LFC Newsletter

A publication of the **Legislative Finance Committee**
Senator John Arthur Smith, Chairman
Representative Jimmie C. Hall, Vice Chairman
David Abbey, Director

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From the Chairman

Ya Basta

In the year since it became clear that plunging oil prices were going to take state revenues with them, I have used this space to write about the the downside of optimistic revenue estimates, the importance of balancing public spending with a business-friendly tax environment, the injudicious consequences of closing the door to tax increases, the state's overreliance on volatile oil and gas tax revenue and the need for tax reform, the reality that – lacking new revenues – some programs should be eliminated so higher priority programs can remain effective, the impact of election-year politics on the failure to move quickly to solve the financial crisis, and the potential for the state's credit rating to drop if we continue to rely on short-term solutions.

I am as tired of talking about the fiscal crisis as anyone but the conversation is far from over.

The special legislative session will fix the shortfall for FY16 and partially close the gap between revenues and spending for the current budget year. However, estimated revenues for FY17 are still $103 million short of approved spending. As we did last fiscal year, we can pull that money out of the general fund reserve but that will leave the reserve nearly empty. If the state underearns or over-spends, we'll be in bigger trouble because we've already tapped most of our resources.

Perhaps more importantly – absolutely more importantly in the long-run – the Legislature relied heavily on one-time money to both address the shortfall and close this year's gap. This means New Mexico has a structural deficit and the credit agencies that have already put New Mexico on watch lists won't be impressed, even if we are still paying the bills. A lower credit rating will mean more expensive bonds for public school construction and other public capital outlay.

Of course, most importantly, New Mexico must find a long-term solution to it's always lagging economy. That will involve balancing public spending with a friendly tax environment; being open to all solutions, including taxes; reforming the state's revenue structure to eliminate its overreliance on oil and gas; and so on.

But I think you've heard that before.

Senator John Arthur Smith
Chairman

Nursing Home Funding Lags Cost of Care

Although fewer New Mexicans are living in nursing homes, those who do need more expensive care, and public and private funding is not keeping up, an LFC evaluation finds.

The share of New Mexicans age 65 and over is growing – New Mexico's ranking of 16th in the nation is expected to move to fourth by 2030 – but the number of people living in New Mexico nursing homes has dropped 12 percent in the last five years, the report finds.

The drop in nursing home residents at the same time as an increase in the aging population indicates more older New Mexicans are turning to home- and community-based care options and those remaining in nursing homes need more expensive, higher levels of care.

In New Mexico, where Medicaid covers the cost of care for 64 percent of nursing home patients, public funding for higher-cost long-term care has increased $46 million since FY13; however, the share of daily nursing home costs paid by Medicaid is dropping and New Mexico nursing homes lost an average of 2 percent of patient revenue in 2015, the evaluation says.

However, the average cost per patient in New Mexico public and private nursing homes increased between 9 percent and 26 percent between 2011 and 2014.

In addition, issues with quality of care are the most common deficiency in nursing homes. New Mexico nursing homes were assessed $461,000 in civil monetary penalties due to health or safety violations in 2015.

Evaluation staff are scheduled to present the report to the committee at 8 a.m. October 28 in Santa Fe.

The report recommends the state Human Services Department study adjusting nursing home reimbursement rates based on the care needs of specific patients and work with the Department of Health and other state agencies on measuring nursing home quality.

Session Leaves Minimal Reserves

The special legislative session ended with six bills that address the real and estimated shortfalls for FY16 and FY17 but leave the state's reserves at risky levels, the LFC post-session report shows.

The general fund financial summary in the report shows – with the fund transfers, new revenue, and spending cuts approved during the special session – state government still has $103 million more in planned expenses than estimated revenue in the current budget year.

That amount could be covered by the operating reserve, which was beefed up through legislative action mostly with transfers from the tobacco settlement fund, a fund intended primarily for health care and funded through required payments from tobacco companies.

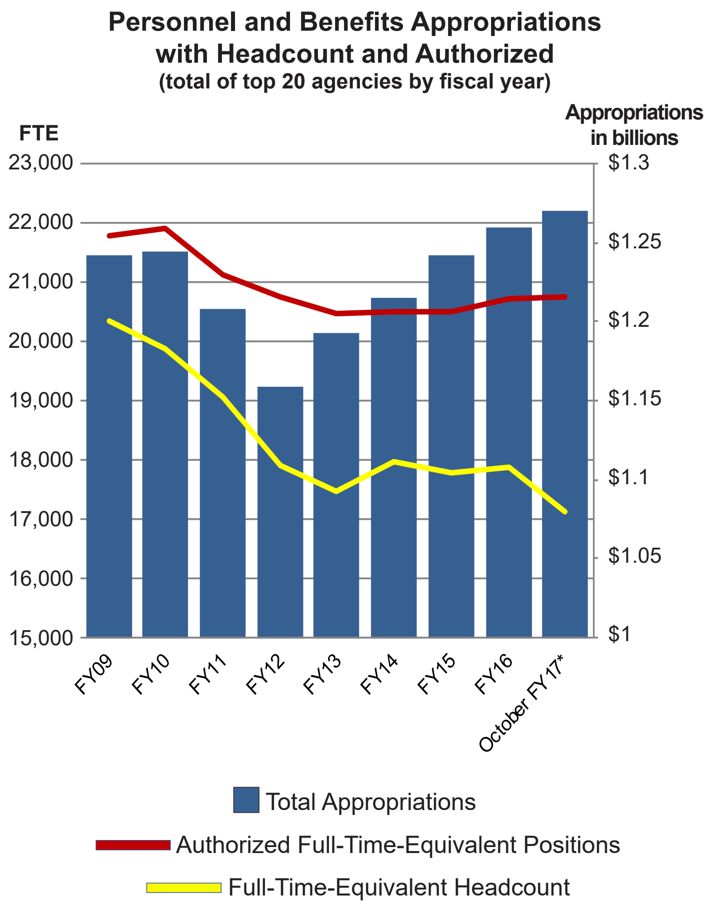
The amount in the operating reserve is now enough to cover the $616.5 million shortfall left in FY16 and the projected shortfall for FY17 but would be left with just $30 million, an amount equal to a half percent of FY17 recurring appropriations. The total in the general fund reserve is more typically 10 percent of recurring spending in case of revenue shortfalls or unanticipated expenses.

In addition to authorizing the transfer of the tobacco settlement money, the Legislature passed and the governor signed bills that

- Allow public school capital outlay money to be used for textbooks and other school costs,
- Cap some tax credits and close loopholes on others to generate $10.3 million in FY17 and higher amounts in later years,
- End a monthly transfer from the general fund to the retiree healthcare fund and another regular transfer to the fire protection grant fund to save $4.8 million in FY17,
- Cancel some capital outlay projects and change the funding source on others to generate $90 million for FY17, and
- Cut spending in most agencies by 5.5 percent and at lesser levels for high-priority programs, primarily in public safety, early childhood, public schools, and Medicaid to save about $150 million in FY17.

State Employee Count Dropping by 100 a Month

The number of state employees has dropped by more than 100 a month since the start of FY17 in July. The overall vacancy rate in state government was 14.5 percent when the fiscal year started, and is now 15.7, meaning more than three positions out of every 20 are vacant. The number of state employees is down 3.4 percent compared with this time last year and is down 12 percent from FY09.



*Unadjusted for special session reductions.

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On the Table

Oil Industry Drags Down Property Values

Preliminary 2016 property tax valuations from the Department of Finance and Administration were $56.6 billion, $2.2 billion and 3.7 percent lower than last year. Residential valuations grew by 3.2 percent but oil and gas valuations were down 41 percent. Valuations in Eddy, Lea, Rio Arriba and Harding counties declined between 20 percent and 25 percent.

Medicaid Clients Might Get Copays

Medicaid managers plan to ask the federal government to allow copays for Medicaid clients with higher incomes and for specific services. The proposal seeks copays for higher-income patients, most purchases of non-preferred prescription drugs, and most non-emergency use of the emergency room. The department has not released an estimate on how much money the proposal will save.

NM Prisons Pay More for Hep-C Drug

A national study shows New Mexico prisons likely are paying more than others for the hepatitis C treatment drug Sovaldi. Although the Corrections Department did not answer study questions on costs, the study found the average cost among responding states for Sovaldi was $71,900 per treatment, while the average for Harvoni, another hepatitis C drug, was $67,800. LFC research indicates New Mexico prisons pay about $65,000 for Harvoni and $118,000 for Sovaldi.

PED Plans Half Million PreK Contract

The Public Education Department plans to move $635,000 in prekindergarten funds to pay for professional development for prekindergarten teachers and a database and dashboard for prekindergarten programs. The department's budget adjustment request asks to move $500,000 from the prekindergarten fund into the contractual services spending category for a contract with Language Essentials for Teachers of Reading and Spelling and $135,000 into the other costs category for an IT position to develop a computer program for prekindergarten programs.

Airports Get Fed Help

New Mexico has received a Federal Aviation Administration grant for more than $6.5 million for maintenance and construction projects at 17 New Mexico airports to fund runway rehabilitations, fencing construction and other safety improvements.

Transitions

Dawn Iglesias has joined LFC as an economist. Iglesias has master's degrees in economics and public administration from New Mexico State University and previously managed federal- and state-funded grant programs for the school.

Daniel Hicks is the new chief executive officer of the Spaceport Authority. He worked at White Sands for 34 years.

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