



LFC Newsletter

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Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Luciano "Lucky" Varela, Vice Chairman

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From the Chairman

Under Pressure

It's one of those good news/bad news kind of things. New Mexico's economy continues to recover from the Great Recession but at such an anemic pace that few forecasters were surprised by the report that New Mexico's job growth was the worst in the nation. While revenues are projected to be stronger in FY14, the jobs report was a needling reminder to budget drafters of the need for caution.

The improving economy made it possible for the LFC to recommend a 4 percent increase in overall spending levels but, with a commitment to prudent growth, spending levels are still below pre-recession heights. Committee members prioritized strong operating reserves – the state's rainy day funds – so, with the exception of early childhood programs, invested little to create new or expand existing programs.

The full Legislature might come to different conclusions about spending priorities, but lawmakers will find very little wiggle room with spending levels. A telling indicator of the tight squeeze, the LFC recommendation, with almost no expansion, a mere 1 percent salary increase, and a small amount for the growing backlog of road repairs, would leave only \$25 million for other spending.

Lawmakers will be under pressure to do more for state employees, who haven't seen a pay raise in five years, who lost take-home pay when they had to absorb additional pension contributions to help balance the budget, and who will take another hit this year when federal payroll taxes go up.

They will be under pressure to create incentives for job growth and to salvage insolvent pension and retiree healthcare programs and the lottery-funded college scholarship.

And the pressure will get more intense if oil prices drop, the European Union stumbles, or Congress takes us over the fiscal cliff.

The good news: the New Mexico economy is growing. The bad news: we still have a long way to go.

Senator John Arthur Smith
Chairman

Charter Schools Challenged by Need for Class Space

The cost of leasing space for charter public schools has quadrupled in the last nine years and many schools are pulling money from their classroom budgets to pay for overpriced lease agreements that might favor the property owner or third parties, an LFC evaluation concludes.

The evaluation, scheduled to be released January 14 during the committee's last hearing before the legislative session, found evidence that some charter schools are paying hundreds of thousands more than the leases are worth.

In many cases, the profit is going to a third party that leases the property then subleases it to the school.

The owner of the sublease for the property occupied by the New America School NM sold the sublease to private investors for \$1.3 million, an indication the lessee was making at least that much in profit.

The Alma de Arte charter in Las Cruces pays \$137,000 a year to sublease a property that costs \$1 a year under the master lease.

Because the states caps reimbursement payments for leases at \$733 a student,

charters schools have budgeted \$8.8 million from operational funds to cover excess lease costs.

LFC evaluators found that many charter schools enter into lease agreements without professional real estate advice or appraisals and pay millions of dollars for improvements the state will never own.

The leases are not subject to state oversight. However, some charter schools also have failed to seek legally required state oversight for lease-purchase agreements, an increasingly attractive option to charter schools because they are an exception to a state law that requires all charter schools be in public buildings by 2015.

Charter schools are public schools that operate under independent boards and offer alternative to traditional public schools.

Charter schools frequently end up in untraditional space, like offices and warehouses, and often lack specialty spaces, like gyms and science labs.

The number of charter schools tripled from 34 to 96 between 2005 to 2013, while charter lease costs quadrupled from \$2.8 million to \$13.4 million.

Oil Prices, Federal Cuts Threaten Economic Forecast

Consumer confidence, the health of the European Union, potential federal cuts and the always volatile energy industry are among the threats to the state consensus economic forecast built by executive and legislative economists.

The forecast, included in volume 1 of the LFC budget recommendation, calls for a drop in income this fiscal year but an increase in FY14 of about 4 percent.

While the recession is over, the forecast takes into consideration the weakness of the recovery. The job market has been particularly lethargic, and oversupply and a mild weather are cutting into oil and natural gas demand and hurting energy revenues, the analysis says.

However, it notes, the forecast could be over-optimistic if consumers lose confidence, oil and gas prices drop, the European Union experiences a

double-dip recession, or other factors come into play.

Cuts in federal spending, still unresolved, would especially hit New Mexico hard because the state relies heavily on federal spending through the national laboratories, military bases, and Medicaid and other public assistance. About \$6 billion of the state budget – about half – is federal dollars.

The analysts also note that both oil and natural gas prices are vulnerable to increased supplies from improvements in production. About 15 percent of the state's revenues come from the energy industry and small changes in price have a large impact.

While most of the uncertainty could drag revenues down, the analysts note that federal efforts to allow states to collect tax on Internet sales could drive revenues up.

Personnel Funding Up But Staff Numbers Down

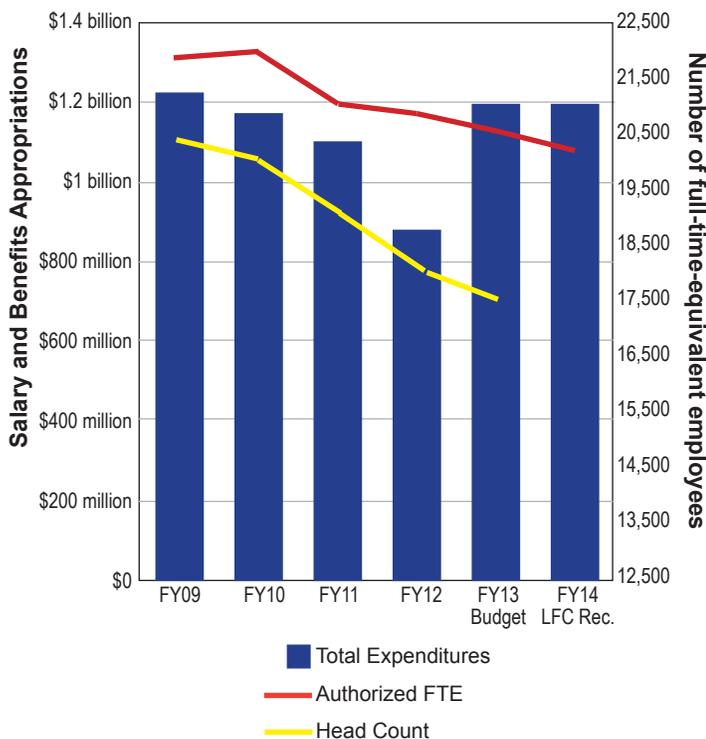
State agencies have fewer employees on the payroll and the Legislature has cut the number of authorized positions, but total funding for personnel in the biggest 20 agencies has gone up and agencies are asking for more for FY14.

The number of authorized positions as well as the number of actual state employees has dropped steadily since FY09, but funding climbed this year and agencies are seeking increases for next.

Together, the top 20 agencies are asking for funding for salaries and benefits for FY14 that is 15 percent higher than what they received in FY12.

At the same time, the State Personnel Office reports New Mexico state employee pay schedules are falling behind the private and public sector and making it difficult to recruit and retain employees.

State Employee Trends
(top 20 agencies)



On the Table

Natural Gas Prices Down

New Mexico natural gas prices in August were \$4.16 per thousand cubic feet, down \$2.01 from the same month a year ago.

Film Credits Will Hit Limit

The total cost for the film tax credit through November is at \$20 million and the Taxation and Revenue Department estimates it will hit the statutory limit of \$50 million for FY13. The department reports it distributed more in corporate income tax refunds than it collected in November. Nearly half of the \$27 million in November refunds were for film tax credits.

Centralization Slows Inmate Release

Since the Corrections Department began reviewing inmate release documents at department headquarters, state prison parolees are getting out an average of two weeks late, costing the state about \$1,200 more than if the prisoner was serving parole outside. The process was centralized after a series of early and late releases and is part of ongoing audit of release procedures.

NM Wins Healthcare Grant

New Mexico was one of 22 states to win a grant from the U.S. Department of Health and Human Services to provide education and tools to help older adults and the disabled to better manage their chronic conditions. The Health Department's working with the Aging and Long-Term Services Department, New Mexico State University, the city of Albuquerque, the Los Alamos YMCA, Jewish Family Services, Luna Community College and others on implementing services under the \$200,000 grant.

Medicaid Child Enrollment Flat

About 337,000 children were enrolled in Medicaid in July, a figure that has been essential flat since FY11, the Human Services Department reports. Overall enrollment was 570,000, up 1.8 percent from a year ago.

Insurance Alliance Takes on Exchange

The Human Services Department has reached an agreement with the New Mexico Health Insurance Alliance for the alliance to take over responsibility of establishing and operating a state health insurance exchange, a one-stop shop for buying insurance required under federal healthcare reform. The department plans to transfer \$8.6 million in federal implementation funds to the alliance. The exchange is to be operational on January 1, 2014.

Transitions

Myles Culbertson is resigning as the Livestock Board director effective in late January.

Three top Transportation Department administrators have resigned. Alvin Dominquez, department secretary, left December 31. He had worked for state government for 28 years. Mike McEntee, adjutant secretary, resigned effective December 7. Paul Gray, deputy for operations, resigned effective at the end of December.

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