



LFC Newsletter

A publication of the

Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Luciano "Lucky" Varela, Vice Chairman

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From the Chairman

That Other Thing

The Legislative Finance Committee is best known for its statutory responsibility to draft and monitor the state budget. Indeed, it is sometimes informally called the budget committee. Increasingly, however, it is becoming just as well known for its responsibility, also in statute, to evaluate state agencies.

The additional role – to formally assess the efficiency and effectiveness of state programs – was a natural outgrowth of its budget-drafting function. When the people who wrote the state constitution decided it would be the Legislature's job to appropriate the money, and when our lawmakers took the unusual step of giving the Legislature a bill-drafting role equal to the executive, they were emphasizing the need for one branch to balance the other. They were, in effect, making the Legislature the watchdog over state spending.

That watchdog role as embodied by its evaluations has proved invaluable to the people of New Mexico. In the last 20+ years, LFC evaluators have identified millions of dollars misspent on computers without operating systems, a failure to collect millions from an errant prison contractor, and millions more spent on Medicaid programs that don't work. The LFC was the first to point out trouble at the State Investment Council and Educational Retirement Board, long before that trouble turned into criminal cases.

Too often, when the LFC points out a problem, the instinct of the executive is to get defensive and to nitpick the messenger, rather than listen to the message. It is important to remember that, even though conflict between the legislative executive branches is built into the system, we are all working on behalf of the people of New Mexico.

Recently, LFC evaluators found the Downs of Albuquerque owes the insolvent State Fair hundreds of thousands of badly needed dollars. By addressing this and other identified problems in the Fair's operations, the executive has an opportunity to get the Fair back on the right financial track before the state is either forced to pour money on the problem or shut down parts of the Fair.

A watchdog can be annoyingly noisy but, in the end, it's a good thing to have around.

Senator John Arthur Smith
Chairman

Medicaid Growth Could Slow, Reform, Revamp Unresolved

The Human Services Department is asking for a moderate 5 percent increase – \$50 million – in state spending on the healthcare program for the poor for FY13, but the department says it still needs \$48 million to cover past year shortfalls on top of the \$260 million FY12 increase enacted in January.

If the FY13 request is approved, state spending on Medicaid, about 20 percent of the general fund budget, would increase to about \$920 million, a more than 50 percent jump from FY11 to FY13. With federal spending, the Medicaid program in New Mexico costs about \$3.9 billion a year.

The agency is scheduled to present its FY13 budget request to the committee at 3 p.m. on December 6. A separate hearing on a special review by LFC staff on the \$48 million deficiency appropriation request is scheduled for the same day at about 2:30 p.m.

The Medicaid program, which provides no-cost and low-cost healthcare to a half million New Mexicans, is in a period of transition, LFC analysis concludes.

Federal healthcare reform, expected

to add another 142,000 New Mexicans to the Medicaid program, is still being challenged in court, and the details of a department-designed revamp of the program have not been released.

In addition, the economy, which drove enrollment in the program to the record high it is at now, has been slow to recover, raising concerns about continuing or growing demand for Medicaid services.

Managers for the program, propped up with substantial federal stimulus funding in FY11, reduced benefits and provider reimbursement rates to contain costs in FY11 and FY12.

At public hearings on the program redesign held this summer, the department indicated it is looking at sliding-scale co-pays for certain high-ticket healthcare services, consolidation of the 12 programs that operate under separate waivers from federal Medicaid managers, and changes to the way it pays the Medicaid managed-care contractors. Those contractors administer services representing about 65 percent of total Medicaid spending.

Energy Policy Will Drive Future Natural Gas Demand

Future demand for natural gas should be strong because it is abundant, affordable and "cleaner" than coal or oil, but the market could be hit by government energy policies, an economist for Conoco-Phillips says.

Marianne Kah told the committee during its meeting in November that the market for natural gas will be driven, in part, by governmental decisions on renewable energy and the impact of coal-fired power plants on air quality.

New Mexico is sixth in the nation in natural gas production and produces a tenth of the natural gas produced in the United States.

Conoco-Phillips is the top natural gas producer in New Mexico, with a 2010 production volume six times the volume of its closest competitor.

New Mexico gas production was down slightly in FY11 while prices were up slightly, committee staff reported.

LFC staff forecast production will continue to drop in FY12 along with prices, vulnerable to increased supplies because of improved production methods.

Kah called natural gas production from shale formations a "game changer" and said production from shale is expected to take over as the dominant production method over the next 20 years. Traditional production methods are forecast to drop correspondingly.

Conoco-Phillips is also projecting that the use of coal to generate electricity will drop, the use of oil will virtually disappear, and the use of natural gas, nuclear, and wind will grow. About half the nation's electricity is now generated with coal.

Kah's report noted that power plants powered by natural gas are cheaper to build and operate than other types of generators.

NM Funds Lose Money, Worse than Most

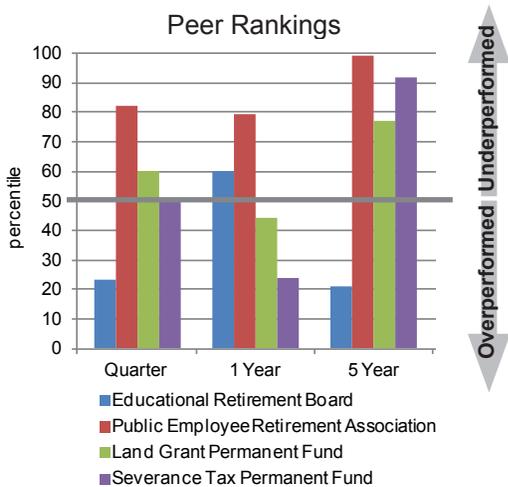
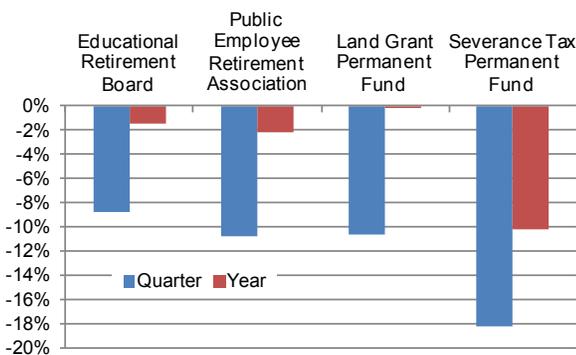
New Mexico's four major investment funds tumbled an average of 11 percent in the last three months and three of the funds performed worse than most other similar public funds.

Total value of the public employee and educational pension funds and the land grant and severance tax permanent funds (inclusive of contributions and distributions) dropped \$4 billion from July through September to \$32.3 billion. The aggregate loss for the previous 12 months was a more modest 2 percent.

While strong performance over the last several quarters had restored most of the funds to pre-market-collapse levels, the losses over the first quarter of FY12 mostly wiped out those gains. LFC analysis shows the funds suffered from the poor performance of the U.S. economy, hit hard by U.S. debt issues, turmoil in the Euro-Zone, and threats in the developing world.

However, the funds also performed badly compared with similar funds, a sign of problems in policy decisions and portfolio management. While the performance of the Educational Retirement Fund was in the top 25th percentile for the quarter, the Public Employee Retirement Association fund performed worse than 80 percent of similar funds, the land grant permanent fund was in the bottom 40 percent, and the severance tax permanent fund was in the middle of the pack.

Fund Losses
(inclusive of contributions and distributions)



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On the Table

NM Withdraws from Climate Group

New Mexico is among six states that has withdrawn from the Western Climate Initiative, a group formed in 2007 with the goal of reducing regional greenhouse gas emissions to 15 percent below 2005 levels by 2020. The group focused on cap-and-trade and began a multi-year process of designing a regional system for trading credits. Arizona, Montana, Oregon, Utah and Washington have all withdrawn from the initiative. California, British Columbia, Manitoba, Ontario and Quebec are still members.

Lottery Deposit Down by Half Million

The New Mexico Lottery Authority transferred \$3.2 million in lottery proceeds to the scholarship fund in October 2011, bringing the total for July through October to \$12.6 million, about \$500,000 less than this time last year.

Superintendent Faces Suspension

The Public Education Department has warned the superintendent of Central Consolidated Schools in northwest New Mexico that he will face suspension unless he addresses management issues in his district. State officials say they are concerned about allegations that Don Levinski initially acted as superintendent without a contract, has censored public comment at open meetings, and has made questionable personnel decisions, including allowing board members to participate in job interviews.

NM Drug Overdose Deaths Up

Drug overdose death rates in New Mexico were up slightly in 2010 compared with 2009 but lower than they were in 2008, when the New Mexico rate was more than twice the national average, the Department of Health reports. The 2010 rate was 22.4 percent. The rate in 2009 was 20.1 percent, and the rate in 2008 was 24.9 percent. The national average in 2008, the most recent year for national figures in the report, was 11.9 percent.

Oil Prices Up

Oil prices averaged \$81.38 per barrel in August, roughly 12 percent or \$9 per barrel higher than the same month last year. Each dollar per barrel increase in the price of oil translates into about \$4 million in revenue for the state.

Employment Up Less than Half Percent

October nonfarm employment for New Mexico was up 0.2 percent from September. Year-over-year employment was up by 0.6 percent. Construction employment saw the largest monthly increase followed by the government sector. Retail services suffered the largest decrease from September to October.

Transitions

Gino Rinaldi, formerly with Sandoval County, is the new deputy secretary of the Aging and Long-Term Services Department.

Ryan Gleason, formerly a U.S. Department of Agriculture rural development director and the data and research manager for Rio Rancho Economic Development Corporation, is the new director of the Local Government Division of the Department of Finance and Administration.

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