

Post-Session Fiscal Review 2014



**REVENUE STABILIZATION AND TAX POLICY
COMMITTEE**

JUNE 6, 2014

**DAVID ABBEY
DIRECTOR**

N.M. LEGISLATIVE FINANCE COMMITTEE

Overview

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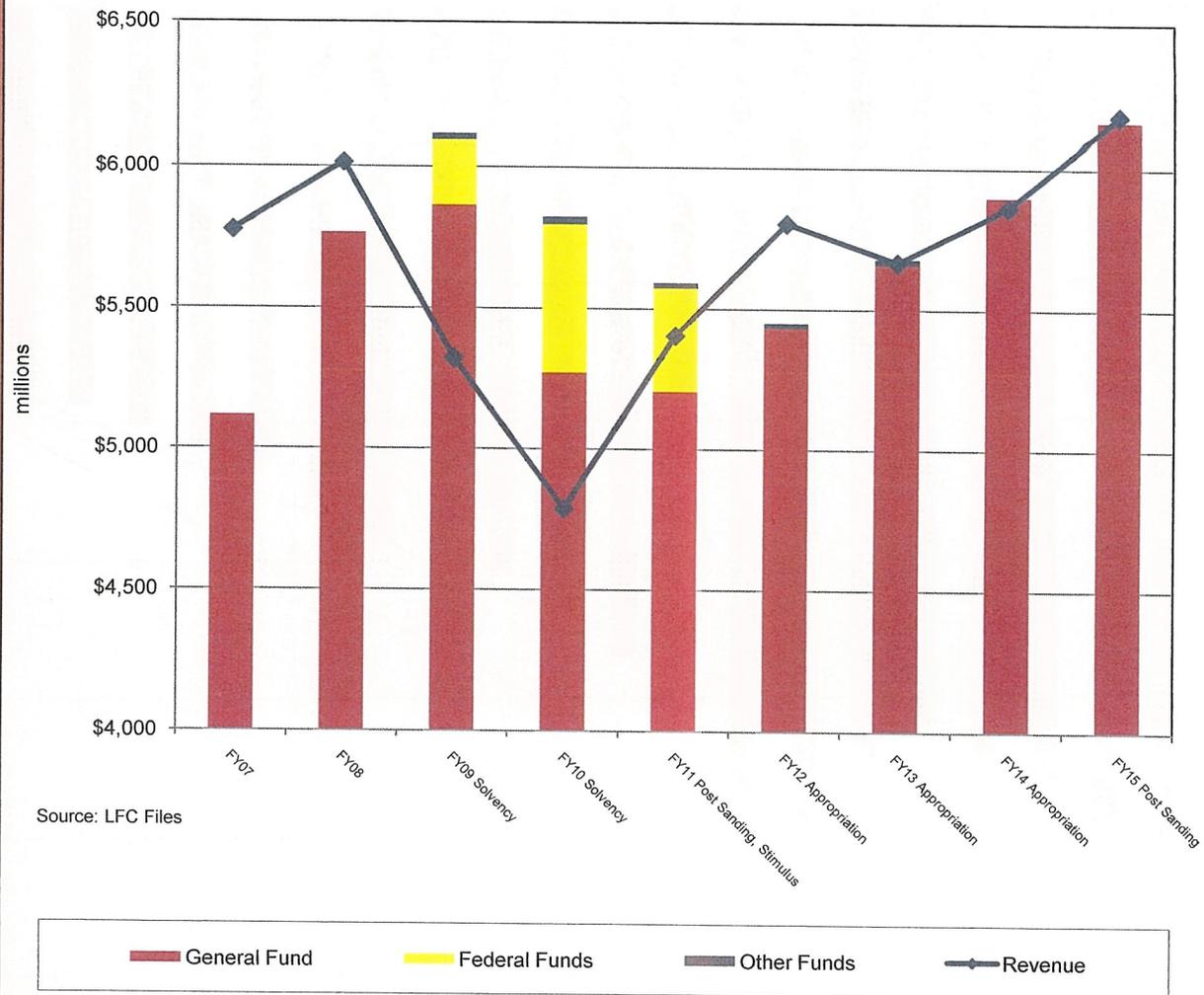
- As in previous years, the General Appropriation Act of 2014 ultimately passed with broad-based support.
- The balanced FY15 budget spends \$6.16 billion from the general fund, up 4.6 percent from FY14 and representing the highest-ever spending total.
- Reserves are projected at 9.2 percent at the end of FY14 and 9 percent at the end of FY15.
- Capital outlay appropriations total \$630.4 million.

Recurring revenue fell \$1.2 billion or 20%, from FY08 to FY10, and has recovered since.

FY12 appropriations were down 10.9% from the peak in FY09.

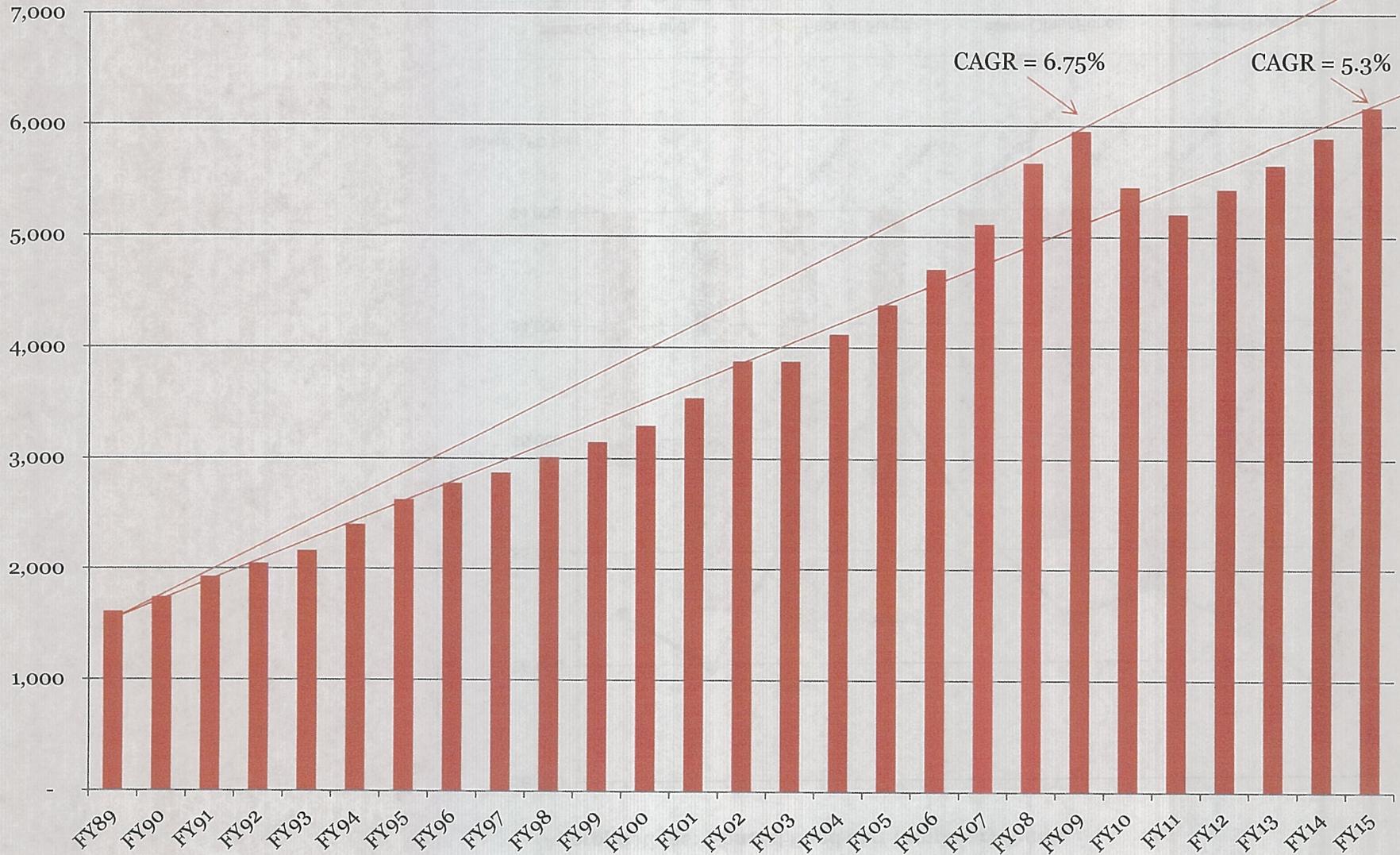
FY15 appropriations exceed the pre-recession peak appropriation in FY08.

Appropriations: General Fund and Temporary Funds



Source: LFC files.

General Fund Recurring Appropriations - FY89-FY15 (in millions of dollars)



Budget Development

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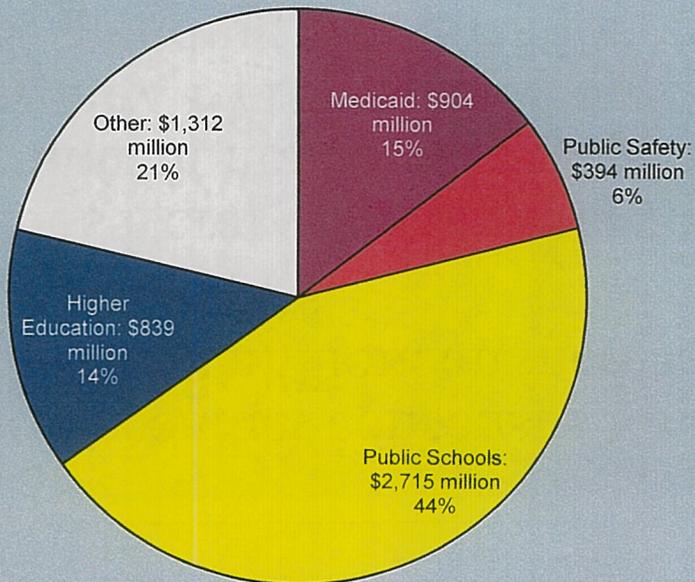
- The December consensus forecast projected FY15 “New Money” to be \$292 million, an increase of 5 percent over FY14 appropriations.
- After several years of replacing one-time funds and addressing significant nonrecurring spending issues such as pension solvency, FY15 provided opportunity to “move the needle” in at-risk spending for education, early childhood investment, training health-care providers, restoring solvency to the lottery scholarship program, and providing across-the-board and targeted raises.
- No significant revenue proposals.
- Expenditure recommendations differed by \$75 million with the LFC notably higher by \$43 million in public education, \$19.8 million in higher education, and \$10 million in agency compensation increases.

2014 General Appropriation Act

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General Fund Appropriations

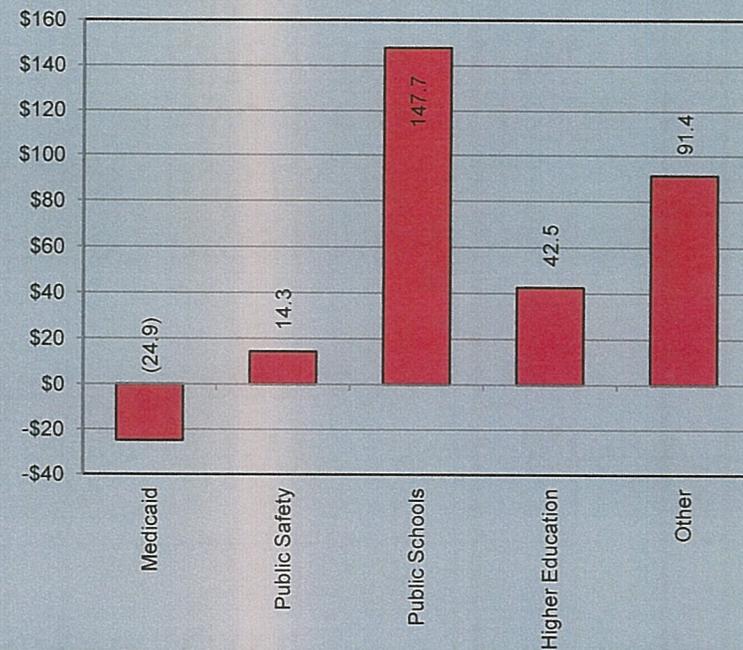
FY15 Recurring General Fund Appropriation:
\$6.16 billion



Source: LFC Files, GAA

General Fund Appropriation Increases

General Fund Expenditure Increases:
\$271 million



Source: LFC Files, GAA

Early Childhood Learning Initiatives

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- Early childhood education funding increased \$26 million (13%) in FY15 with funding for childcare subsidies, prekindergarten, K-3 Plus, the Family, Infant, Toddler early intervention program (FIT), and home visits to families with infants:
 - \$2.2 million for childcare assistance
 - \$2.5 million for home visiting
 - \$600 thousand for provider and teacher education
 - \$6 million for PreK
 - \$5.6 million for FIT
 - \$8.2 million more for early literacy programs and K-3 Plus
- ECE funding up \$94.3 million (69%) between FY12 and FY15.

EARLY CHILDHOOD PROGRAMS: FY14 and FY15 ENROLLMENT AND ESTIMATED FUNDING NEEDED FOR STATEWIDE PROGRAMS

	Home Visiting	Family, Infant, Toddler (FIT) Program	Childcare Assistance	Head Start/ Early Head Start (EHS)	Prekindergarten	Kindergarten Three Plus
Criteria For Services	Priority eligibility for first time expectant mothers; first time parents of infants and toddlers zero to three; first time caregivers of infants and toddlers zero to three; adoptive parents of infants and toddlers zero to three, and teen parents.	Birth to children age three with or at risk for developmental delays and disabilities based on comprehensive multidisciplinary evaluation.	6 week to 12 year olds children whose families are at or below 200 percent of the federal poverty level that are working and/or in school.	Head Start/EHS is free for children birth to five years of age whose family income meets the federal poverty guidelines. The poverty guidelines are determined by the federal government each fiscal year.	Communities with Title I public schools (40 percent students eligible for free or reduced-fee lunch), priority where a minimum of 66 percent of the children served live within the attendance zone of a Title I school.	Public elementary schools with 80 percent or more of the enrolled students eligible for free or reduced-fee lunch at time of application or elementary schools receiving a D or F school grade.
FY13						
FY13 Appropriation	\$5,900,000	\$33,600,000	\$87,120,800	\$61,808,295	\$19,236,900	\$11,000,000
LFC Estimated Number of Clients Possession FY13	930	13,799	20,922	7,839	5,525	9,600
LFC Estimated Average Cost Per Client Possession in FY13	\$3,350	\$2,884	\$4,164	\$6,538	\$3,095	\$861
Actual Number of Clients	1,098	13,455	19,906	7,839	5,068	4,564
Actual Cost Per Client	\$3,493	\$2,732	\$3,450	\$7,080	\$3,658	\$1,275
FY13 Total Providers	28	36	1,011	23	215	144
FY14						
FY14 Appropriation	\$8,100,000	\$34,100,000	\$95,600,000	\$58,560,939	\$29,900	\$15,950,000
LFC Estimated Number of Clients FY14	2,131	14,127	20,654	7,472	8,671	13,400
LFC Estimated Average Cost Per Client FY14	\$3,801	\$2,732	\$4,140	\$7,080	\$3,448	\$1,190
FY15						
FY15 Appropriation*	\$10,600,000	\$39,750,000	\$97,700,000	\$58,442,526	\$36,577.26	\$21,281.5
LFC Estimated Number of Clients FY15	2,788	14,833	20,248	7,458	10,050	18,854
LFC Estimated Average Cost Per Client FY15	\$3,801	\$2,882	\$4,308	\$7,080	\$3,640	\$1,129
REMAINING STATEWIDE NEED						
LFC Estimate of Total Eligible Clients Statewide	10,800	14,833	29,000	N/A	12,578	68,500
LFC Estimate of Need After FY15 (line 20 line 17)	8,012	0	8,752	N/A	2,528	49,646
Estimated Funding Needed to Serve Eligible Clients After FY15	\$30,453,612	\$0	\$37,703,616	N/A	\$9,200,620	\$64,539,800

* Funding prior to sanding

Source: CYFD, PED, DOH, and LFC Files

Home Visiting Notes:

Estimate of total eligible clients statewide is based on a 20 percent uptake of all children birth to two years old ((27,000X2)x.20). Average cost per client of home visiting is per family. Costs of home visiting vary greatly depending on the model used.

Family, Infant, Toddler Notes:

The FIT appropriations and LFC recommendation above are total funds. Cost per child is based on total expenditures from all revenue sources: 1) State General Fund; 2) Private Insurance; 3) Federal IDEA Grant Funds; 4) Federal Medicaid Funds. The FY15 estimate of total eligible clients statewide is based on 5 percent growth which is a 4 percent increase over the average in FY11 and FY12 prior to the enactment of Chapter 166, Laws of 2011 (Senate Bill 330). The FIT Program is an entitlement and does not have a waiting list for services. The program is expected to continue to grow at a rate of 5 percent annually with 706 additional clients projected in FY16 at a projected total cost of \$1.9 million. The FY15 appropriation includes a provider rate increase previously recommended in a 2003 FIT rate study. The home and community-based rate is increased from \$102/hour to \$114/hour to address the rising cost of gas to travel to provide services in families' homes and to retain qualified staff. The rate increase results in an increase in the average cost per client.

Childcare Assistance Notes:

Estimate of total eligible clients statewide assumes the number of children on the childcare assistance waitlist up to 200 percent of the federal poverty level estimated by CYFD.

Head Start and Early Head Start Notes:

The FY14 estimate of children served was provided by the NM Head Start Collaboration Director. Head Start (HS) and Early Head Start (EHS) are completely federally funded. According to CYFD, HS and EHS are expected to continue experiencing decreased funding in FY15. HS and EHS funding and provider counts do not include tribal government or consortium or migrant/seasonal programs.

Prekindergarten Notes

For FY15, the estimate of total eligible clients statewide is based on an 80 percent uptake rate of the total number of four-year-olds currently served by Title 1 schools (87 percent of 27,700) less 4-year-olds who attend Head Start programs (5,700) and special education prekindergarten (2,676). The LFC estimated number of clients to be served in FY15 is based on use of \$4.4 million of the FY15 appropriation on administrative costs and program support and the remaining balance on direct services for 4-year-olds, including \$3.5 million to fund approximately 660 slots for an extended day prekindergarten pilot.

Kindergarten-Three-Plus Notes:

K-3 Plus eligibility is based on the total number of students statewide attending schools with 80 percent or more of the students eligible for free or reduced-fee lunch (FRL) and schools with a D or F letter grade.

Public School Issues

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- Public education appropriations grew \$147.7 million (5.8 percent).
- Formula funding up \$119 million (5.1%), including: a 3% raise for all school employees, an additional 3% raise for educational assistants, and an increase in minimum salary of level one teacher from \$30,000 to \$32,000; the last 0.75 ERB increase; additional funding for small school districts; funding to reduce class sizes that do not comply with statutory maximums.
- \$15.2 million was included for the state's at-risk students to close the achievement gap; however, these funds were vetoed.
- FY15 will mark the first year since FY09 that appropriations to the SEG will be sufficient to meet federal special education MOE requirements.
- Related recurring initiatives that will receive increased funding include:
 - Early childhood initiatives (prekindergarten, K-3 Plus, and the early reading initiative).
 - Funding for teacher and administrator programs, training, preparation, recruitment and retention.
 - College preparation, career readiness, and dropout prevention.
 - Interventions and support for students, struggling schools, and parents

Higher Education Funding Issues

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- The GAA appropriated \$838.6 million for higher education, a \$42.5 million (5.3%) increase above FY14.
- Of the \$601.3 million appropriated for institutional instructional and general support, \$41.6 million (7%), was based on institutional success at improving student outcomes and meeting their public access, academic, and research missions. The state has steadily increased performance-based funding since FY13.
- \$14.2 million to grow the state's healthcare workforce, targeted at undergraduate and graduate nursing programs (\$8 million), at least 10 medical residency positions (\$1.1 million), and financial aid programs for licensed professionals practicing in New Mexico (\$4 million).
- Lottery Scholarships – Revenue increases and expenditure reductions.

Medicaid Has a Major Financial Impact on New Mexico

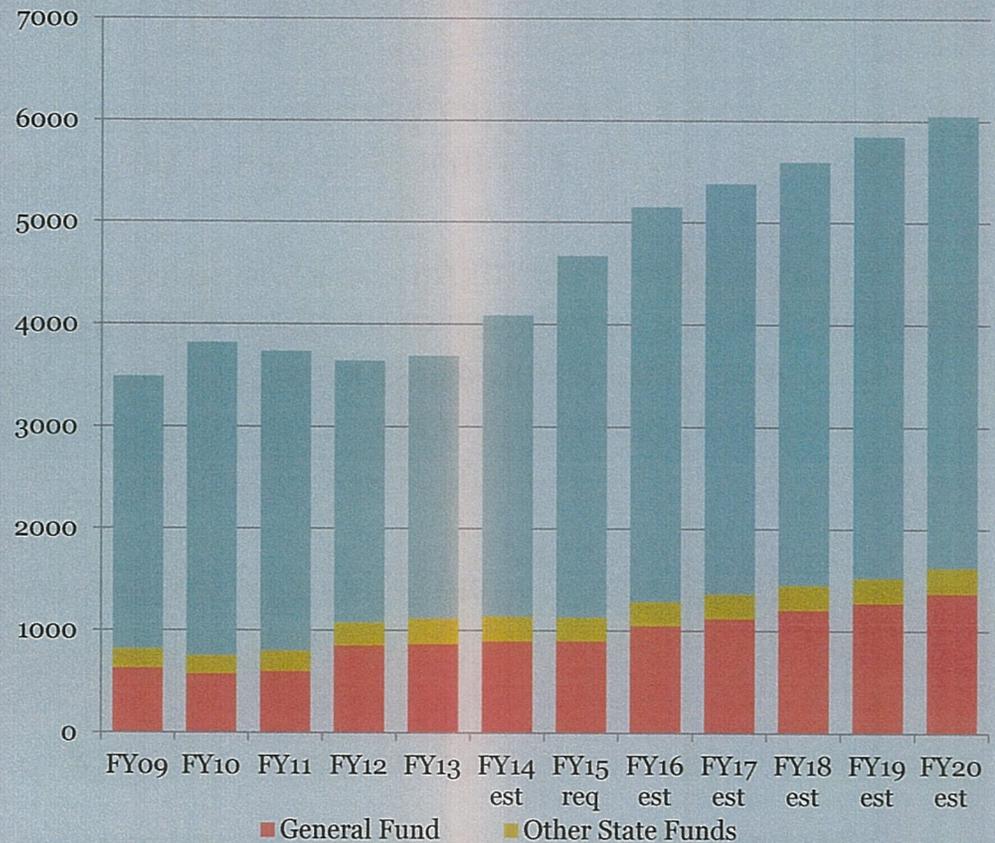
- 28 percent of New Mexico's population is enrolled in Medicaid, 2011 Census data showed almost 400 thousand New Mexicans, 19.6 percent of the population, lack health insurance, which ranked 46th of all states.
- This changed in January with expansion of Medicaid for low-income adults with incomes up to 138 percent of the federal poverty level (\$15,400 a year). The federal government will cover 100 percent of the funding for expenditures for these newly eligible adults in 2014-2016. Federal funding will decrease in the out-years to a 90 percent match in 2020 and thereafter. Affordable-Care-Act-related enrollment would increase to almost 170 thousand by 2020.
- Research shows policy benefits to the Medicaid expansion including: improved health of uninsured adults, improved availability of substance abuse treatment and a reduction in uncompensated care.
- The LFC's focus has evolved from cost containment to oversight of quality and cost efficiency of services.

Snapshot of New Mexico's Medicaid Program

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Medicaid Revenue Sources FY09-FY20

Actual and Projected Enrollment	
June 2009	515,381
June 2010	555,940
June 2011	560,222
June 2012	569,321
June 2013	578,695
June 2014	657,575
June 2015	725,531
June 2016	755,154
June 2017	771,370
June 2018	783,870
June 2019	800,543
June 2020	812,033



Compensation Funding Issues

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- The GAA included \$107.3 million for the following salary increases:
 - 3% across-the-board for legislative, judicial, classified and exempt state employees, a total of \$17.4 million after sanding.
 - 1.5% for higher education employees, costing \$9.1 million.
 - 3% across-the-board for teachers, instructional and educational assistants, and transportation and other employees; and
- Additional Targeted increases of 3%-5% for EAs, Teachers Licensed Level 1, CYFD protective service employees, juvenile justice direct service employees, corrections officers; 5% for state police and MTD officers.

General Fund Financial Summary: Laws 2014, Chapter 63 (GAA of 2014)

(in millions of dollars)

June 4, 2014

APPROPRIATION ACCOUNT

REVENUE	Final FY2013	Estimated FY2014	Estimated FY2015
Recurring Revenue			
December 2013 Consensus Forecast.	\$ 5,707.8	\$ 5,863.7	\$ 6,186.0
Total Recurring Revenue	<u>\$ 5,707.9</u>	<u>\$ 5,863.7</u>	<u>\$ 6,186.0</u>
Nonrecurring Revenue			
December 2013 Consensus Forecast.	\$ 0.6		
2014 Regular Session - Legislation (1)		(2.4)	(2.4)
Total Non-Recurring Revenue	<u>\$ 0.6</u>	<u>(2.4)</u>	<u>(2.4)</u>
TOTAL REVENUE	<u>\$ 5,708.6</u>	<u>\$ 5,861.3</u>	<u>\$ 6,183.6</u>

APPROPRIATIONS

Recurring Appropriations			
General Appropriation	\$ 5,649.6	\$ 5,892.9	\$ 6,151.2
Legislative Session Costs - Feed Bill	\$ 9.2	\$ 5.4	-
2014 Special Appropriations (2)	-	-	13.4
Total Recurring Appropriations	<u>\$ 5,658.8</u>	<u>\$ 5,898.3</u>	<u>\$ 6,164.6</u>
Nonrecurring Appropriations			
Prior-Year Appropriations	\$ 89.5	-	-
FY13 Audit Adjustment	\$ (21.2)	\$ 1.5	-
2014 IT Project Funding		\$ 7.7	-
2014 Deficiencies, Supplementals, Specials		\$ 32.5	-
2015 Special Appropriations (3)	-	-	-
Total Nonrecurring Appropriations	<u>\$ 68.3</u>	<u>\$ 41.7</u>	<u>\$ -</u>
TOTAL APPROPRIATIONS	<u>\$ 5,727.1</u>	<u>\$ 5,939.9</u>	<u>\$ 6,164.6</u>

Transfer to(from) Reserves

\$ (18.5) \$ (78.6) \$ 19.0

GENERAL FUND RESERVES

Beginning Balances	\$ 712.9	\$ 671.4	\$ 540.6
Transfers from (to) Appropriations Account	\$ (18.5)	\$ (78.6)	\$ 19.0
Revenue and Reversions	\$ 75.9	\$ 50.9	\$ 48.1
Appropriations, Expenditures and Transfers Out	\$ (98.9)	\$ (103.0)	\$ (52.8)
Ending Balances	\$ 671.4	\$ 540.6	\$ 554.9
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>11.9%</i>	<i>9.2%</i>	<i>9.0%</i>

Notes:

(1) Nonrecurring revenue reduction in FY14 reflects reduced State Land Office distribution to the general fund pursuant to expenditure of a special appropriation and an IT appropriation from the land maintenance fund.

(2) Recurring special appropriations include \$11.5 million for the lottery tuition fund, ~~\$461 thousand to the AOC for increased employer-pension-costs~~, \$500 thousand to the Tourism Department for cooperative advertising, \$350 thousand to DFA for RETA, \$1 million to EDD for JTIP, ~~and \$98 thousand for 2 FTE at LBSC~~.

**General Fund Financial Summary: Laws 2014, Chapter 63 (GAA of 2014)
RESERVE DETAIL**
(in millions of dollars)

	Final FY2013	Estimated FY2014	Estimated FY2015
OPERATING RESERVE			
Beginning Balance	\$ 346.8	\$ 327.1	\$ 197.8
BOF Emergency Appropriations/Reversions	\$ (1.2)	\$ (2.0)	\$ (2.0)
Contingent Liability - Cash Management (1)	\$ -	\$ (31.7)	\$ -
Transfers from/to Appropriation Account	\$ (18.5)	\$ (78.6)	\$ 19.0
Contingent Liability for PED MOE (HB2 & HB628) (2)	\$ -	\$ -	\$ -
Transfer to ACF/Other Appropriations	\$ -	\$ (17.0)	\$ (15.0)
Ending Balance	\$ 327.1	\$ 197.8	\$ 199.8
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	\$ 29.5	\$ 16.4	\$ 16.9
Disaster Allotments	\$ (28.4)	\$ (16.0)	\$ (16.0)
Other Appropriations (3)	\$ -	\$ (0.5)	\$ -
Transfers In (4)	\$ -	\$ 17.0	\$ 15.0
Revenue and Reversions	\$ 15.3	\$ -	\$ -
Ending Balance	\$ 16.4	\$ 16.9	\$ 15.9
Education Lock Box			
Beginning Balance	\$ 39.1	\$ 9.1	\$ 3.1
Appropriations (GAA Section 5&6) (5)	\$ (30.0)	\$ (6.0)	\$ -
Transfers In (Out)	\$ -	\$ -	\$ -
Ending Balance	\$ 9.1	\$ 3.1	\$ 3.1
Total of Appropriation Contingency Fund	\$ 25.5	\$ 20.0	\$ 19.0
STATE SUPPORT FUND			
Beginning Balance	\$ 1.0	\$ 1.0	\$ 1.0
Revenues	\$ -	\$ -	\$ -
Appropriations	\$ -	\$ -	\$ -
Ending Balance	\$ 1.0	\$ 1.0	\$ 1.0
TOBACCO PERMANENT FUND			
Beginning Balance	\$ 149.0	\$ 170.3	\$ 174.3
Transfers In	\$ 39.3	\$ 21.1	\$ 20.0
Appropriation to Tobacco Settlement Program Fund (6)	\$ (19.7)	\$ (10.6)	\$ (10.0)
Gains/Losses	\$ 21.3	\$ 12.8	\$ 13.1
Additional Transfers From TSPF (7)	\$ (19.7)	\$ (19.3)	\$ (9.8)
Ending Balance	\$ 170.3	\$ 174.3	\$ 187.6
TAX STABILIZATION RESERVE			
Beginning Balance	\$ 147.5	\$ 147.5	\$ 147.5
Transfers In	\$ -	\$ -	\$ -
Ending Balance	\$ 147.5	\$ 147.5	\$ 147.5
GENERAL FUND ENDING BALANCES	\$ 671.4	\$ 540.6	\$ 554.9
<i>Percent of Recurring Appropriations</i>	11.9%	9.2%	9.0%

Notes:

- (1) The FY13 general fund audit does not reduce the operating reserve by a \$31.7 million contingent liability in FY13 (in addition to the previously identified \$70 million contingent liability in FY12) for SHARE reconciliation to the cash account. However, DFA's unaudited FY12 CAFR includes such a contingency in FY12. Though not included in the FY13 audit, the contingent liability is a downside risk to reserves, and is reported in FY14 in this summary.
- (2) Consistent with the FY13 general fund audit, this summary does not include a FY13 transfer of \$20 million nor a \$16 million transfer in FY14 from the operating reserve to PED contingent on appropriation in the GAAs of 2012 and 2013 being insufficient to meet federal IDEEA maintenance of effort (MOE) requirements.
- (3) \$500 thousand to the Office of Military Base Planning for the preservation of US military bases in New Mexico.
- (4) Laws 2013 Section 11, transferred \$17 million from the operating reserve to replenish the ACF.
- (5) FY13 includes \$15.4 million contingent on the state not meeting IDEEA MOE requirements for FY14 and \$14.6 million in other education-related appropriations. FY14 includes \$2.5 million for professional development and \$3.5 million to the instructional material fund.
- (6) Assumes reduction in FY14 Tobacco MSA payment is \$20 million. This reduction is an estimate pending final determination of the MSA payment reduction, projected to be \$12-\$24 million.
- (7) The GAA of 2014 makes appropriations for CYFD and lottery tuition programs with non-tobacco funds. A provision transferring tobacco funds back from the lottery tuition fund was vetoed, representing approximately \$4.9 million in increased expenditure from the TSPF. A further \$4.9 million expenditure results from transfers for CYFD made in Chapter 228 of Laws 2013. Total expenditures reflect language restoring a \$19.3 million appropriation from the tobacco settlement program fund in the event of a reduction in tobacco settlement revenue.

Revenue and Expenditure Risks

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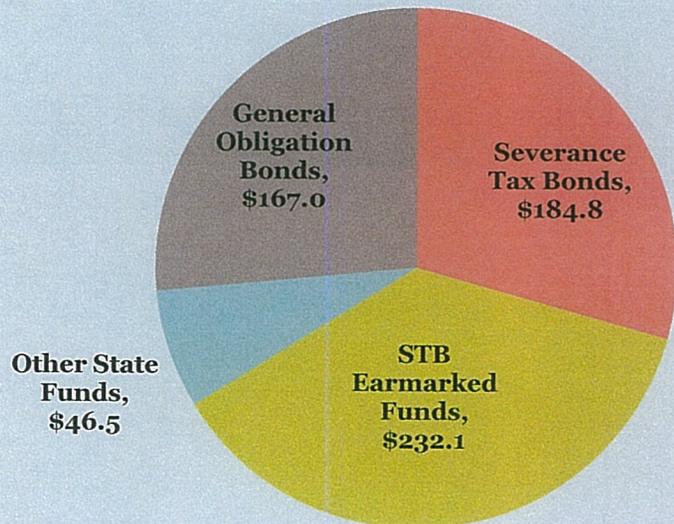
- Although the state's fiscal position remains strong, several risks remain:
 - Financial accounting issues: SHARE/cash reconciliation unresolved; potentially overstated HSD Medicaid receivable.
 - Contingent appropriations for special education maintenance-of-effort.
 - Weak employment data
 - Federal spending uncertainty (national laboratories, defense spending, transfer payments).
- The revenue forecast was conservative in the area of energy-related revenues. Severance taxes and royalties are currently tracking above the estimate and are an upside risk.

Capital Outlay

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Total capital outlay: \$630.4 million

2015 Capital Outlay - All Funding Sources (in millions of dollars)



Capital Outlay Issues:

- Two capital outlay bills authorize nearly \$395.7 million for various state and local infrastructure projects statewide.
- \$175.2 million from supplemental severance tax bond capacity is designated for public school construction.
- \$182.2 million from STB capacity for 824 projects
- \$46.5 million from other state funds for 28 projects.
- GOB projects total \$167 million for 3 bond issues for senior centers, library acquisitions, and higher education facilities.



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