



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

Hidden Treasure

The media took notice when the State Auditor reported New Mexico has about \$4.5 billion in balances in funds across state government. However, the report did not address how much of that money is actually available for the state to spend. The answer is very little.

As the State Auditor reported, the bulk of the money – all but about \$800 million – is already committed or its use is restricted. A third, about \$1.5 billion, is appropriated to capital outlay and road projects. Of the uncommitted and unrestricted money, \$440 million is in the general fund reserve, the state's critical safety net in case revenues fall short of projections. Much of the rest is in loan funds at the New Mexico Finance Authority, which provides low-interest financing for local infrastructure.

None of these numbers are surprising to legislative or executive financial managers. Indeed, the LFC routinely monitors fund balances and already looks for ways to redirect idle funds. On capital outlay, an improved but still troubled process, LFC staff tracks spending and project progress, identifying stalled projects or projects with balances that could be repurposed.

Despite these efforts, however, much of the restricted money is untouchable, earmarked for specific needs. While the surplus in some of these funds clearly indicates the state is collecting more money than it can spend on the intended purpose, it can't move the money because of state or federal law. This last session, the executive recommended using the sizable balance in the game protection fund to support state parks but it couldn't be done. The balances in the funds of the many state licensing boards under the Regulation and Licensing Department total more than \$20 million.

The General Appropriation Act of 2015 uses almost \$4 billion from "other state funds," an indication of just how much money is earmarked, although not all that money falls under strict use limits.

Fund balances came in useful when the state had to scrape together enough money to navigate the first terrible year of the Great Recession, when state revenues dropped 20 percent. But, understandably, agencies generally are reluctant to surrender the surplus money in their earmarked funds. This raises the policy question of whether funds should ever be earmarked. Clearly, the volume of earmarked funds in New Mexico hampers effective budgeting.

The State Auditor focused his report on that big total number of \$4.5 billion but it's really the little numbers in the report that deserve the headline.

Senator John Arthur Smith
Chairman

NM Still Ranks Poorly on Teen Births, Despite Drop

The number of New Mexico teens having babies has dropped by 35 percent over the last decade, but the rate of 40 births per 1,000 teens still puts New Mexico among the worst states for teen pregnancy prevention, an LFC evaluation says.

The children of teen parents, compared with those of older parents, are more likely to live in poverty, start schools with fewer skills than their peers, suffer neglect or abuse, and end up in jail – consequences that cost the state an estimated \$84 million a year.

The Program Evaluation Unit is scheduled to present its review of teen pregnancy prevention programs at 8 a.m. on May 13 during the committee's first meeting of the interim.

The report finds that teen births are concentrated in certain geographic areas, among older teens, and among teens who are already parents.

While the state Health Department has implemented prevention programs known to be effective, state efforts are not targeted at those teens at risk of getting pregnant or coordinated with the efforts of other state agencies or individual nonprofit groups that work to prevent teen pregnancy.

Further, half of the district and charter high schools surveyed by LFC staff reported they do not follow health education standards.

"New Mexico lacks a concrete, coordinated, and comprehensive state plan to reduce teen pregnancy," the report says.

The report says the Health Department is implementing in 11 counties the Teen Outreach Program, an evidence-based approach validated by the U.S. Office of Adolescent Health, and the department's Family Planning Program uses population-specific strategies, such as youth development, adult/teen communication, and comprehensive health education programs.

Several nonprofit groups have also implemented evidence-based programs aimed at high-risk populations, but the federal grants that support those efforts will expire next year.

The evaluation notes New Mexico has invested heavily in mitigating the negative results of teen births through programs that support parents and children in high-risk households, including maternal education, home visits, and early interventions, as well as expanding access to high-quality child care and preschool.

Medicaid Covers, Will Cost More

The expansion of Medicaid in New Mexico under the Affordable Care Act, or ACA, has captured 170,000 newly eligible adults at little cost to the state, however, those costs are expected to go up dramatically as the federal government scales back its support.

Staff analysis of the status of Medicaid in New Mexico is part of the LFC *Post-Session Review* available online at nmlegis.gov/lcs/lfc. The review is a look back at the action of the 2015 legislative session.

While the Medicaid expansion has captured many New Mexicans who would otherwise have no healthcare coverage, federal support, which has covered 100 percent of the costs of expansion, is scheduled to start tapering off in 2017.

Federal support will step down to 95 percent initially then will gradually

decline to 90 percent by 2020. The state cost for covering the new Medicaid patients is expected to be almost \$40 million in 2017, increasing to \$163 million by 2020.

The *Post-Session Review* section on "Health Care" also discusses, among a range of topics, the state's ongoing issues with the Safety Net Care Pool, a program set up to replace the sole community provider hospital payment system. That program provided \$278 million in financial support to hospitals as recently as 2011 but was replaced under a Medicaid revamp in 2013.

The fund is expected to be about \$10 million short of need this year. The Legislature, which debated the counties' obligation to help support the fund at length in 2014, took no action on the fund this year.

Energy Prices Stabilize but Expected To Stay Low

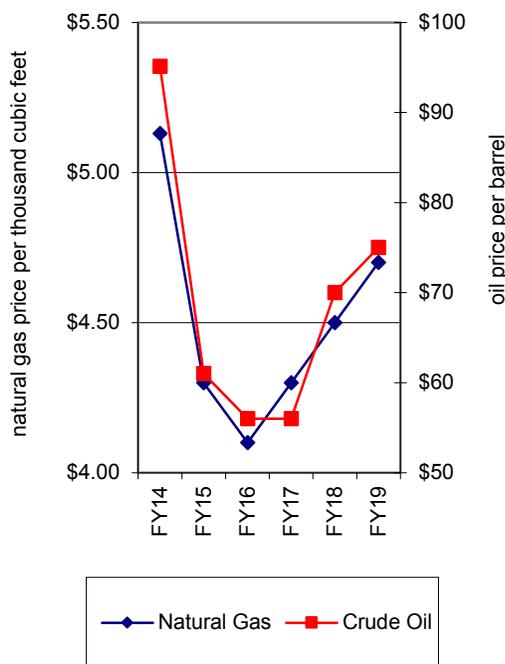
Energy prices have stabilized from the dive they took starting in mid-2014 but prices are not expected to recover for several years.

Economists forecast that New Mexico oil prices will average \$56 per barrel in FY15, decreasing to \$52 in FY16. Dry natural gas prices have decreased to less than \$2.60 per thousand cubic feet (mcf), a decline of nearly \$1.40 since the beginning of FY15. New Mexico natural gas continues to command a natural gas liquids premium over dry gas, expected to average 60 cents per mcf in FY15.

Reductions in energy prices contribute to the decline in several revenue sources, including mineral production taxes, federal mineral leasing royalties, and State Land Office rental and bonus income.

In total, the February consensus revenue estimate reduced FY16 projections for severance taxes and rents and royalties by approximately \$140 million.

Energy Price Forecast
February 2015



On the Table

Insurance Companies Pay Millions

Two of eight insurance companies audited for underpayment of tax credits have paid the state \$10.8 million for liabilities going back to 2005. The other six companies audited by the Superintendent of Insurance are expected to owe up to \$17.9 million. The office plans to audit another 42 companies starting this month, although the additional companies are much smaller than the first group audited.

Energy Prices Down, Oil Volumes Up

Preliminary figures for January 2015 oil prices showed an average of \$42.70 per barrel, down about \$46 from the January 2014 average of \$89.08. January 2015 oil production volume was up 11.7 percent compared with a year ago. Preliminary natural gas prices for January 2015 averaged \$3.13 per thousand cubic feet, \$2.44 below the \$5.57 price in January 2014. This includes the bonus for natural gas liquids, which bring a higher price than the more common “dry” gas. January 2015 natural gas production volume was down 6.4 percent from a year ago.

State Dependent on Contract Nurses

The Health Department has added \$740,000 to three contracts with nursing services. Contract nursing costs at the department have increased from \$1.35 million in FY12 to an estimate of more than \$6 million in FY15, a more-than-four-fold jump. An LFC evaluation found that low pay was creating problems with recruiting and retaining staff nurses, and the General Appropriation Act included \$1 million for nurse raises. However, the appropriation was vetoed.

Public School Funding Unit Up Half Percent

The Public Education Department has set the preliminary value of the FY16 funding unit at \$4,027.75, an increase of \$20, or 0.5 percent. During the legislative session, LFC staff projected the final unit value would increase approximately 0.8 percent, to \$4,040.77. The difference is the result of the department assuming about 2,000 units more than LFC. Program units are enrollment-driven and include other weighted factors for school and district size, teacher qualifications, students’ special needs, and other circumstances.

Transitions

LFC has hired two new fiscal analysts. Sunny Liu, originally from Portales, is currently a Teach for America algebra teacher in the Sanders, Ariz., school district. He has a bachelor’s degree in business administration from the University of New Mexico and will work part time this summer, becoming full time in August. Theresa Rogers has a master’s in public administration and a bachelor’s in economics from UNM. Before LFC, she worked as analyst with the State Personnel Office.

The committee has also hired a new program evaluator. Jennifer Felmley has a doctorate in political science from the University of California, Berkley. She previously worked for the Human Services Department as an administrative law judge and Medicaid waiver manager.

Tamara Marcantel is the new director of the Juvenile Justice Services Program at the Children, Youth and Families Department.

Chris Sanchez has replaced Enrique Knell as the governor’s communications director. Knell is now boards and commissions director at the Regulation and Licensing Department.

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