



LFC Newsletter

A publication of the

Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Luciano "Lucky" Varela, Vice Chairman

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Volume 08 Issue 10

April 2008

From the Chairman

New Ball Game

Universal health care grabbed the headlines during the legislative session and continues to be bandied about in the news. But another health-care issue, of arguably equal importance, was left in worse shape. The solvency of Retiree Health Care Authority, and the health care of the tens of thousands of New Mexicans it serves, was still at risk when the session ended.

Without intervention, the authority fund could be bankrupt in five to six years. A number of factors have contributed to the crisis – health-care inflation has been in the double digits for the last decade – but the bottom line is that premiums have not kept up with costs. Beneficiaries must pay more, services have to be cut, or taxpayers will have to pick up the tab.

The legislation I and others proposed during the session would have put the fund on sound footing and was the result of a cooperative effort by legislators, the executive and the authority. Its failure came in the wake vociferous objections of the retirees now receiving care under the plan.

Unfortunately, inaction means that care is now at greater risk. This is not one of those times that strong state revenues can bail out a failing program. The money is not there and, given the failing economy, it's not going to magically appear.

Since the session, the authority board has adjusted the employee contributions to something closer to those in the failed legislation. While this will help improve the financial condition of the fund, the board has left in place a system that leaves the state share of the premium at a similar percentage for all plans – whether the beneficiary has opted for the most expensive plan with the most generous benefits or for the least expensive plan with basic benefits. This is not a financially responsible approach.

I recently discussed this issue with the governor. We share common goals to return the authority to sound administration and governance, as well as to restore actuarial solvency of retiree health benefits. Further, we see opportunities to bring consensus to the greater challenges of uncompensated health care and the large uninsured population in New Mexico.

The authority's executive director and board chairman are scheduled to appear before the committee during its April meeting. Without legislative action, the authority must step up and act now to return the fund to solvency. We look forward to their presentation.

Senator John Arthur Smith
Chairman

Debt Market Slide Costs State Money

The state has paid hundreds of thousands more in interest on bonds for roads and student loans because the collapse of the subprime mortgage industry has driven some major banks and lenders from the marketplace for certain types of debt.

A national public finance advisor is scheduled to testify before the committee on April 23 on the current conditions in the debt market and the state's options for financing its debt. The state treasurer, the head of the New Mexico Finance Authority and the president of New Mexico Student Loans are also scheduled to discuss agency actions on debt issues on April 23. Hearings on the state's investment portfolios are scheduled for April 22.

Some of the auctions for the billion dollars in "auction rate" bonds issued by the New Mexico Finance Authority and New Mexico Student Loans are failing to attract bidders, prompting an automatic increase in the interest rates, in some cases as high as 12 percent. The bonds finance highway construction projects in the Governor Richardson Investment Partnership and the loans

made by New Mexico Student Loans.

Unlike other variable rate bonds with interest rates tied to specific indices, the interest rates on auction rate bonds are reset in frequent competitive auctions – every week for the GRIP bonds and every month for the Student Loans bonds. If no lenders bid at the auctions, whatever lender is holding the bonds has to keep them but the interest paid by the state jumps to a set cap.

The auctions for more than \$400 million in GRIP bonds and more than \$600 million in Student Loans bonds started failing in February. In the past eight weeks, some of the auctions have continued to fail. Others have attracted bids but with much higher interest rates.

The Finance Authority reports the amount spent on interest on the bonds increased five-fold after the auctions started failing and adds up to hundreds of thousands of dollars.

The authority has since converted all but \$135 million of the GRIP bonds, which had a 12 percent failure cap, to more traditional variable rate notes. Conversion of the bonds cost the state \$1.6 million.

STARS System Not Stellar

A review of the quality of the data in the public school student tracking system called STARS showed no significant errors, but users still complain about inadequate training, late reports and a lack of confidence in the data, an LFC evaluation found.

Program evaluation staff reported on STARS, the Student, Teacher Accountability Reporting System, during the committee meeting in March.

Staff from the Legislative Education Study Committee testified during the hearing that the data they have received through STARS is of poor quality.

The LFC evaluators found no significant "anomalies" in the 2006-2007 school-year data for the six small districts in the review but noted no large districts were included.

The review found that a lack of timeliness in STARS reports might be the result of a complicated process, staff

turnover, the manual entry of corrections for certain data errors, and inadequate training for users.

The review also found that the Public Education Department has spent \$1.7 million on contracts for hosting, maintenance and support services that could be done in-house.

Public Education Secretary Veronica Garcia said confidence in the system has improved since the LFC interviewed users. She said reports are more timely. She acknowledge training problems, but said the department needs more trainers to keep up with staff turnover.

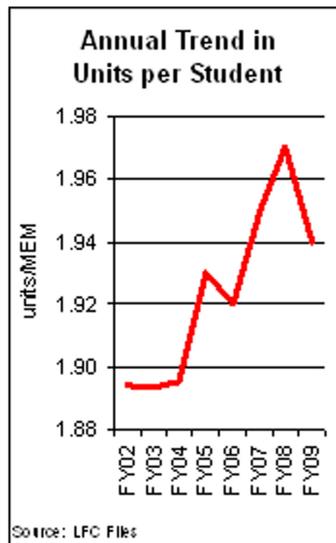
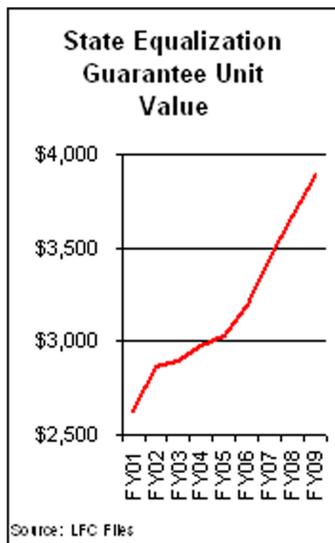
She said STARS has made data errors more obvious, but will improve accountability by giving teachers and principals more ready access to student data.

STARS will be particularly useful for tracking students through college, although it cannot now communicate with the system used by the state colleges.

Public School Unit Value Up 6%

The Public Education Department has set the preliminary FY09 unit value for school funding at \$3,892, a 5.9 percent increase over FY08. The department is projecting a drop of 8,300 units in the upcoming school year after projecting a slight increase in units during the legislative session. Units are roughly based on enrollment with factors for school population specifics, like students who don't speak English or have disabilities. The increase in the unit value is expected to translate to \$32 million more than expected for school districts.

An analysis of student enrollment data and the number of calculated units used in determining the unit value indicates that statewide enrollment is remaining relatively static, yet the average number of units generated per student has increased from 1.89 in FY03 to approximately 1.97 in FY08, an increase of 4.2 percent. This increase in the number of units, primarily associated with related services for special education students and generally unaccounted for in the development of the funding recommendation, has led over time to a significant dilution of the unit value. An increase of 8,558 units for related services in FY06 and FY07 caused a dilution of over \$30 million in the unit value.



On the Table

Fed Rule Could Cost Hospital \$40 Million

New federal Medicaid regulations limiting payments to government hospitals could cost the University of New Mexico Hospital some \$40.6 million. The regulations are scheduled to go into effect in May, but Congress is considering legislation delaying implementation to April 2009. If the regulations are adopted and UNMH is designated a government hospital, the hospital would lose money related to new rules on "upper payment limit" and "graduate medical education" reimbursements.

Car Dealer Applies for Race Track License

Don Chalmers, under the name Coronado Partners, LLC, has applied to the New Mexico Racing Commission and the New Mexico Gaming Control Board for permission to operate a casino and horse racetrack in Tucumcari. Coronado Park would have a one-mile track and 600-slot casino.

State Issues RFP for Youth Mentoring

The state's contract for statewide youth mentoring, held by Big Brothers/Big Sisters of New Mexico for the last two years, will be put out to bid this year. The Department of Finance and Administration has been working with Big Brothers/Big Sisters through a noncompetitive sole-source contract. Funding for youth mentoring, about \$890,00 in FY06, will be \$2.8 million in FY09. DFA and LFC are working with Big Brothers to make sure the organization understands the request for proposal process.

Public Assistance Rolls Up and Down

Medicaid enrollment was slightly higher in December compared with a year ago, while year-over-year enrollment in the Temporary Assistance for Needy Families dropped in February. The Human Services Department reported about 422,000 New Mexicans enrolled in Medicaid in December 2007, a 0.6 percent increase over December 2006. The department reported the TANF program had about 14,000 families in February 2008, a 3.6 percent drop from February 2007.

In the General Assistance program, the caseload in February was down 18 percent from the start of the fiscal year in July 2007.

Transitions

Greg Geisler, an LFC analyst, is moving to the Department of Transportation as comptroller.

Frank Foy, chief investment officer for the Educational Retirement Board for 16 years, has retired.

Yvonne Apodaca, budget director at the Taxation and Revenue Department, has resigned to be assistant budget director at the State Budget Division.

Bruce Malott, an accountant and member of the Educational Retirement Board, has replaced Danielle Wilson as the governor's appointee to the Retiree Health Care Authority.

Carol Pava, a former LFC performance evaluator, is the new administrative services director of the Regulation and Licensing Department. She previously served as the internal audit bureau chief at the Human Services Department.

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Published monthly in the interim by the Legislative Finance Committee.

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<http://legis.state.nm.us/lcs/lfc/lfcdefault.asp>

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