



LFC Newsletter

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Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Luciano "Lucky" Varela, Vice Chairman

David Abbey, Director

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From the Chairman

No Sacred Cows

Just when you think the economic news couldn't get any worse, another indicator takes a dive. The October revenue forecast called for no new money for FY10 and now it looks like that forecast might have been optimistic. With the price tag for maintaining existing programs set at \$200 million more dollars than we are spending now, the state will have to cut programs to break even.

These are difficult times, to say the least, and it is more important than ever for the executive and legislative branches to put aside petty disputes. That includes recognizing that all programs are on the table. That nothing is sacrosanct. It might seem cold-hearted to include education and human services among the areas subject to scrutiny but those areas make up 80 percent of the budget. We simply cannot make up the entire shortfall if we can only look at the many, many government services in the remaining 20 percent.

Recently, the budget staffs from both the LFC and Department of Finance and Administration held joint meetings to discuss mutual concerns. This upcoming legislative session is likely to be marked by heated discussions among legislators and between legislators and agency managers. But all parties must remember that we share a strong commitment to preserving the most critical state services and protecting the most vulnerable New Mexicans.

Senator John Arthur Smith
Chairman

Revenue Outlook Slides

The revenue outlook, bleak in the joint executive-legislative forecast released in October, is continuing to slide, with major indicators on jobs, the oil and gas industry, personal income and retail sales all tumbling.

The forecasters reported to the committee in October that no new money – growth in revenue over existing spending – would be available in FY10. At the same time, the LFC has projected that \$200 million in new money is needed to keep current programs going and cover increases in fixed costs.

LFC economic analysis shows the national and state economies have continued to decline since the October forecast was released. The status of some key indicators:

- The U.S. economy has lost 1.2 million jobs so far this year, with almost half of those jobs lost in October and September. New Mexico is continuing to add jobs, but growth is at about a half a percent and Albuquerque is losing jobs, in large part because of a drop in construction and manufacturing.
- The U.S. gross domestic product, the value of all goods produced, continues to shrink, with the national forecasting company Global Insight, revising its projection to a 1.5 percent contraction for the year. That forecast is down from the 0.3 percent contraction predicted a month ago and 4.4 percent lower than the FY09 GDP

forecast from a year ago.

- Nationally, retail sales fell for the third month in a row, the first time since 1992 that retail sales have dropped three consecutive months. Domestic car sales, a component of retail sales, are down 18.5 percent for the year.
- Global Insight is also forecasting an annual decline in 2009 for the consumer price index, a measure of the cost of goods. The index has not dropped since the 1950s.
- LFC economists also expect a decline in state personal income, a factor that is likely to drive down already weak gross receipts and income tax revenue.
- Oil and natural gas prices are also declining, with the per-barrel price for oil dropping from \$150 in July to less than \$60 at times in October and the price for natural gas dropping down from over \$13 per thousand cubic feet in July to less than \$7 in November at Henry Hub, Louisiana, and possibly much less in New Mexico. The figures used for the FY09 revenue forecast were \$94 per barrel for oil and \$6.75 per thousand cubic feet for natural gas. Each \$10 drop in the price of oil means about \$35 million less in general fund revenue while a 10 cent drop in the price of natural gas represents a \$10.5 million drop in revenues.

Most State Purchasing Outside Review

More than \$5 billion of the state's \$13 billion annual budget is spent buying goods and services but only an estimated 10 percent goes through the state agency responsible for monitoring that spending, an LFC review shows.

The report by the program evaluation unit says the State Purchasing Division of the General Services Department maintains a database with records for \$16 million spent with vendors who went through the two main processes for awarding state contracts – requests for proposals and invitations to bid.

Millions more of the state's purchases fell under statewide price agreements negotiated by the division.

However, some 90 percent of the state's \$5.2 billion in purchases falls outside the authority of the Purchas-

ing Division, mostly because they are classified as emergencies made under circumstances exempt from the Procurement Code, or subject to the Procurement Code but exempt from Purchasing Division review.

The LFC unit presented the report to the committee during the October meeting.

The unit recommends the Legislature review exemptions to the code and other rules that allow purchases to go through without oversight.

The review also recommended that the Purchasing Division do more to track violations of the Procurement Code, even though those violations represented about \$4.3 million spent in FY08.

Although the Department of Finance and Administration will send back to an agency any payment request that

appears to violate the Procurement Code, and the Purchasing Division must review those rejected purchases, the division takes no further action. It does not track violations or monitor agency compliance with the Procurement Code.

The LFC review also found that the division does not consistently evaluate "sole source" vendors, sellers identified by an agency as being the only place to buy a good or service.

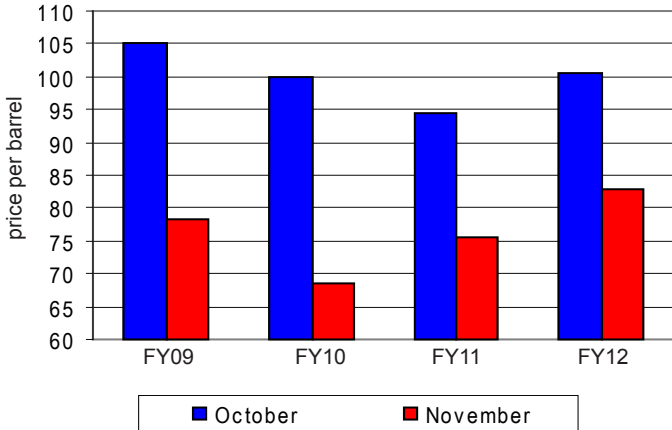
Because the Department of Public Safety used outdated specifications for the purchase of an aircraft, it found only one supplier for a \$1.2 million plane. The vendor subsequently filed for bankruptcy, invalidating the warranty and making it more difficult to find parts.

Bleak Outlook for Oil and Gas Gets Bleaker

Forecasted oil and natural gas prices, already significantly down from July when they were projected to be strong enough to support FY09 and FY10 spending, took a big dive over the last month. The price of oil forecasted for FY09 dropped from \$105 a barrel to less than \$80 a barrel, while the FY10 estimate went from \$100 to less than \$70. The forecasted price for natural gas has also dropped, although not as precipitously. Strong energy prices, particularly for oil, have protected the state over the last few years from an underlying weakness in gross receipts and income taxes and the shock of the credit and financial crises.

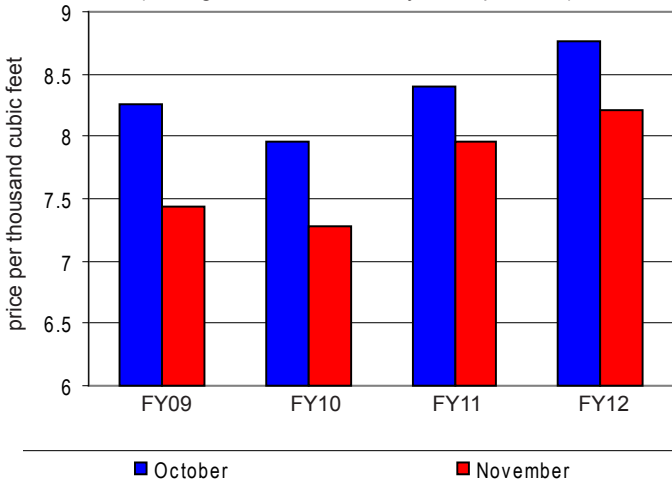
National Forecast for Oil

(Average Forecasts for West Texas Intermediate Crude)



National Forecast for Natural Gas

(Average Forecasts for Henry Hub Spot Price)



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Writer, Editor - Helen Gaussoin

Staff Editor - Ellie Ortiz

Questions, comments: 505-986-4550

www.lfc.nmlegis.gov

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

On the Table

Pension Fund Balances Still Dropping

Preliminary figures show the Public Employee Retirement Association fund was at \$10.8 billion on September 30, down \$1.4 billion, or 11 percent, from June. Most of the drop was in September. The fund is down 19 percent from a year ago.

The Educational Retirement Board fund balance was \$8 billion on September 30, down \$753 million, or 7.9 percent from June. Like the PERA fund, most of the losses occurred in September. The fund is down 15.3 percent from September 2008.

State Road Funds Down

State road fund revenues for the first two months of FY09 were down \$4.2 million compared with the same period in FY08. The 11 percent decline was higher than expected.

GRIP Finance Fix To Cost \$4.5 Million

Converting the variable rate bonds used to finance the Governor Richardson Investment Partnership, refinancing bonds held by the collapsed Lehman Brothers, and other "corrective action" driven by the credit market implosion will cost the Transportation Department some \$4.5 million.

Prisons Have Empty Beds

The Corrections Department reports it has nearly 500 beds available in its facilities for men: 48 for high-security level IV inmates, 179 for level III, 164 for level II and 98 for level I.

Food Stamp Caseload Still Climbing

The Food Stamp caseload was up again in August to more than 100,000 cases, a 2 percent increase over July. In August, the Human Services Department reported the caseload for Food Stamps was up about 9 percent over the previous year.

Lottery Revenue Down

Lottery revenue for the first quarter of FY09 is down 7 percent from the first quarter in FY08. Transfers to the lottery scholarship fund are down 10.4 percent. The Lottery Authority cites increased competition, economic uncertainty and budget cut as the reasons for the decline.

Las Vegas Hospital Projects Shortfall

The New Mexico Behavioral Health Institute in Las Vegas is projecting a revenue shortfall of \$5 million because of uncollectible debts owed the hospital. The Department of Health is expected to ask for a \$5 million supplemental appropriation to cover this shortage and another \$4 million in supplemental funding for facility operations costs related to drugs, food and staff overtime. The department is also expected to request a \$4.4 million deficiency appropriation for costs related to relinquishing Medicaid certification at Fort Bayard Medical Center.

Transitions

Rhonda Faight, secretary of the Department of Transportation, and Paul Cook, deputy secretary at the Department of Public Safety, will retire from state government in December.