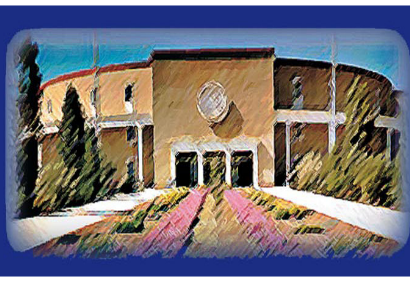

LFC Newsletter

A publication of the **Legislative Finance Committee**
Senator John Arthur Smith, Chairman
Representative Luciano “Lucky” Varela, Vice Chairman
David Abbey, Director

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From the Chairman

One Month

During the July committee meeting, state government’s leading economists told us things were looking up. New Mexico seemed to have weathered the worst of the recession and the state was on its way to a $120 million surplus.

Since then, Congress loaded the debt-ceiling agreement with cuts that are sure to be felt in New Mexico, an already-skittish stock market went wild on the heels of the downgrading of the U.S. credit rating, and oil prices started to slip. In addition, the state is looking at a $60 million to $100 million payment to the federal government for Medicaid billing errors, a liability big enough to eat up much of the projected surplus.

It seems like we just can’t win for losing.

Fortunately, there are some pluses in our column. Because of cautious budgeting in the years leading up to the recession, New Mexico went into the downturn better prepared than most states and avoided big layoffs and draconian cuts in services. The state is running a much leaner machine these days and is in a better position to take another financial blow. We’ll just have to wait a little longer to restore some of the services cut back during hard times. New Mexico won’t get back to where it was anytime soon, but the situation also is unlikely to get much worse.

In the meantime, state revenue reports are still strong and federal cuts won’t hit us right away. Critical services are intact and, someday, New Mexico will get back on the winning side.

Senator John Arthur Smith
Chairman

Public Retiree Funds Struggle with Solvency

The state’s retirement and retiree health-care funds continue to struggle financially but analysts say the state might have maxed out its ability to collect higher contributions from employees, making benefits a more likely target.

In part to solve existing solvency issues and in part to save the state money during the worst of the recession, employee contributions to the educational and public employee retirement funds and retiree health-care fund have more than doubled in the last few years.

But an LFC hearing brief suggests employee contributions, now among the nation’s highest, cannot go much higher without making it hard for public agencies to hire and keep employees.

The committee will hear the report on fund solvency at 8 a.m. on August 18. The directors of the Educational Retirement Board, Public Employee Retirement Association and Retiree Health Care Authority are scheduled to testify at the hearing in Red River.

New Mexico traditionally has provided public employees with a strong retirement package as compensation for salaries that often have lagged behind regional and national averages.

Depending on years of service and average pay, New Mexico public employees can retire years before they qualify for social security benefits and receive up to 80 percent of their salary.

In 2010, the average PERA member was 58 and received a monthly benefit of $2,335, while the average educational retiree began collecting $1,693 a month at the age of 59.

Both groups of retirees and their spouses are eligible for subsidized health care through the health care authority.

All three funds are struggling with solvency, with liabilities outweighing assets. The extent to which liabilities, including projections of future benefit costs, exceed assets ranges from $3.35 billion in the health-care fund to almost $5 billion in the educational retirement fund.

None of the funds meet the industry standard of having 80 percent of the pension obligations covered by assets. The PERA fund is close with a 78.5 percent funded ratio, but that percentage is projected to drop in the next few years.

Efforts to make the funds solvent have been hampered by the erratic stock market performance, which ate into investment earnings. The agencies are also struggling with a decline in active employees, who contribute to the funds, coupled with an increase in retirees, who draw from the funds. The Retiree Health Care Authority, in addition, has faced growing health-care costs.

Health Facilities’ Management Still a Challenge

Little has changed at the Health Department since a 2009 LFC evaluation recommended the agency make changes in its Office of Facility management, including reducing turnover and overtime and the facilities’ dependence on state general fund dollars, staff analysis shows.

The committee held a hearing on progress in health facilities’ management during its July hearing.

In 2009, when state dollars represented 51 percent of the facilities’ budgets, LFC staff recommended the department look to insurance companies, Medicare and Medicaid, and other third-party payers to reduce the need for general fund support. State dollars now represent about 57 percent of the facilities’ budgets.

Staffing also continues to be an issue at the facilities, with nursing shortages at all seven facilities. In 2009, turnover at the facilities ranged from 12 percent at the Behavioral Health Institute in Las Vegas to 33 percent at the Fort Bayard Medical Center and the cost of overtime and contract staff was $9 million.

Department Secretary Catherine Torres told the committee the department is working on centralized billing to improve collections, certification to allow certain Veterans’ Administration payments to the Fort Bayard hospital, and a new timekeeping system to reduce overtime.

She countered questions about the department’s failure to meet certain performance measures by saying the agency plans to submit new performance measures for FY13 and lauded the absence of a supplemental appropriation request for the facilities for the last two years.

However, the hearing brief noted four of the seven department-run facilities ran a total of $2.5 million short in FY11. The department covered the losses in those hospitals with a surplus at the Behavioral Health Institute.

LFC staff also raised concerns about the failure of the Health Department or the General Services Department to request the $1 million needed in FY12 to maintain two empty Health Department facilities. The General Services Department is taking over this year as lead agency for the empty buildings at Fort Bayard and New Mexico Rehabilitation Center in Roswell. The two facilities cost the state $87,000 a month.

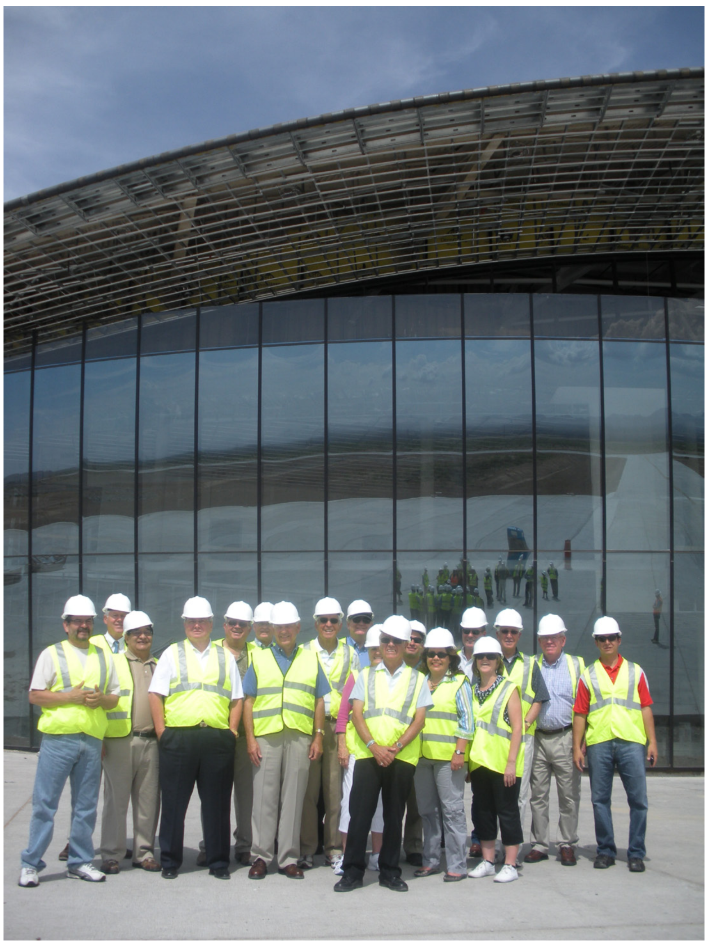
Space Tourism
Ready To Take Off

Some 440 space tourists have already booked flights on Virgin Galactic space flights, the company president told the committee during hearings in July.

George Whitesides updated the committee on the status of the development of the company's spaceship during a tour of Spaceport America near Las Cruces.

Whitesides said the company has collected $58 million in flight deposits and has invested $400 million in spaceflight development. He urged the committee to support legislation to limit liability to spaceship manufacturers and completing the spaceport on time.

Virgin Galactic has signed a 20-year lease with the state for the use of the terminal hangar at the spaceport.



Committee members and staff and employees of Virgin Galactic and Spaceport America pose during a tour of the facility during the committee's July hearing.

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On the Table

Public Safety Loses Quarter Million

The Department of Public Safety will lose $273,000 in federal funds because New Mexico failed to meet the July 27 deadline for complying with the Adam Walsh Child Protection and Safety Act. The act created a national sex offender registry and sets standards for posting sex offender information on the Internet.

Corrections Medical Contract Extended

The Corrections Department has issued an emergency three-month extension of its contract with Correctional Medical Services at a cost of $14 million. The contract ended on June 30. The department has not yet issued a request for proposals.

Oil Lease Bonuses Expected To Level Off

The State Land Office is predicting oil lease bonus payments, which set records in June and July, will level off in the fall after oil-rich areas become less available. Bonus lease payments in July were more than $19 million, breaking the record set in June when oil producers paid bonuses of $17 million to lease state trust land tracts. The bonus payment windfall is being driven by new leases in the oil-rich regions of Lea and Eddy counties. The office is predicting lease bonus payments will be about $15 million in August and then drop off when all state trust land in the southeast is under active lease. The office typically earns $3 million to $6 million a month in lease bonuses.

Local Governments Get Piece of $24 million

Wastewater projects in Eagle Nest, Taos, San Miguel County and Questa will share $1.8 million of $24 million in federal stimulus funds awarded to the state Environment Department.

Incidence of Bovine TB Cut in Half

The Livestock Board reports the number of positive bovine tuberculosis tests has dropped by half since 2006. About 1.5 percent of the almost 8,000 bulls tested in June had the disease. About 60 herds currently are quarantined because of positive tests. The department recently received a $366,000 federal grant to continue testing.

Public Agency Audits Late

As of July, several state agencies, eight school districts, 40 municipalities and four counties had not submitted their audit reports for the budget year that ended June 2010, the State Auditor reported. The Livestock Board and the Aging and Long-Term Services Department were among the state agencies that had yet to report.

State Owes Feds for Payroll Taxes

The General Services Department is working with the IRS to resolve what could be $1 million in past-due payroll taxes. The state under-withheld and under-reported taxes to certain disabled local government employees for eight years.

Transitions

Jeff Canney has joined LFC as a program evaluator. In addition to extensive private sector experience, Canney worked as an administrations and operations manager at the New Mexico State Environment Department for seven years. He earned his MBA from the University of New Mexico.

Two new analysts are also starting at the LFC. Peter Van Moorsel has a master's degree in economics and worked at Legislative Education Study Committee for five years. Rick Martinez Jr., who has a degree in accounting from the College of Santa Fe, has worked at Thornburg Management and the Energy, Minerals and Natural Resources Department.

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