



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 Left-Handed Insult

Every year, the LFC staff experiences some turnover. Some years are more active than others but every loss of experience is hard to take. Nevertheless, because many times the staff leave to become division directors and other managers at state agencies, almost every loss is also a testament to the quality of LFC staff and its quality learning environment. A hard-to-take compliment but a compliment nonetheless.

The LFC is that rare training ground that provides an experience with both breadth and depth. Staff at the LFC get to see the big picture. They learn directly or indirectly about the budget issues of state government, from its smallest, most narrowly focused agencies to its biggest agencies with broad and overlapping responsibilities. And they are exposed to public policy far beyond the spreadsheet because almost every issue in state government has fiscal impact, whether its clean air regulations or criminal penalties.

The staff also get to see the detail in the picture. After all, state budgets aren't just about the bottom line but also all the budget lines above. The big picture, the details and the intense pressure of the legislative sessions – what more could you ask for on a training ground?

It's helpful as well to have managers in the executive who have experience in another branch of government. Managers who move to the executive from the Legislature take with them a more realistic perspective on the balancing act that is budget-making. They understand perhaps better than others that their decisions have a direct impact on the public and that they are accountable for those decisions. They are also, perhaps, more tolerant of the messiness of lawmaking.

And so, the LFC is happy to contribute to quality management in state government, however reluctant that contribution might be.

Senator John Arthur Smith
Chairman

Medicaid Expansion Could Cost \$830M More

Expanding Medicaid to cover more middle-income New Mexicans could cost the state \$830 million, analysis indicates.

The cost projections put together by the Human Services Department would raise the income limits for various Medicaid programs to 300 percent of the federal poverty level, or \$63,600 a year for a family of four.

The projection was put together in response to concerns about the cost of universal health care, proposed and defeated in the legislative session earlier this year. Although the bill would not have required higher income limits for the public health insurance programs, the legislation anticipated the availability of programs for those income brackets and assumed Medicaid would be the primary funding source.

The committee heard testimony on the costs during its May meeting.

About 432,000 New Mexicans now receive health care through Medicaid. That figure includes about 285,000 children in families with incomes up to 185 percent of the federal poverty level. Adults and pregnant women are also covered along with certain elderly and disabled populations but at lower income limits. The FY09 general fund appropriation to Medicaid is \$799 million.

About 10,600 children and some 16,500 adults also have access to insurance subsidized with Medicaid dollars.

A little over 400,000 New Mexicans have no health insurance and many do not qualify for a public program.

The Human Services Department estimates 330,000 New Mexicans with incomes up to 300 percent of the poverty level are not enrolled in Medicaid.

However, the department's \$830 million estimate of the cost of assumes the federal match for the program will stay at a constant rate for the next five years. That match – currently 71 percent of the program is funded with federal dollars – is expected to drop because New Mexico's per capita income relative to other states is expected to improve.

The state also faces pressure to steer any new Medicaid dollars to existing programs for the elderly and disabled, which currently have long waiting lists.

Pressure on the federal budget could also translate into a drop in federal support and the need to make up the federal dollars with state dollars.

The Medicaid program received a 13 percent increase in state funding for FY09. The \$91 million increase accounted for about 23 percent of the new money available for all of state government. Medicaid appropriations from the general fund have increased 66 percent over the past five years, mostly because of expansions in the program and cuts in federal support.

Formula Directs Funds to High-Need Schools

The potential for the proposed school funding formula to direct funds to the schools that need them most raises questions about whether the formula should move toward implementation, with or without the \$340 million in new dollars a consultant says is needed to adequately fund schools statewide, LFC analysis indicates.

The new formula was proposed during the legislative session earlier this year but ran into opposition over the price tag and a change to the way certain programs are funded.

Although the legislation died, lawmakers approved a \$14 million appropriation for districts to add an instructional day and \$8 million for the second year of a phase in of elementary level physical education

as a move toward implementation.

The committee will hear more about the funding formula and its costs during a hearing scheduled for 8:30 a.m. June 20.

The proposed funding formula is similar to the existing way schools are funded in its use of enrollment and grade level as a base enhanced by various multipliers, such as factors for special needs, to determine funding for each district.

The multipliers in the proposed formula are more focused on factors tied to student success. But unlike the current formula, the proposal assumes the base will cover gifted education, elementary level fine arts and other programs that now have specific multipliers.

Policymakers also continue to be concerned about the cost of implementation,

originally estimated at \$850 million. LFC analysis indicates, despite specific instructions, the original figure put together by professional panels was based on a "wish list" and did not account for resource limitations.

In addition, the \$340 million figure includes \$126 million for five additional instructional days and four new professional development days. However, LFC analysis indicates that these implementation costs could be eliminated simply by requiring districts to meet the current statutory requirement to provide 180 instructional days. Because of alternative ways to calculate the number of instructional days allowed in statute, 30 of 89 schools districts provide less than the 180 days.

\$500M Potential State Tab for Settlements, Projects

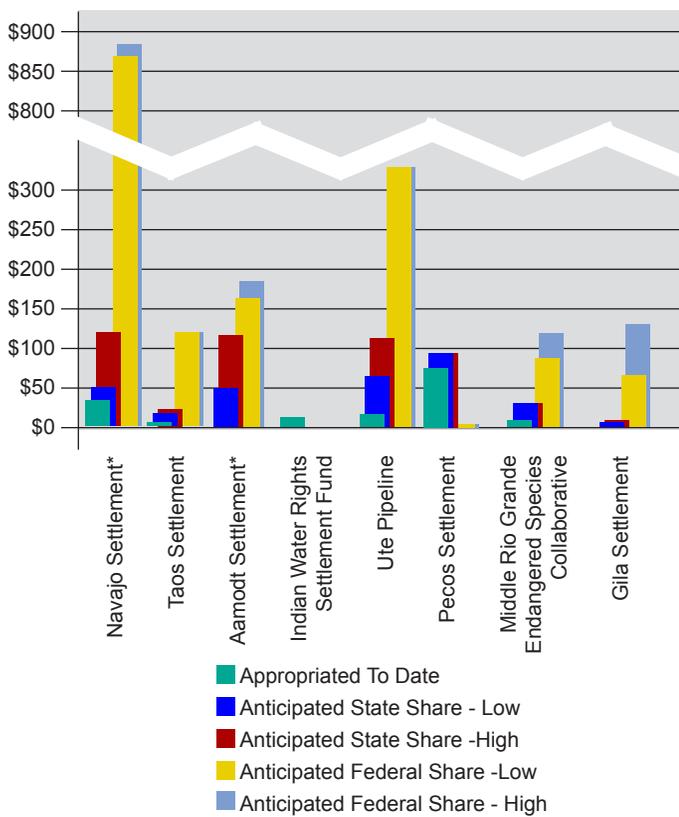
The potential state tab for the State Engineer's biggest water supply projects and the settlement of three Indian water rights cases could be as high as \$498 million, LFC analysis shows. The state already has appropriated \$133 million to the projects.

The analysis indicates the federal share for the settlements and projects could be as high as \$1.76 billion, little of which has been approved.

The \$115 million to \$254 million cost of Indian water rights settlements involves agreements with the Navajo Nation and Taos, Nambe, Pojoaque, Tesuque and San Ildefonso pueblos. Although all parties, including non-Indian water users, have signed these agreements, the settlements are not final without congressional approval.

The list of major projects includes the purchase of water rights and land along the Pecos River to fulfill the state's water delivery obligations to Texas, estimated to cost almost \$100 million. About \$70 million has already been appropriated. Other projects are the pipeline that will carry water from Ute Reservoir to the Eastern New Mexico Rural Water Project, conservation and habitat restoration projects of the Middle Rio Grande Endangered Species Act Collaborative, and water supply projects of the Gila Settlement.

Water Projects Cost Projections
(dollars in thousands)



*High estimates for the Navajo and Aamodt settlements include a local share, which is also likely to come from state funds.

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On the Table

State Investments Hit by Credit Crunch

The land grant permanent and severance tax permanent funds are losing more money than expected so far this fiscal year. The land grant fund lost 5 percent for the fiscal year through the end of March, compared with a target loss of 3.3 percent. Returns from the severance tax fund are similar. Poor performance on credit and structured finance led the slide with losses of 37.7 percent.

In related news, representatives of Alliance-Bernstein, manager for two Public Employee Retirement Association investment programs that have underperformed sufficiently to be on PERA's official watch list, said they were surprised at the speed with which the mortgage crisis has led to a widespread credit crunch, with companies scrambling to replace short-term debt by issuing stock, which diluted stock value. The company is revamping its stock selection process.

NM 6th for Federal Spending, Or Not

New Mexico ranks 6th for federal spending per person, the U.S. Census says. The federal government spent \$10,712 per person in New Mexico in federal FY06, compared with a national average of \$8,058. LFC analysis, however, indicates that New Mexico's rank drops significantly to 23rd and its amount drops to close to the average when income from federal mineral leasing and the national labs are deducted.

Job Growth Slows

Employment in FY08 is expected to grow less than 1 percent, the slowest in a decade, the Bureau of Business and Economic Research reports. More optimistic figures for both employment and personal income were used in the last state revenue estimate. Updated revenue estimates will be reported to the LFC in July.

New Mexico Museums Freeze Hiring

The Cultural Affairs Department has frozen hiring at the state's museums and received authority to transfer \$500,000 from contractual services and \$100,000 from other costs to personnel services and benefits. The shortfall is the result of funding seven unauthorized exempt positions along with the failure to pay the state's share of contributions to retirement for three to five employees, less-than-expected revenues, and fewer vacancies than expected.

Transitions

Gary Chabot has returned to LFC as the health and aging analyst. He most recently worked for Workforce Solutions Department.

LFC has also hired Dan White as an economist and John Ketchens as an information technology evaluator. Dan will earn a masters' in economics from New Mexico State University this summer. Ketchens previously worked for E-Trade.

Daniel Padilla, head of the clerk's unit during the 2008 session, is also joining LFC as the office manager. He has experience in the Marines and at Los Alamos National Laboratory.

Usha Shannon has left the LFC performance evaluation unit to join the Human Services Department.

State Investment Council member Paul Blanchard has been replaced by Stephen Feinberg, chief executive officer of Dorsar Investments as well as a board member at St. Johns College and the Santa Fe Institute.

Patricia Rael, special projects coordinator for the Secretary of State, has resigned to take a position with the Attorney General's Office.

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