



LFC Newsletter

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Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Jimmie C. Hall, Vice Chairman

David Abbey, Director

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From the Chairman **Fortune Telling**

It's been a tough year to be a budget developer in New Mexico. On the plus side, FY15 revenue came in slightly stronger than expected. The general fund reserve, the state's financial cushion in case of emergency, is at a healthy 10 percent. But much news has been, if not depressing, then definitely worrisome.

In just this newsletter are reports that summer gross receipts tax collections, a significant contributor to state finances, were down from last year; managers of the state's largest investment fund have lowered their return targets; and economic forecasters have lowered their projections on certain wage and salary growth.

Then there's oil. As everyone who has to fill a vehicle with gas knows, prices have been down for more than a year. Low gasoline prices always get a mixed reception in New Mexico, and probably any state that gets a substantial amount of its income from the oil industry. Consumers are generally happier with lower pump prices but state revenues take a big hit when gas prices go down. Between June 2014 and August 2015, oil dove from \$107 per barrel to \$43 and each dollar difference represents between \$9 million and \$10 million for state coffers.

Worthy of note, the current consensus revenue forecast, developed by a team of legislative and executive economists, assumed the average per barrel price in FY16 would be \$51.50. The assumption for FY17 was \$56.50. Right now, New Mexico crude is selling for about \$38 a barrel. The forecast pointed out that there was a 50 percent chance oil prices would be \$43 at the end of FY16, knocking \$120 million off expected revenue.

We are less than halfway through the fiscal year and oil prices are notoriously volatile. But it's troubling.

New Mexico revenue forecasts are generally accurate, despite the requirement that forecasters see up to 18 months into the future and predict disruptions in the Mideast, the weather and natural disasters, consumer trends, and business decisions. Oil prices could recover or unexpectedly low oil prices might be offset by higher-than-predicted business activity or extraordinarily strong tourism.

With a strong general fund reserve, New Mexico can probably handle some revenue shortfall. But we would be wise to be cautious this year. In case the news gets worse.

Senator John Arthur Smith
Chairman

Pension Funds Struggle

Despite increasing contributions and reducing benefits for the past two years, the health of the state's two pension funds have slipped, in part because of lower-than-expected investment returns for FY15, LFC analysis shows.

Reports on the solvency of the pension funds will be part of the committee's budget hearings on the Public Employee Retirement Association and Educational Retirement Board, scheduled for the afternoon of November 19.

While the pension funds are considered secure, their combined unfunded liability – the gap between projected funds available and the obligation to current and future retirees that must be paid off over time – grew by \$700 million in FY15 to \$11.3 billion.

However, the actual debt could grow even higher if pension fund managers fail to earn 7.75 percent investment returns in at least six of the next 10 years, LFC staff analysis concludes.

In FY15, PERA had one-year returns

of 1.9 percent while ERB earned 3.9 percent for the year. However, the average over the last three years was 10.5 percent for PERA and 9.8 percent for ERB.

LFC analysis indicates that lowering the return assumption by 1 percent, to 6.75 percent, to reflect the weak market, could add \$4 billion to the funding gap.

The Legislature will need to look at benefit changes or higher contributions if the funding gap persists, LFC staff notes.

While investment returns are a factor in the health of the funds, PERA solvency was also hit hard in FY15 by larger-than-expected projected payroll increases for state and municipal plans.

PERA and ERB paid more than \$2 billion in benefits to 80,000 retired New Mexicans or their survivors in FY15. The number of retirees was up by about 5 percent from FY14.

One hundred thousand more are counting on the benefit when they retire over the next 30 years.

Secretary Warns Conditions Dangerous

Staffing in the state's prisons is dangerously low and facilities are in disrepair, creating conditions similar to those that led to the 1980 riot, the department secretary says.

Secretary Gregg Marcantel of the Corrections Department said during the agency's October budget hearing that the department is asking for a 4.5 percent increase for FY17 and expects pay raises for correctional officers and probation and parole officers will be in a pay plan proposed by the State Personnel Office.

Marcantel said low pay is making it hard for the department to hire and keep officers, leading to high vacancy rates and overtime.

The department is asking for \$331 million in FY17, with \$302 million of that from the state general fund. However, the department's request for \$13 million more in FY17 does not include a \$15 million supplemental appropriation requested for FY16 because of a shortfall.

If the \$15 million is included in the figure for this year's spending, the department's FY17 request for general fund revenue is actually less than they might receive this year.

The department reports \$5 million of its requested general fund increase is needed for inmate population growth. The New Mexico Sentencing Commission estimates the prison population, now about 7,300, will continue to grow over the next 10 years, with the male population leveling out while the female population grows at an average of 5 percent a year.

LFC research shows New Mexico has the highest recidivism rate in the region, and recidivism is a contributor to inmate population growth.

Staff analysis suggests the Corrections Department could cut costs by focusing on recidivism-reduction programs known to be effective, reducing the number of inmates who serve parole inside prison because of parole plan issues, and identifying more health care services that qualify for Medicaid, which is heavily subsidized by the federal government.

Staff notes the department received \$2 million in capital outlay funds in 2015 to address maintenance issues. However, the department estimates it needs \$300 million to fix facility problems, including safety features and leaky roofs and other structural problems.

NM Incarceration Rates Low, Recidivism Rates High

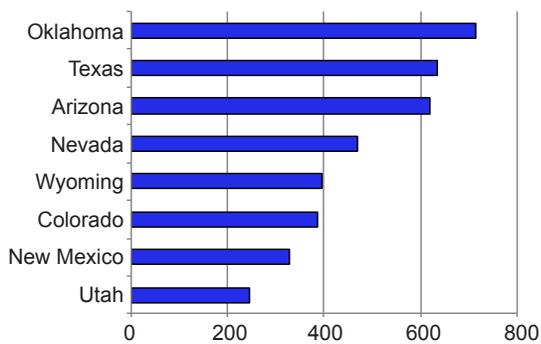
New Mexico incarceration rates are the second lowest in the region, but the state ranks high on recidivism rates, LFC research shows.

The state, with about 328 people in prison for every 100,000 people in the state, is second only to Utah for lowest incarceration rates in the region.

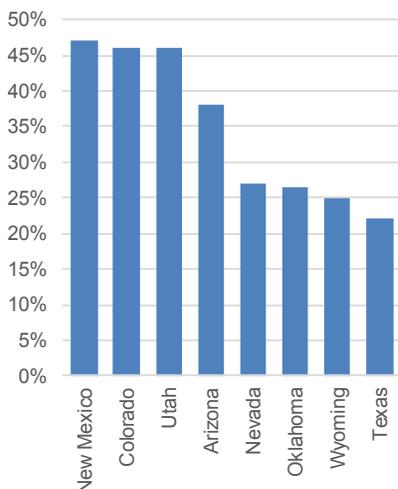
Oklahoma, with 715 people in prison for every 100,000 in the state, is the highest in the region and has a rate more than twice that of New Mexico. The rates in Arizona and Texas, 620 and 636, are also close to twice the New Mexico rate.

While recidivism statistics are harder to compare because of differences in state data collection, New Mexico appears to have the worst recidivism rate, with 47 percent of inmates ending up back in prison after release.

Regional Incarceration Rates 2013
Number of Inmate Per 100,000 Population



Regional Recidivism Rates*



*Based on latest statistics available for each state, ranging from 2011 to 2015.

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On the Table

Gross Receipts Down

The Taxation and Revenue Department reports taxable gross receipts, an indicator of business activity, were down in July and August by 3.8 percent compared with the same months last year.

SIC Drops Investment Return Targets

The State Investment Council has reduced the annual return target for investment of the land grant permanent fund from 7.5 percent to 7 percent and the target for the severance tax permanent fund from 7.5 percent to 6.75 percent.

JTIP Funds Awarded

Seven companies will receive a total of \$637,000 in Job Training Incentive Program funds through awards announced by the Economic Development Department in September. The funds will pay for training 140 new employees at a cost of \$4,550 an employee, below the long-term cost-per-job of \$5,200. The largest award, \$200,000, will go to Ready Roast Nut Company in Portales.

Ready Roast is also among seven companies that will receive a total of \$2.6 million in Local Economic Development Act grants announced by the department last month. The company will receive \$1.5 million for equipment and construction.

Forecasters Drop Wage Growth Estimate

The Bureau of Business and Economic Research of the University of New Mexico has revised its estimate of FY16 private wage and salary growth, dropping it by a quarter from 4.4 percent to 3.3 percent. However, the bureau raised its forecast of private wage and salary growth for FY17 by 0.3 percent to 5.2 percent.

Watershed Projects Near Completion

Half of the watershed acreage targeted by the State Forestry Division for restoration will be treated by the end of the year, the division reports. The division received \$6.2 million in 2014 capital outlay funds to restore the ecological health of almost 7,700 acres.

Transitions

Rachel Gudge, former LFC education analyst, has left LFC to be director of the Legislative Education Study Committee.

Diné College president Maggie George was placed on administrative leave as of October 9. The college's board appointed Martin Ahumada, formerly vice president of academic affairs, to serve as acting president through November 20.

Margaret Marino has been appointed director of the New Mexico Museum of Natural History and Science. Marino started her 30-year museum career at the same museum.