Wallace, R-Los Alamos. "Many people will be unhappy but, when money is tight, we have to focus our resources."

The 2009 legislative session starts January 20.

## **Stimulus Plan Could Mean Big Bucks for NM**

Preliminary plans for a possible infusion of hundreds of billions of federal funds into the states to stimulate the economy could mean at least \$1 billion for New Mexico over several months.

The money would move to the states mostly through the Medicaid health-care program and highway construction and other public works projects.

However, the level of funding and other issues are far from settled, LFC research shows.

If the stimulus plan proposed by President-elect Barack Obama is approved by Congress, federal highway construc-

tion money would likely be distributed to the states in two phases. The first would use existing processes to fund highway construction and water and wastewater projects to move the money to the states quickly. The second phase would focus on funding new initiatives in energy efficiency and public building improvements and would require new legislation, delaying the distribution of the funds.

Discussions of a stimulus plan have indicated the money would be distributed to the states in lump sums without any funds earmarked for specific proj-

ects and states would not have to provide matching funds.

Also, LFC analysis indicates the program will prioritize projects that are ready to go and require states to return money unspent within a certain period.

New Mexico has had to cut back its plans for highway construction because of substantial increases in the cost of construction. The stock market collapse has also been a concern because the projects are funded through the issuance of bonds.

The Legislature must determine its role in allocating fiscal federal relief funds.

# Economic Indicators Down for Month, Again

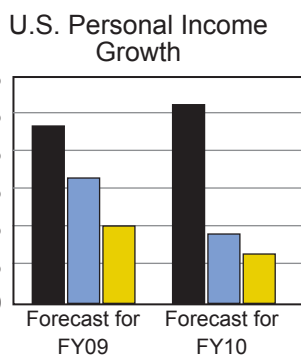
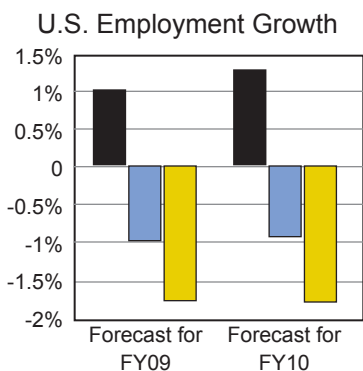
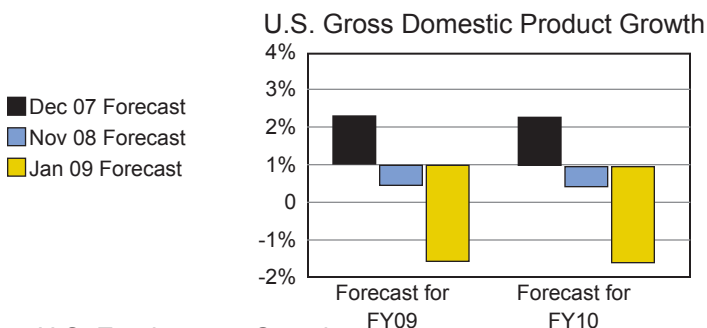
Economic indicators are down again from the numbers used for the December forecast, leading legislative economists to express concerns the FY09 and FY10 revenue forecasts will be even darker in the report issued next month for use in drafting the final budget during the legislative session.

State economists, who a year ago warned the economy could slip into a recession, now are warning budget drafters that the nation could be moving toward the worst recession since the 1930s.

Global Insight, a national forecast company, is projecting the current recession will be the longest since World War II and unemployment could reach 10 percent. The Congressional Budget Office has released a similar outlook. Forecasts for New Mexico, already expected to experience its first recession since the 1980s, could slide with the national economy.

However, New Mexico could receive as much as \$1 billion through a proposal to increase federal funding to the states and New Mexico continues to attract attention from the renewable energy industry, offsetting job losses in manufacturing.

## Change in Economic Forecast Assumptions (Global Insight)



### LFC Newsletter

Volume 09 Issue 0506

Published monthly in the interim by the Legislative Finance Committee.

Writer, Editor - Helen Gaussoin

Staff Editor - Ellie Ortiz

Questions, comments: 505-986-4550

[www.lfc.nmlegis.gov](http://www.lfc.nmlegis.gov)

Legislative Finance Committee  
325 Don Gaspar Street Ste101  
Santa Fe NM 87501

## On the Table

### Scholarship Endowment Loses Money

The college affordability endowment fund lost \$14.3 million during the first four months of FY09. The projected loss for FY09 is \$20.7 million, or 22 percent. The loss does not affect the number of scholarships that can be funded.

### NM Unemployment Stable

New Mexico unemployment in November was 4.3 percent, below the national average of 6.7 percent and unchanged from October, although slightly below the figure for a year ago. Manufacturing and construction lost the most jobs for the year.

### Landfill Fined

The Environment Department has ordered the Northwest New Mexico Regional Solid Waste Authority to pay a little over \$370,000 as a penalty for 15 violations at the Red Rock Regional Landfill in Thoreau. The department says the landfill failed to monitor methane, failed to cover litter daily to control insects and rodents, and failed to safely store tires and scrap metal.

### Almost Half of Nursing Homes Score Low

Of 68 nursing homes in New Mexico rated by the federal Centers for Medicaid and Medicare Services, 33 received just one or two stars out of five. Seven centers, including three run by the state, received five stars, 13 received four stars, and 15 received three stars. The federal agency recently revamped its rating system to use the five-star system.

### PERA Hedge Fund Liquidating Assets

The Public Employee Retirement Association reports that its hedge fund Satellite is suspending all redemptions and liquidating its assets. The current market value of the PERA's investments with the fund is \$21.3 million, down \$10 million from the original investment. Two other PERA hedge funds have been placed on the "watch list": Black River Global Multi-Strategy and Morgan Stanley Real Estate Fund VII.

### Schott Solar Gets Tax Credit

Schott Solar has received a New Markets Tax Credit of \$15.5 million from the New Mexico Finance Authority. The funds are intended to be used as working capital and are subordinate to an \$8.6 million short-term loan to the company from Mesa del Sol corporation and a \$17 million mortgage provided by the state through the city of Albuquerque. The company also received \$105 million in industrial revenue bond funds from the city.

### Transitions

Hollis Gillespie is the new director of the Museum of Natural History. Her background includes experience at the amusement park Busch Gardens, the Nature Conservancy, and the investment firm Price-Waterhouse.