



# LFC Newsletter

A publication of the

**Legislative Finance Committee**

Representative Luciano "Lucky" Varela, Chairman

Senator John Arthur Smith, Vice Chairman

David Abbey, Director

Volume 10 Issue 06

December 2009

## From the Chairman Opportunities

Very simply, New Mexico state government does not have enough resources to provide all the services it currently provides at the levels it provides them. Without doubt, this is an ongoing budget crisis. But, as is often true, the state has the opportunity to learn from this crisis.

While inefficiency and redundancy are always a problem in bureaucracies, the strong state revenues that preceded this downturn may have, in fact, exacerbated the problem. Over the last decade, policy makers saw in these strong revenues the opportunity to address some of New Mexico's long-standing social and economic issues. However, while significant in the lives of many New Mexicans, some of these initiatives were, perhaps, beyond the core responsibilities of state government.

With state revenues now contracting, it has become necessary to examine all services provided by the state – both new and old – and the processes through which those services are provided. Through two solvency plans, we have already used up most of the budget band-aids. Now, we must consider major surgery. We must use the state's limited resources to efficiently provide the most important services in the critical areas of public safety, health and education.

Elimination of ineffective programs, consolidation of similar programs, more stringent oversight, more realistic benefits — everything is worthy of discussion. This approach will lead us to the systemic changes needed to get state spending back in line, and in the end, better serve New Mexicans.

**Representative Luciano "Lucky" Varela**  
Chairman

## Revenues Unbalance Budget

Revenues that continue to fall hundreds of millions short and an economically driven increase in demand for state services continue to complicate development of a state spending plan.

Committee members will wrap up work on the LFC budget recommendation for FY11 during their final interim meetings in December.

A hearing on the general fund revenue estimate for FY11 is scheduled for 9:15 a.m. December 3. Hearings on the budget proposals for public school support and most of the large state agencies will continue through December 8. The final review of the recommendation is scheduled for 3 p.m. December 8.

Public school funding has been relatively untouched through two solvency plans, but the federal stimulus funds that have shored up education spending are scheduled to run out in FY11. That means the money distributed through the enrollment-driven school equalization guarantee – the bulk of the funding for

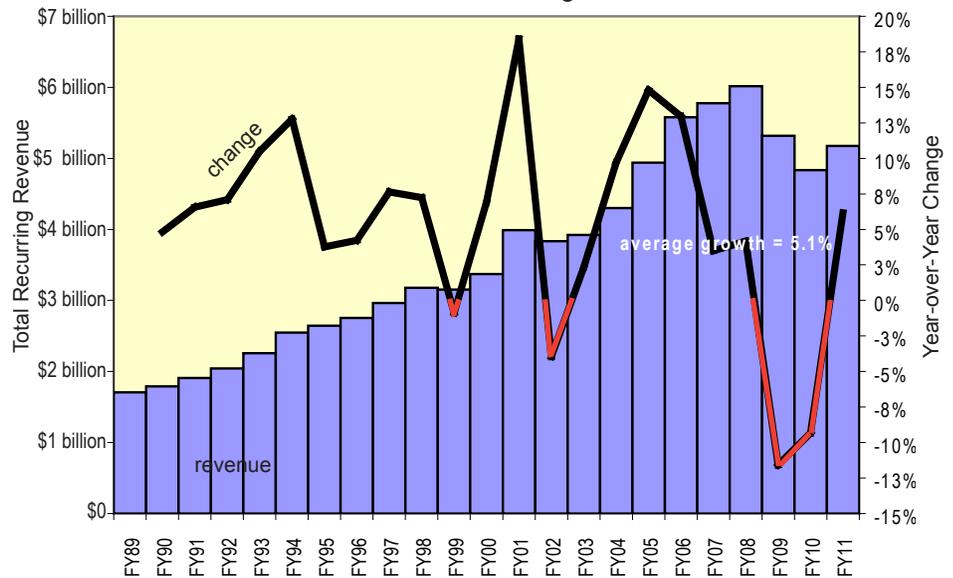
public school districts – is likely to take a hit soon. Also, categorical appropriations, the money for transportation and certain other noninstructional expenses, could decline significantly.

Employment fears and other factors are pushing up enrollment – and costs – in the state's colleges at the same time funding is dropping, prompting discussions of tuition increases.

The end to federal stimulus funds could also impact health and human services, the second largest component of the state budget. The economy is pushing more New Mexicans to seek assistance, but Medicaid benefits and eligibility could both be cut.

In public safety, policy makers are discussing closing some low population prisons and the early release of qualifying inmates. The State Police continues to struggle to keep officer positions filled, a task that has been made more difficult by the inability to raise salaries.

General Fund Recurring Revenue



## State Plans Backup for Behavioral Health

The cross-agency Behavioral Health Collaborative is working on a backup plan for administering services if the current contractor continues to struggle to pay healthcare providers.

OptumHealth NM, which took over the nearly \$400 million statewide contract on July 1, has been sanctioned for failing to have a fully functioning claims management system.

An LFC brief prepared for the November meeting reports providers have complained that they are not getting paid and some have said they will have to shut down because OptumHealth has not reimbursed them for services.

A consultant hired by the collaborative found OptumHealth is not paying claims on time, sometimes pays the wrong amounts, is using the wrong fee schedule, and has placed an excessive administrative burden on providers seeking to be paid.

The state, which has appointed a monitor to supervise OptumHealth, has ordered OptumHealth to pay a fine of \$1.2 million and \$10,000 a day until the claims system is fixed.

The LFC brief says the state may consider replacing OptumHealth with a contractor responsible only for administration. The state would take on the

responsibility of assessing claims and the administrator would issue payments. The move would allow the state to continue to integrate behavioral health services.

Since the state switched to a statewide behavioral health provider in FY06, spending on the single behavioral health contract has increased from \$287 million to \$378 million, a 32 percent increase. The number of clients served has grown about 10 percent in that same period.

The brief says the state does not have enough information to assess whether behavioral health clients are receiving better services.

# ERB Is Bright Spot in Fund Performance

The Educational Retirement Board pension fund, once the low performer among the state's investment funds, is now its strongest when compared with the performance of similar funds.

LFC analysis shows the performance of the education pension fund for the one-year and five-year periods put it in or near the top quarter of performers among U.S. public funds. It is in the bottom quarter of the 10-year ranking.

Despite a strong first quarter for FY10, the Public Employee Retirement Association fund is in or near the bottom quarter among U.S. public funds for the one-year, five-year and 10-year periods.

The land grant and severance tax permanent funds also are low performers compared with similar plans. Both, which are compared with U.S. endowment funds for the ranking, are at the very bottom of the scale for the one-year period and in the bottom quarter for the five-year and 10-year periods.

## Peer Percentile Rankings\*

	1 Year	5 Year	10 Year
Educational Retirement Board	25	26	84
Public Employee Retirement Association	89	98	76
Land Grant Permanent Fund	99	78	86
Severance Tax Permanent Fund	99	91	91

\* 1 is best, 99 is worst.

## On the Table

### UNM Hospital Ends Year with Bonus

The University of New Mexico Health Sciences Center reported estimated net operating income at the end of FY09 is \$47 million, compared with the actual of \$16.3 million in FY08. The strong end-of-year figure was due, in part, to a \$25 million payment from the Human Services Department for a retroactive rate increase in the State Coverage Insurance program. The plan administrator, Molina Health Care, intercepted 13.5 percent of the \$25 million as an administrative fee.

### College Enrollment Up

Many of the state's community and branch colleges saw student credit hours increase this fall, by double digits at some schools and by more than 20 percent at New Mexico State University-Grants. Clovis Community College, Central New Mexico Community College, New Mexico Junior College, University of New Mexico-Gallup, UNM-Los Alamos, UNM-Taos, UNM-Valencia and Western New Mexico University all saw increases between 10 percent and 20 percent. Credit hours were up 5 percent at UNM's main campus and by 6 percent at NMSU's main campus. However, Mesalands Community College saw credit hours drop by 11 percent and hours dropped by 9 percent at Luna Community College.

### Unemployment Almost Doubles

New Mexico's October unemployment rate was 7.9 percent, compared with the October 2008 rate of 4.5 percent and the national rate of 10.2 percent. Labor data suggests New Mexico's unemployment rate might be understated and the actual rate might be closer to the national average.

### NM Natural Gas Value Outstrips Spot Price

New Mexico producers reported natural gas selling for \$4.23 per thousand cubic feet in August, compared with a spot price of \$3.02/mcf.

### Unemployment Fund Takes Dive

The balance in the unemployment insurance trust fund was \$260 million at the beginning of November, compared with \$400 million in June. The Workforce Solutions Department reported it is paying out \$1 million a day from the fund and the fund could be \$113 million in the red by January 2011.

### Food Assistance Caseload Up by a Third

Some 326,000 New Mexicans received food assistance from the Supplemental Nutrition Assistance Program in September, a 32 percent increase from a year earlier. The caseload for the program formerly called Food Stamps translates into \$41.3 million per month in federal funds coming into the state. SNAP is run by the state but benefits are completely funded by the federal government.

### Transitions

LFC analyst Gene Moser has resigned to take a position with the city of Albuquerque. Carol Leach, general counsel of the Energy, Minerals and Natural Resources Department, will retire at the end of the December. Jarratt Applewhite, hired in July as a senior financial advisor to the New Mexico Finance Authority, has resigned. Tino Pestalozzi, formerly a finance manager at New Mexico Highlands University, is now deputy secretary of the Higher Education Department. Garrett Bosarge, superintendent of Des Moines schools, has been placed on paid administrative leave.

## LFC Newsletter

Volume 10 Issue 06

Published monthly in the interim by the Legislative Finance Committee.

Writer, Editor - Helen Gaussoin  
Staff Editor - Ellie Ortiz

Questions, comments: 505-986-4550  
[lfc.nmlegis.gov](http://lfc.nmlegis.gov)

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