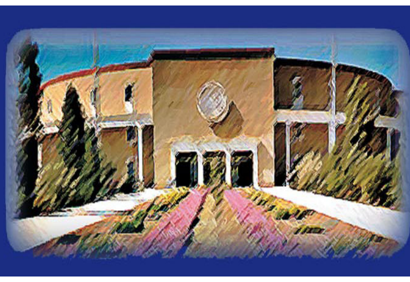

LFC Newsletter

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

Cowboy Up

The stock market dive that hit many individual retirement accounts hard delivered a similar wallop to public retirement funds. The pension funds for retirees from public schools and colleges and local, county and state governments rely on investment earnings to meet their obligations. Employee and employer contributions do not cover the benefits and the funds lately have not earned enough to cover those costs.

It's not news the funds are running out of money. The recession hit in 2008 and investment earnings have been off ever since. The Educational Retirement Board fund was in trouble even before the recession. Contribution rates were raised, but those higher rates did not anticipate the financial collapse. Still, despite sincere consternation, numerous studies and proposed legislation, nothing has been fixed. Just last month, a stakeholder group for the Educational Retirement Board voted to recommend raising contributions but did not address cutting costs.

Undoubtedly, a barrier to a balanced approach is resistance to cutting benefits. But the funds can't be saved with higher contributions alone. In the stakeholder proposal, employees would have to lose another 2.8 percent of their pay to retirement contributions on top of increased employer contributions to keep benefits intact for existing retirees. In fact, the trend of having fewer current employees supporting benefits for longer-living retirees is part of the problem. At some point, higher and higher contributions from employees will drive employees away and make it harder to get new workers.

It's common knowledge that public employees and teachers have good retirement plans. At one point, the logic was that a strong pension was necessary to offset low pay. Given that public employee pay is now competitive, that logic no longer holds. Capping the cost-of-living increase or raising the retirement age will be unpopular but failing to act will mean more painful solutions in the future. Policymakers need to make the tough choices needed to save the funds for future retirees.

Senator John Arthur Smith
Chairman

Panel Wants More Information To Answer Solvency Question

An unemployment tax rate proposal considered by an advisory council fixes structural problems in the contribution schedule but keeps the top rate the same.

The Unemployment Insurance Advisory Council was created to study a revamp of the contribution schedule matrix and other possible changes after the Legislature and the executive clashed over efforts to save the fund from going broke. The LFC is scheduled to hear about the reform proposals at an 8:30 a.m. hearing on August 24.

Although New Mexico's unemployment insurance trust fund had a $550 million balance and was one of the most solvent in the nation several years ago, claims increased 500 percent with the recession and the balance dropped precipitously.

In early 2011, the Legislature passed a plan to cut benefits and implement an employer contribution schedule with higher rates. The governor vetoed the tax schedule increase, leaving the benefit cuts intact. However, the state Supreme Court overturned the veto.

During the 2012 legislative session, the Legislature passed and the governor signed legislation that would roll back rates to a lower schedule for 2012 then raise them to a higher schedule in 2013. Fiscal analysts have raised concerns the fund is still at risk of insolvency.

The advisory council looked at more uniform steps between the rates charged to different employers based on their experience ratings, a measure of the volume of claims filed by their former employees. The council has asked the Workforce Solutions Department for more information to assess the financial impact of the proposal.

The council also considered whether the top rate should remain at 5.4 percent. LFC analysis shows that rate is too low to cover the costs of the employers with the worst experience ratings.

About 12 percent of employers accounted for 50 percent of all benefits paid in 2011. Subsidized by employers with better records, the higher-cost employers have little incentive to control unemployment costs.

The advisory council also looked at mechanisms that automatically implement a higher contribution schedule or lower schedule depending on the health of the trust fund.

Among the changes in benefits reviewed by the council is a proposal that clarifies when a beneficiary can refuse a job offer. Some employers have complained that claimants refusing suitable work have hurt their experience level.

The council, whose goals included limiting tax increases, also discussed work-search requirements and partial benefits.

Dual Credit Students Score Higher

High school students who enroll in college courses under the dual credit system score higher on standardized tests and are more likely to graduate but no data exists to track their progress through college, an LFC evaluation finds.

In addition, the study of dual credit programs noted students who participate in dual credit, available in every high school in the state, might be high achievers before they take a college course.

New Mexico spent $34.4 million on about 11,000 students taking dual credit courses in FY10. LFC staff has raised questions about the funding process because both the college and the high school receive state funds for the students in dual credit classes. Although most states offer dual credit classes, only 11 pay both the high school and the college for the same student.

The evaluation also raises concerns about the failure to track the student through college because the statutory purpose of the dual credit system is to generate interest in higher education and help students get a head start on college. New Mexico ranks low on measures of college success because, while college enrollment is high among high school graduates, students take longer to complete degrees and often drop out before they finish.

The study, a joint project with the University of New Mexico Center for Education Policy Research, was presented to the committee in July.

Highest Risk Employers Pay Less than Costs

A look at employer contributions to the unemployment insurance trust fund in 2011 shows about 12 percent of the employers are responsible for more than 85 percent of "ineffective charges," those cases where the employer has contributed less to the fund than the unemployment claims paid out on their behalf.

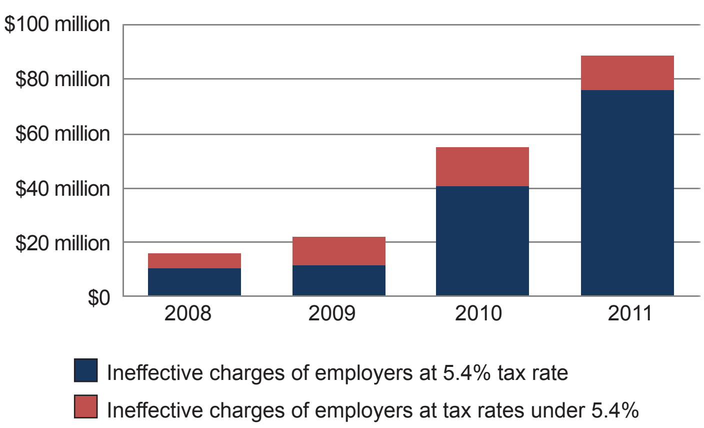
Those employers were also responsible for 50 percent, or $127 million, of all the benefits paid in 2011.

"These employers are in effect subsidized by employers with better experience ratings," an LFC hearing brief states.

It concludes that the high risk employers, typically already paying the highest tax rate of 5.4 percent, have little incentive to control unemployment costs. All but seven states have maximum rates higher than those in New Mexico, it says, and two have top rates three times the New Mexico top rate.

An advisory council set up to study the solvency of the trust fund has discussed placing a surcharge on employers responsible for ineffective charges.

Total Ineffective Charges on Unemployment Insurance Trust Fund



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On the Table

Revenues Stronger than Estimate

General fund revenues through May were running about 3.7 percent stronger than estimated in December. Energy revenues and gross receipts are both stronger than expected mostly because of increased oil production. Corporate income taxes are weaker than expected. General fund revenue reports are available on the LFC website.

Payroll Glitches Prompt Budget Shift

The Department of Finance and Administration will transfer a total of about $257,000 from personnel and other areas to hire contract help to fix its payroll processing system. Glitches in the system have delayed paychecks for certain employees several times over the past few months.

Cash Handling Issues Lead to Free Parking

State Fair managers say the steps they are taking to fix cash-handling issues will include free parking at the annual event but higher ticket prices. An LFC evaluation in October found few checks and balances in the movement of cash from booths and other collections points, leaving the door open to pilfering. Managers made the change because the parking lot has little oversight. In addition, supervision of ticket booths will be increased.

Veterans Offered Police Academy Short Course

Military police veterans will no longer have to attend the 20-week regular Law Enforcement Academy certification course. The academy's board has voted to offer the veterans a one-week compressed academy. Former MPs have said the full course repeats training they received in the military. The Department of Public Safety is hoping addressing the issue will help relieve officer recruitment pressures.

Vocational Rehab Waiting List Cut in Half

The waiting list for Division of Vocational Rehabilitation services was down to 433 at the end of July, compared with 964 in February.

Medicaid Costs Lower than Expected

The Human Services Department reports FY12 Medicaid expenditures were down $193 million, or 5 percent, from the January estimate. Total costs for the program in FY12 are now estimated at $3.67 billion. The department attributes the less-than-expected costs to tepid enrollment growth and cost-containment steps. If the numbers hold, the state could end up with a surplus in the program in FY13.

Transitions

Air Force National Guard Colonel Andrew Salas is the new Department of Military Affairs adjutant general. Salas served in Iraq in 2005 as commander of the 332nd Expeditionary Mission Support Group and has more than 30 years experience in the military.

The Miners' Hospital in Raton has hired Shawn Lerch as its new chief executive officer. Lerch was previously clinical support services director at Columbus Community Hospital in Wisconsin.

Daphne Rood-Hopkins is the new director of Behavioral Health at the Children, Youth and Families Department.

Erin McSherry, former LFC analyst and Supreme Court law clerk, is the new general counsel for the Cultural Affairs and Tourism departments.

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