



LFC Newsletter

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From the Chair

No Easy Answers

When legislators convene for the 2020 session in about a month, one of the top issues will be public pension reform. It's a topic that's financially complex and emotionally tough. No one wants to break any promises made to former public servants, but an insolvent fund would do much worse. And not just to the retirees.

The administration has put a lot of energy into a proposal to shore up the long-troubled retirement fund for state, county, and municipal employees, and while the state budget is the focus of "short" sessions, the governor generally gets to set the agenda for the 30-day meeting. Her staff has already drafted a bill with a solvency plan, and retirees are already pushing back.

The technical terms around pension funds – unfunded actuarial accrued liability, funded ratio, COLA, ROI – mask a dismal bottom line. The fund simply does not have enough money and won't ever have enough to pay what is already owed to existing and expected retirees.

The consequences of insolvency reach beyond the employees; the underfunding of New Mexico pensions was a significant factor in the state's 2018 credit downgrade. Lower credit means higher financing costs for big construction projects and any project for which the state borrows money through bonds.

In addition, if the fund runs dry, tens of thousands of middle-class New Mexicans would be cut off from a primary income source. The money they would spend would no longer be churning through the economy. Some would be pushed into poverty, generating a whole slew of costs for taxpayers – from cash and healthcare assistance to increased demand on other social services.

For now, pensioners will continue to get their monthly stipends. But the problem remains urgent. The longer we wait, the deeper we'll have to dig, whether its into state coffers, retiree and current employees pockets, or both.

The governor should be lauded for bringing forth a proposal, even if it is not a perfect solution. Legislators, who have buttressed the fund and tweaked benefits for more than a decade, might not be able to reach a resolution this short session, but it's a good start.

*Senator John Arthur Smith
Chairman*

Childcare Quality System Misses Intended Results

The state pays more for the care of children enrolled with providers with higher ratings in the state's childcare quality system, but very few childcare programs, regardless of rating, improve a child's chance of academic success, an LFC evaluation finds.

The committee is scheduled at 10 a.m. on December 10 to hear a report on the effectiveness of the Childcare Assistance Program, initially intended as a support for low-income working parents but now also seen as a means to provide very young children with programming to help them prepare for school.

State spending on childcare assistance, which subsidizes the cost of childcare for low- and middle-income families, increased 78 percent between FY13 and FY19, from \$78 million to \$139 million, while enrollment increased just 4 percent.

The increase in spending has been driven primarily by a 72 percent increase in the cost per child, likely the result of more children being enrolled with providers that have higher ratings under Focus, the state's quality rating system, and are paid more per child as a result.

While the growing use of higher subsidies indicates the differential is successfully moving more children into higher rated care, at a cost of \$65 mil-

lion a year, LFC evaluators confirmed earlier findings that children enrolled in childcare assistance generally do not show improved school readiness, regardless of the quality rating of the provider. Although, the report notes, the evidence also shows childcare assistance does improve a family's income and the child's health.

In addition, LFC staff found students from a small number of specific providers were better prepared for school than children who had not participated in childcare assistance. A site visit to one of those providers found the provider used an evidence-based curriculum, encouraged parental engagement, and focused on social-emotional health, an approach associated with improved school readiness.

A weakness of Focus might be its lack of an assessment of child-teacher interactions and other validated measures, the report says.

Quality interactions have been shown to improve a child's school readiness, and states that quantify interactions in their childcare center rating systems have more dependable rating systems.

The evaluation also finds New Mexico, which has among the highest reimbursement rates in the nation, has among the lowest wages for its early childhood workforce.

NM Substance Use Treatment Access Better but NM Alcohol, Drug Use Still Among Worst

New Mexico doubled Medicaid spending on substance use disorder treatment between 2014 and 2018, bringing more patients into the behavioral healthcare system than ever before, but treatment and funding for alcohol dependence, the deadliest substance use disorder in the state, continues to fall short of need and the system has additional critical gaps in service, an LFC report finds.

In [*Health Notes: Substance Use Disorder Treatment and Outcomes in New Mexico*](#), presented to the committee in November, staff report the combined rate of alcohol- and drug-related deaths in New Mexico has risen by 60 percent since 2001, with one in four adult deaths in McKinley County due to alcohol.

The state spent \$117 million in state and federal Medicaid funds in 2018 to provide services to people with substance use disorder, nearly twice the \$62 million spent in 2014, expanded non-Medicaid services, and made naloxone, a drug that reverses opioid overdoses, widely available, according to the report.

Counties have stepped up as well, with state help in some cases, and have built up community services for substance use disorder.

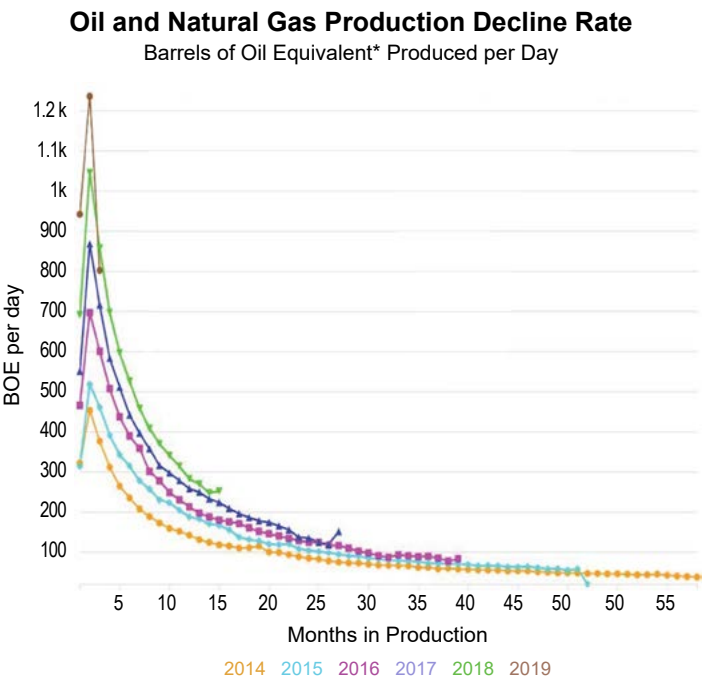
But treatment services for alcohol abuse are inadequate and jails and emergency rooms, which both serve high rates of substance abuse, do not always use evidence-supported treatments.

Production From New Wells Prone to Steep Decline

Increased productivity from newly drilled wells is driving a surge in production, but the amount of oil and natural gas produced from new wells drops off dramatically after the first few months.

The steep decline rates of production from these wells makes the state’s oil production more sensitive to a drop in oil prices. Low prices could lead oil companies to pull back on drilling new wells, leaving no new sources to replace the production of the wells that are quickly depleting.

LFC economists note the potential for production to fall precipitously without continued drilling is a significant risk to revenue forecasts.



*BOE is a term used to combine the production of oil and gas, which use different units of measurement. Six thousand cubic feet of natural gas has the same energy content as a barrel of oil and is counted as the “equivalent” of a barrel of oil.

Source: DrillingInfo

On the Table

UNM Hospital Plans \$600M Expansion

The University of New Mexico Health Sciences Center expects to complete a feasibility study next year on its plans to build a \$600 million addition with 96 beds and 18 hospital rooms on the northeast corner of Lomas and Yale. The project would be funded with \$245 million in cash, \$30 million from the state and \$320 million in revenue bonds, with the U.S. Department of Housing and Urban Development providing the guarantee on the debt. UNM must complete the feasibility study for HUD by 2020 for financing in 2021.

Extended Learning Time Slots to Double

Participation in the public school extended learning time program, created this year as part of education reform, is expected to double in FY21, from 84 thousand students to 190 thousand, the Public Education Department says. At that level, the program would cost \$95.6 million, about \$33 million more than appropriated in FY20.

Childcare Participation Flat

Enrollment in the childcare assistance program, which subsidizes childcare costs for low- and medium-income families, is flat despite an expansion of eligibility. The income limit was raised from 150 percent to 200 percent of the federal poverty level, or \$31,995 a year to \$42,660 a year for a family of three. However, monthly enrollment is averaging about 20.1 thousand, 1,000 below projections. The average cost per child has grown to \$572.

Money Moves to Children, Aging Projects

The Human Services Department has submitted budget adjustment requests that would move \$587 thousand from federal funds to a program to deter underage drinking, add \$620 thousand to opioid overdose prevention and treatment, and move \$2.5 million in federal Medicaid funds to the Aging and Long-Term Services Department for elder ombudsman services, to the Children, Youth and Families Department for case management and early childhood health services, and to the Department of Health for health screenings and children’s medical services.

Workforce Contractor Under Audit

The Workforce Solutions Department, which took over the federally required monitoring responsibilities of the Northern Area Local Workforce Development Board, is auditing Ser, a private, nonprofit corporation providing educational and workforce services in 14 counties in northern and central New Mexico.

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