



LFC Newsletter

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From the Chairwoman Forearmed

The most predictable element of New Mexico's state budget is the unpredictability of its revenue. New Mexico's dependence on oil and gas prices and production means the state's budget is sensitive to the ups and downs of a notoriously volatile industry. Just a few years after the Great Recession of 2008, the oil price collapse of 2014 forced the state into another financial crisis; while most of the country was recovering from the recession, the New Mexico Legislature was holding serial special legislative sessions to cut spending and scrape together enough unused revenue to keep the state afloat.

However, by the time the world was simultaneously hit by a pandemic-triggered economic crash and a collapse in oil prices so profound producers had to pay others to take the excess oil off their hands, New Mexico lawmakers had become much more adept at planning for a downturn. Yes, we needed another special session, but outsized general fund reserves, a special rainy-day "stabilization" fund built especially for downturns, and federal stimulus spending cushioned the blow.

The oil and gas industry is now in another boom; revenues for the current year are on track to break the records set just a year ago. With strong reserves already in place, it will be tempting to go on a spending spree. But we need to stick with the forward-thinking approach that has served us so well.

The proposed LFC budget guidelines for FY24 outline a three-pronged strategy for planning spending for the budget that will be considered during the regular session in January: (1) Major increases in ongoing spending will be reserved for programs that have demonstrated their effectiveness. (2) One-time money will be targeted at investments that improve services in the long-term and the creation of endowments that can generate investment income to replace general fund revenue. (3) Adjustments to revenue streams—tax cuts—will be focused on changes that have the potential to spur economic development.

A hearing on the latest revenue forecast is on the agenda for the committee's August meeting, along with a vote on the budget guidelines. The former will give us the best prediction of what to expect of the state's financial future; the latter will help us plan for what happens, even if it wasn't predicted.

Representative Patty Lundstrom
Chairwoman

Prevention, More Staff Could Reduce Abuse Rates

High poverty among New Mexico families, and the associated unmet needs, contribute to stubbornly high rates of repeat child maltreatment, but expanding effective prevention and intervention programs, along with building the child welfare workforce, could make a difference, LFC staff report.

In analysis prepared for a hearing on options to address child maltreatment, scheduled for 8:30 a.m. August 18, staff report New Mexico is consistently among the top six states for children who experience repeat abuse or neglect.

Children, Youth and Families Department officials cite high poverty rates, complex family needs, lack of services, and high vacancies among Protective Services Program staff as obstacles to reducing the rate, LFC staff report.

While domestic violence, unmet mental health needs, and unstable housing are all risk factors for child abuse and neglect, substance abuse is by far the leading risk factor, with alcohol abuse a factor in more than 20 percent of child abuse and neglect cases and drug abuse a factor in almost 30 percent of cases.

In New Mexico, with some of the nation's highest rates of alcohol and drug abuse, a 2019 law requires health-care workers who observe newborn drug exposure or fetal alcohol disorder

to develop a plan of safe care before discharging the infant, LFC staff report.

While prevention programs are effective in reducing repeat maltreatment and spending on prevention increased from \$1.1 million in FY18 to \$11.1 million in FY22, New Mexico still spends just 6.6 percent of its total Protective Services budget on prevention programs. New Mexico is also one of just 10 states that has failed to file a plan that would allow it draw federal Families First Prevention Services Act grants.

Savings from a 32 percent drop in the foster care caseload and new appropriations for youth behavioral health could be used to expand evidence-based prevention and intervention services, staff suggest.

The analysis notes the department is working on a staffing plan that includes components identified by the National Child Welfare Workforce Institute as important to effective child welfare workings, such as manageable workloads, competitive salaries and benefits, a positive work culture, effective leadership, and strong community partnerships.

LFC staff report chronic shortages have plagued the child welfare system and have contributed to caseloads that exceed national standards.

State Pays for Out-of-State Medicaid Clients

The state has paid private Medicaid care managers almost \$40 million over the past three years for patients also enrolled in a public assistance program in other states, an LFC evaluation finds.

In [Progress Report: Medicaid Fraud, Waste, and Abuse Controls](#), a follow-up to a 2011 report on state efforts to address Medicaid fraud, LFC Program Evaluation Unit staff report the Human Services Department has made more than \$39 million in contractually established per-member, per-month payments to Medicaid managed care organizations for recipients the Human Services Department has identified as living out of state.

The total includes \$27.3 million paid in 2021 for 18 thousand recipients identified as living outside New Mexico through their enrollment in a public assistance program in another state.

The report notes Medicaid fraud efforts have improved since the 2011 report found the state was spending more on fraud oversight than it was collecting in recoveries, with the state now seeing a positive return on its investment in fraud detection. The Medicaid Fraud Control Unit of the Attorney General's office is now outperforming the national average for return on investment.

However, while the dollar amount of the unit's recoveries has increased, the success rate of the unit's investigations has declined, with a smaller share of investigations resulting in convictions and recoveries, the report finds.

At the same time, the Human Services Department, which oversees Medicaid, has seen a drop in recoveries of improper payments, like those made for out-of-state-but-still enrolled recipients.

Pay Raise Distribution Uneven, Some Hard-to-Fill Jobs Get Less

The executive's approach to distributing FY23 pay raises to state employees, which assumed pay for employees in "occupational" bands already reflected the job market, means child welfare workers and others in some of the state's hardest-to-fill positions received the smallest raises, an LFC evaluation scheduled to be presented to the committee at 1 p.m. on August 17 says.

The Legislature earlier this year funded a 3 percent across-the-board increase for all state employees in the fourth quarter of FY22 and an additional 6.9 percent average increase for executive branch employees in FY23, with additional funds to ensure all employees earn at least \$15 an hour.

The executive awarded 4 percent salary increases to employees in occupational pay schedules—pay plans for eight groups of employees that includes nurses, correctional officers, IT system administrators, and child protective services—and average increases of 10 percent to employees in the general pay schedule based on their pay band, or range, and where they fall within that range.

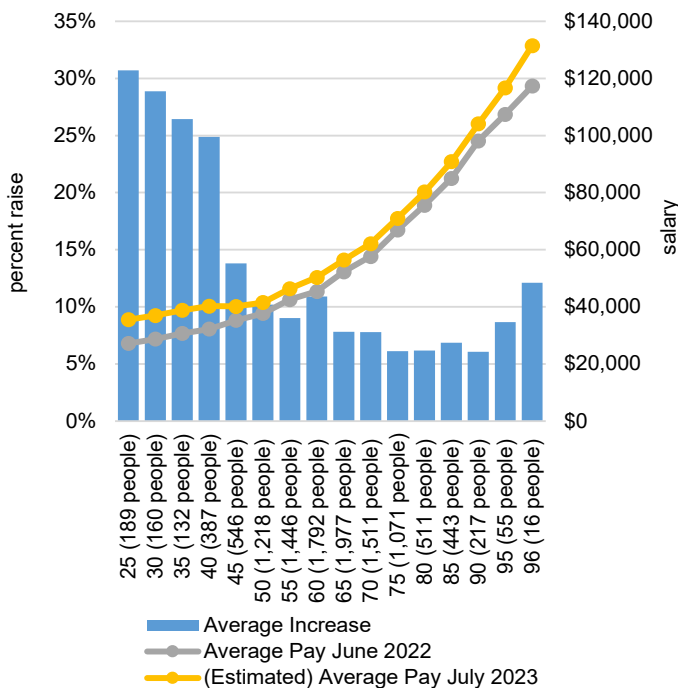
As a result, the evaluation finds, employees in the general schedule making less than \$35 thousand a year generally received the biggest raises, typically about 28 percent, compared with the flat 4 percent for all occupational schedule employees.

In some cases, entry-level general schedule employees now make more than those in jobs that require specific credentials. For example, an administrative assistant supervisor at the Children, Youth and Families Department received an 11 percent raise and is now paid more than a Protective Services permanency worker and a custodian at the Veterans' Home is now paid more than a nursing assistant.

"New Mexico may have created an incentive for employees in the occupational bands to seek roles in the general salary schedule, exacerbating shortages in hard-to-fill direct service roles that require specific certifications or qualifications," the evaluation says.

In addition, while the distribution of pay raises within the general schedule favored those with the lowest pay, it also resulted in larger raises for those at the very high end of the pay scale than those in the middle because of employees' compa-ratio, a figure that reflects how much an employee earns compared with the midpoint of their salary range.

Pay Raise Distribution in the General Pay Schedule



On the Table

Transfer Ups Severance Tax Fund

The transfer of \$784 million from the severance tax bonding fund to the severance tax permanent fund, reported by the Board of Finance, will increase the total in the permanent fund by 12 percent, to about \$7 billion. Funds in the bonding fund are used to make payments on severance tax bonds. Revenue in excess of the payments is transferred to the permanent fund.

Labor Participation Continues to Lag

The University of New Mexico's Bureau of Business and Economic Research reports New Mexico's labor participation rate of 56.9 percent, the share of work-age adults who are working or looking for a job, is still 1.8 percent below prepandemic levels and continues to lag behind the national rate of 62.2 percent.

Prison Admissions Up

Prison admissions increased in FY22 for the first time since FY15, rising 2 percent compared with FY21. A total of 2,409 people were admitted to prison over the course of the year, including 2,076 men and 333 women, primarily as a result of new convictions, which rose 11 percent and made up 60 percent of total admissions. After comprising a record 41 percent of total prison admissions in FY21, admissions due to parole revocations fell 13 percent in FY22 and made up 35 percent of total admissions.

Salaries Helping Districts Keep Teachers

Increases in teacher salaries are helping to improve retention, according to some school district superintendents. Retirements in Albuquerque schools are less than 50, down from more than 500 in 2020. Silver Consolidated Schools reports one open teaching position heading into the school year, compared with multiple vacancies in 2021. Superintendents in Las Cruces, Rio Rancho, and Albuquerque, and smaller districts like Des Moines, say they have been able to recruit teachers from neighboring states. However, some rural districts, including Mosquero, Des Moines, and Wagon Mound, say a lack of housing is still the greatest barrier to recruitment, regardless of salary increases.

Audit Finds Issues at Homeland Security

The Department of Homeland Security and Emergency Management's 2021 audit reflected multiple material weaknesses, including the department's inability to accurately track federal expenditures due to a lack of process or effective internal controls. This is a repeat finding from 2019 and 2020. The audit, which was late, also cited untimely, incomplete, and inaccurate financial reporting. In total, the audit noted 16 findings.

Transitions

Carl Colonius, co-founder of Rocky Mountain Youth Corps in Taos, has been hired as the first trail and outdoor recreation planner for the state by the Outdoor Recreation Division of the Economic Development Department.

Kari Richards is the new regional manager of the Fort Stanton and Lincoln historic sites. Richards has a masters in cultural resource management from New Mexico State University.

William J. Duran was appointed director of the Board of Veterinary Medicine.

Three out of five Cobre Consolidated Schools board members have recently resigned, prompting the Public Education Department to appoint David Terrazas to the board to maintain a quorum. Ralph Sepulveda, board president, and Frank Cordova, vice president, resigned in response to recall petitions alleging the pair failed to reveal Canuto Molina, the third board member to resign, was Cordova's son-in-law when Molina was appointed to fill a board vacancy.



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