



LFC Newsletter

A publication of the

Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Jimmie C. Hall, Vice Chairman

David Abbey, Director

Volume 16 Issue 08-09

March 2016

From the Chairman Open Minds

The development of the budget in an atmosphere of precipitously declining revenue projections was stressful, to say the least, and the final passage of a bipartisan plan came as a relief. But the financial crisis is far from over. While the austere spending plan keeps the cuts to a minimum and actually builds on efforts to improve salaries in public safety, protect vulnerable children and innovate in public schools, it relies on one-time revenue.

Further, it is unlikely state revenues or the state's economy, with its strong dependence on the busted oil and gas industry, will recover significantly any time soon. Oil prices are as low as they've been in a dozen years and the oil glut continues. Calls to reduce the dependence on oil and gas and diversify the state's revenue base are not new but, with State Land Commissioner Aubrey Dunn – not exactly a tax-and-spend liberal – chiming in and Medicaid managers promising to look at all options for covering a multimillion dollar shortfall, it is perhaps time for even the staunchest tax foes to have an open mind.

Certainly, like any large bureaucracy, the state leaks money, perhaps millions, through inefficient practices, misspending, and outright fraud, but tackling "waste, fraud and abuse" fails to address the over-reliance on a notoriously changeable oil and gas industry and is unlikely to generate substantial revenue.

Indeed, if some politicians are going to completely close the door to anything that looks like revenue enhancement – whether it's an increase to an unusually low gas tax, the temporary delay of a major tax cut for corporations, or a user fee – then they have to accept some programs might not survive, not because they don't provide an important service but because the service they provide is not as important as others. Keep in mind that essentially every service provided by state government is important, perhaps critical, to someone.

Perhaps New Mexico will find a way through this latest economic downturn without such drastic action. Keeping the door open to all possible solutions will make that easier.

Senator John Arthur Smith
Chairman

State Reserve Fund at Recession Levels

Withdrawals from the state's reserve fund are projected to be higher this fiscal year than in at least the last two decades and reserve levels when this year ends on June 30 and throughout the next fiscal year are expected to be as low as during the Great Recession, LFC analysis shows.

The examination of the general fund reserve, the state's "rainy day fund," is part of the *2016 Post-Session Fiscal Review*, an annual report scheduled to be presented to the committee at 9:30 a.m. March 22. The report looks at the impact of legislative action, including the budget as signed by the governor, and reviews the economic outlook.

More than \$400 million will be transferred from the reserve fund to the appropriation fund for FY16 to cover the gap between projected recurring revenue and approved spending. Although the budget was balanced when approved during the 2015 session, revenue projections have been repeatedly revised downward because of an economic slump, driven in large part by the bust in the oil industry.

That will leave reserve balances at about 5.6 percent of recurring appropriations. The ideal level for reserve balances is 10 percent to maintain bond ratings and to provide a cushion for economic volatility. If bond ratings

are lowered, the state will likely pay more to finance projects covered by bond proceeds.

Reserve balances for FY17, which ends on June 30, 2017, are expected to be 5.5 percent.

Based on conservative spending assumptions and revenue forecasts, need is expected to outstrip projected revenue by an average of about \$120 million annually from FY18 through FY20.

Much of the projected growth in spending is attributable to expansions of the Medicaid healthcare program required by the federal Affordable Care Act. The cost of Medicaid expansion is expected to grow by \$54 million in FY18, \$21 million in FY19 and \$40 million in FY20.

The revenue forecast for FY17, lowered by \$260 million mid-session, was lowered again in the last week of the legislative session by another \$125 million, leaving a \$95 million gap between the FY17 budget and expected revenue.

The Legislature included language in the budget bill, the General Appropriation Act of 2016, that would have authorized the governor to reduce budgets by about 1 percent if revenues fell short to prevent the need for a special session to cut budgets. The governor vetoed that language, saying cuts should be targeted and not across-the-board.

Agency Performance Mixed

Agency report cards for the second quarter of the fiscal year show the typical mixed results, with strong state park visitation among the successes and high inmate violence among the shortcomings.

The committee is scheduled to hear a report on agencies' efforts to hit performance targets at 3:30 p.m. March 21.

Among the findings:

- The Medical Assistance Program of the Human Services Department, which manages Medicaid, missed six of nine targets during the quarter. Smaller percentages of infants and children received routine medical and dental checkups than last year, with just two in five infants seeing a doctor regularly.
- The prison population was stable for

the quarter; however, inmate violence and positive drug tests rose.

- The State Forestry Division is on pace to fall short of its goal for treating forest and watershed acres, completing just 23 percent of its annual target. Progress was slowed by muddy roads and snowpack. Visitation to state parks is stronger than a year ago and is projected to exceed the annual target; however, revenue generated per visitor is below the target.
- The number of worker health and safety violations reported by the Environment Department increased four-fold from the first to second quarter, from 61 to 236. In addition, 57,000 New Mexicans are being served by water systems that do not meet health standards.

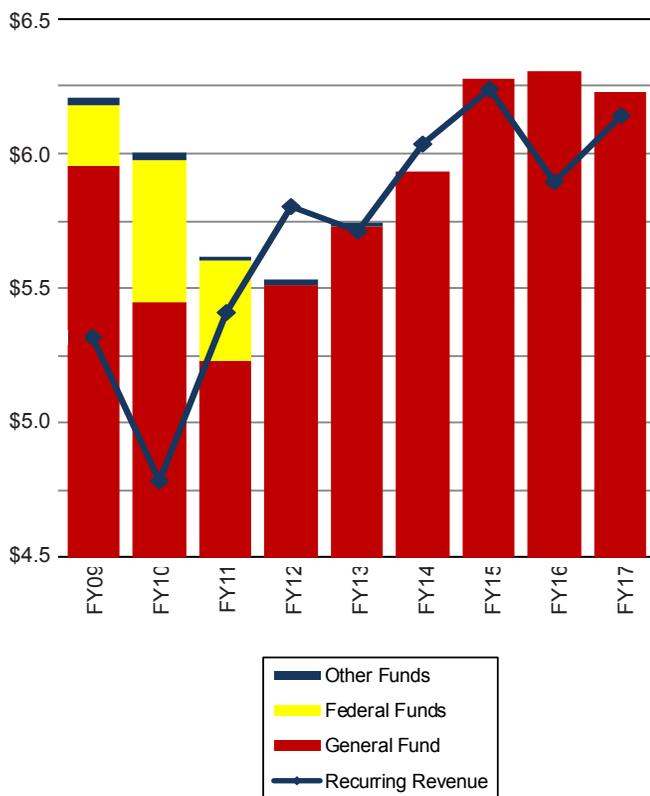
FY17 Spending Close To Pre-Recession Peak

Total appropriations in the FY17 budget, \$6.2 billion, are slightly below the current year and very close to the total appropriations for the peak budget years before the Great Recession.

Although general fund revenue started to drop in FY09, federal stimulus money and a solvency plan that relied heavily on sweeping idle dollars from various funds, as well as draw from the general fund reserve – particularly healthy from strong earnings in the years leading up to FY09 – prevented major cuts to most state agencies.

Although general fund revenues had started to recover by FY12, federal stimulus funds had run out, leading legislators to adopt a \$5.6 billion budget, the smallest spending plan for the nine-year period.

General Fund and Temporary Funds Appropriations (in billions)



On the Table

Lottery Adds to Tuition Fund

The New Mexico Lottery Authority transferred \$8.5 million to the lottery scholarship fund in January, more than twice the \$3.8 million transferred in January 2015. So far this year, proceeds total \$27.9 million, compared with \$23.3 million for the same period last year. The increase is the result of the boost in sales driven by the record \$1.6 billion jackpot earlier this year.

Active Rig Count Drops to 2000 Levels

The number of active drilling rigs in New Mexico dropped to 17 the first week of March, the lowest in the Baker-Hughe weekly reports dating back to January 2000.

NM Gets Federal Conservation Funds

New Mexico is scheduled to get about \$3.5 million of \$220 million the federal Natural Resources Conservation Service will invest in 84 projects nationwide. The service has designated \$3 million for acequia revitalization on historic lands to promote conservation, increase efficiency and improve quality of water on agricultural lands and for downstream purposes. Another \$500,000 is slated for watershed restoration. In addition, New Mexico is participating in a \$1.8 million national project to promote conservation on Native American lands that will include carbon farming production.

Nickel Per Member To Fight Opioid Abuse

The Public Schools Insurance Authority has approved a \$31,000 payment to Express Scripts, which provides prescription drug coverage, to pay for a program that identifies suspicious drug patterns in an effort to prevent opiate overdoses. The extra payment comes out to about 5 cents per member per month.

Pension Funds Miss Earnings Target

The market values of the Educational Retirement Board and Public Employee Retirement Associations funds dropped \$750 million in January, finishing the month at \$10.8 billion and \$13.4 billion, respectively. The funds are not likely to meet their return targets of 7.75 percent for the second year in a row, although they might make the 3 percent necessary to meet current obligations.

Transitions

Jon Clark, economic development analyst for LFC, will move up to economist and Clint Elkins, who has been covering public education issues, has permanently assumed that responsibility.

Steve Vierck, director of the Economic Development Partnership for the last four years, has stepped down to be director of the Economic Development Corporation in Lea County. The partnership recruits businesses to New Mexico.

Prefer to get the newsletter electronically?
Email adreena.lujan@nmlegis.gov to be put on the electronic distribution list.

LFC Newsletter

Volume 16 Issue 08-09

Published monthly in the interim by the Legislative Finance Committee.

Staff Editor - Jonas Armstrong Writer, Editor - Helen Gaussoin

Questions, comments: 505-986-4550

www.nmlegis.gov/lfc

Please contact Adreena Lujan at adreena.lujan@nmlegis.gov if you would prefer to receive this newsletter electronically.

Legislative Finance Committee
325 Don Gaspar Street Ste101
Santa Fe NM 87501