



LFC Newsletter

A publication of the

Legislative Finance Committee

Representative Patricia Lundstrom, Chairwoman

Senator John Arthur Smith, Vice Chairman

David Abbey, Director

Volume 19 Issue 06

December 2018

From the Chairwoman

Not-So-Easy Money

Drafting budgets when the state has plenty of money isn't as hard as when funds are tight, but it isn't easy.

Although the figures will be updated during the committee's hearing in December, it's already clear the state is in for a big windfall, both for this year and the next. In August, the legislative-executive Consensus Revenue Estimating Group forecast that the state will end up with nearly \$900 million in surplus revenue from the budget year that ends on June 30, 2019, and \$1.2 billion in "new money" for the FY20 budget year that starts the next day.

The surplus money is like a Christmas bonus. It's best used for one-time expenses, like a new dishwasher or to catch up on a bill. On a state level, it will likely be used to cover unexpectedly high expenses in some agencies, to replace revenue in funds that were drained during the fiscal downturn, and to buy equipment outside the regular operating expenses of agencies. There is also talk of using some of it to pay for construction projects usually covered with the long-term debt provided through severance tax bonds.

There will be a scramble for the surplus but the real Black-Friday-only-one-left flurry will be for the new money, the amount of ongoing revenue over the prior-year appropriations that can be used for expanding state services. That money will bring out virtually every advocacy group in the state – from those who fight for children's services to those who fight for business tax breaks.

But they will have to get in line behind critical, existing demands for the new funds. Legislative budget drafters in January will be faced with court-ordered education reforms, seemingly nonstop growth in Medicaid, multiyear waiting lists for certain services for the disabled, way-below-market wages for state employees, proposed expansions of successful early childhood services to all families who qualify and plans to build a quality early childhood workforce, and pent-up demand in state agencies that have been hanging on for years, trying to provide services with reduced staffs and limited funds. That group includes the program that protects children from abuse, where caseload growth has continued to outrun staff increases.

Keep in mind, as well, that the windfall is the result of a flourishing but fickle oil industry. An oil bust could mean recurring revenue could drop just as quickly as it boomed. Any expansion should be cautious.

New Mexico is a poor state with extraordinary need. Even when revenue is strong, it can be hard to stretch our limited resources around all of our critical services. After two severe economic downturns in a decade, it's nice to see good times, but it will be essential to balance all the demands.

*Representative Patricia Lundstrom
Chairwoman*

Asia Could Be Market for San Juan Gas

New Mexico energy officials are "actively" working on a plan that could open new markets for northwest New Mexico's beleaguered natural gas industry, the secretary of the Energy, Minerals, and Natural Resources Department told the committee in November.

Ken McQueen, during the presentation of his department's FY20 budget request, said his agency is talking to Taiwanese and Mexican officials about the possibility of a natural gas plant on the west coast of Mexico as a shipping point to Asian markets.

Asian demand for natural gas liquids – NGLs – is high, he said.

Depressed natural gas prices have hit San Juan Basin producers hard. In addition, natural gas has become a byproduct of oil production in the booming Permian Basin, which covers parts of southeast New Mexico, Texas, and Mexico.

McQueen said worldwide demand has increased for NGLs, part of San Juan Basin production, but San Juan NGLs are difficult to deliver to European markets because gas and oil bound for Europe travels through the Gulf Coast,

and Permian Basin gas is closer.

The San Juan Basin has traditionally served the Northwest United States but has been replaced with local producers, leaving California as its main consumer. However, California has set a goal of generating half its energy from renewable sources by 2029.

"California is not going to be the ultimate consumer," he said.

Instead, McQueen said, New Mexico officials are talking to parties from Taiwan and the Mexican states of Sonora and Baja California about an agreement to cooperate on the export of NGLs and development of a plant.

While Australia and Qatar already supply Asian markets, consumers in the region want to diversify their supply to avoid shortages if one supply gets cut off by geopolitical conflict.

Ships leaving from the west coast of Mexico don't have to travel through the Panama Canal, a savings of up to \$1.5 million a shipload of gas, McQueen said.

He said Asian investors have shown an interest in partnering on natural gas plants.

Slow Progress, Flawed Data Mar IT Projects

Human Services Department officials say they need nearly \$30 million and another year to complete the new Medicaid information system, an LFC report says.

The technology project was originally supposed to cost \$176 million and begin operating in 2020, according to the IT section of the LFC's quarterly "report cards" on agency performance scheduled to be presented at 5 p.m. on December 13.

Other IT performance issues include inadequate functionality in the State Treasurer's new IT system, overlap in radio systems being developed by the Public Safety and Information Technology departments, and slow progress on the Children, Youth and Families Department's new system for tracking child welfare.

However, the report notes the State Land Office is making progress on its rebuild of an oil and natural gas administration and revenue tracking system.

Among findings in other sections of the report cards, inmate violence in the state prisons is down and forensic scientists with the Department of Public Safety are within 100 kits of eliminating a 1,388 backlog of sexual assault kits.

Data in the report on colleges and universities shows more than a quarter of the first-time, full-time students attending the University of New Mexico in fall 2017 did not return in fall 2018, and return rates were even lower for the Eastern New Mexico University Ruidoso branch and the Alamogordo and Grants branches of New Mexico State University.

On public schools, LFC analysis indicates Connections Academy, a virtual charter school that successfully appealed a state decision to revoke its charter, received \$6 million more in funding than supported by its current enrollment. Although the school's enrollment dropped significantly this year, funding is based on prior-year enrollment.

Positive Results from Pre-K Last Into High School

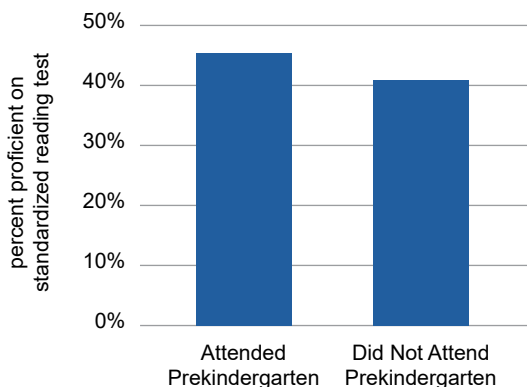
Prekindergarten programs may help low-income students improve reading scores through the 11th grade, LFC analysis of state data shows.

LFC has consistently found prekindergarten programs improve proficiency in third-grade math and reading, lower special education and retention rates, and lessen the negative effects of low-income families frequently changing schools; however, LFC staff in the [2018 Accountability Report on Early Childhood](#) found the impact lasts through 11th grade.

While New Mexico has more 4-year-olds in prekindergarten and spends more per child than most states, LFC analysis indicates it could do a better job coordinating programs and spending. Enrollment in federally funded Head Start, a free prekindergarten option for low-income children, has declined as New Mexico has ramped up its free and subsidized options, which means the state is not taking full advantage of federal resources.

The LFC report also says New Mexico is short on prekindergarten facilities and staff and will need to boost those resources to provide services to all eligible children.

Prekindergarten Impact on 11th Grade Performance Low-Income Students*



*Students eligible for free or reduced-price lunch.

LFC Newsletter

Volume 19 Issue 6

Published monthly in the interim by the Legislative Finance Committee.
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On the Table

AG Launches Mobile Crime Lab

The New Mexico Attorney General office is making a mobile crime lab available to law enforcement agencies throughout the state. The Internet Crimes Against Children Lab has the equipment to examine computers, thumb drives, and other storage devices, and is staffed with investigators skilled in interviewing suspects and victims. The program was funded with \$100,000 from the consumer settlement fund.

Utility Gets \$50 Million Federal Loan

Continental Divide Electric Cooperative will receive a \$49.2 million loan from the U.S. Department of Agriculture's Rural Utility Service to build 73 miles of new line, improve 83 miles of existing line, and buy \$17 million in smart grid technology.

School Risk Fund Pays \$3 million

The Public Schools Insurance Authority spent \$2.95 million from its risk fund in September on sexual molestation settlements.

Inmate Populations Flat

The Corrections Department housed 6,594 men and 783 women in October, a 0.3 percent decrease from September and a 0.1 percent decrease from October 2017. The women's population was down a half percent from a year ago, while the men's population was 0.1 percent lower.

Benefit Agencies Look at Changes

The Education Retirement Board has proposed plan changes that include a minimum retirement age, while the Retiree Health Care Authority is implementing limits on the retirement age and career years. ERB voted to advance a pension reform proposal to the Investment Pension Oversight Committee that would include a tiered multiplier to provide gradually larger benefits to long-term employees, increasing the employer contribution by 3 percent, and setting the minimum retirement age at 58. RHCA, which does not need legislative approval, has adopted changes that will go into effect in 2021 that set the minimum age for a health insurance subsidy at 55 and the minimum number of career years at 25.

Transitions

Larry Maxwell, State Purchasing Division director, has retired. Christine Boerner, former LFC analyst, is now the economist for the city of Albuquerque.

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