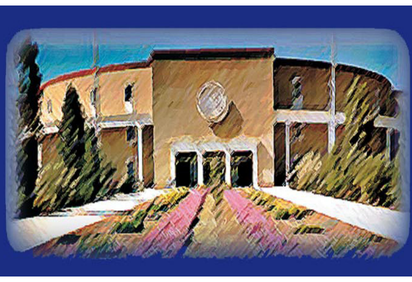


LFC Newsletter

A publication of the **Legislative Finance Committee**
Senator John Arthur Smith, Chairman
Representative Luciano "Lucky" Varela, Vice Chairman
David Abbey, Director

Volume 08 Issue 05 November 2007

From the Chairman

A Body in Motion...

The LFC has been accused, mostly by more spendthrift administrations, of focusing too hard on financial warning signs. It's a fair accusation. The committee tends to take a conservative approach to budget-making – often warning of the volatility of oil and natural gas revenue or of the risk in committing future funds. And it's an accusation that is certain to come up again this budget season.

The latest revenue estimates show budget-drafters will have $388 million more to spend on ongoing expenses in the 2008-2009 fiscal year than we are spending this year. It sounds like good news. Although it also has to cover inflation and ongoing commitments, it's still a reasonable increase. But the revenue estimate is down $63 million from the July forecast. That's a 15 percent drop in new money over four months.

More important than the size of the drop is that there was a drop at all. Government finances, like large seagoing vessels, tend to keep going in the direction they are headed. It is possible the decline is a wobble rather than the beginning of a downward trend. But, with New Mexico employers announcing job cuts, the stock market plummeting hundreds of points in a few days, and the collapsing housing market depressing economic activity and the tax revenue that comes with it, we need to be prepared for something more. It might be that we are heading for a glancing blow rather than a head-on collision, but – either way – we should think about bracing for an impact.

Senator John Arthur Smith
Chairman

Premiums, Eligibility Could Be Part of Bail Out

Possible steps for saving New Mexico's healthcare program for public employee retirees include an infusion of state funds, higher premiums, and stricter eligibility, a task force reports.

The HB728 Work Group, named for the House legislation that led to its creation, reported to the committee in late October that it is recommending a "balance of options" that spreads the burden for saving the fund.

The Retiree Health Care Authority has already renegotiated its medical and prescription drug plans to save $7.5 million and increased premiums by 9 percent, but the annual required contribution – the amount needed to pay current benefits, provide pre-funding of future benefits, and cover the fund's projected liabilities – is $200 million.

The latest estimates indicate the fund will run out of money in seven years, compared with projections two years ago that the fund would be solvent for 25 years. The drop was mostly the result of recalculating the participation rate, the work group says.

The fund's unfunded accrued actuarial liability – the difference between the projected worth of the fund and projected obligations – is set at $4.1 billion.

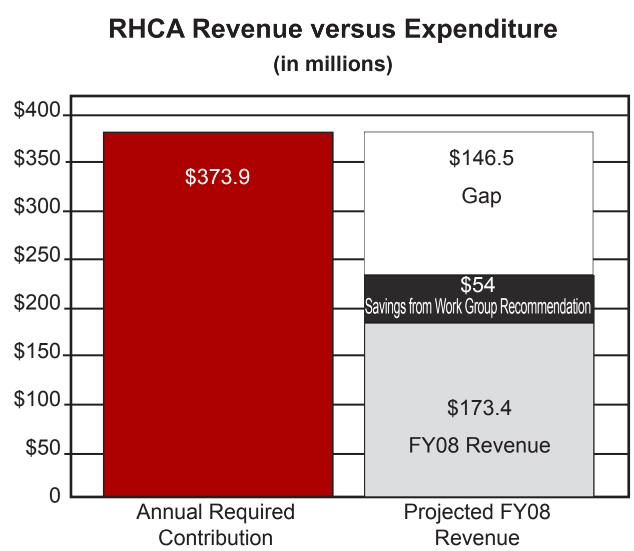
When the fund was created, it was set up so that, like with Social Security, active employees would pre-fund their own retirement health care. However, costs have outpaced revenues and now benefits for retirees are being subsidized with contributions from existing employees, the work group says.

The fund has been hit hard by the failure of premiums to keep up with health care inflation, generous eligibility requirements, and the relative young age at which members retire.

The group is recommending a combination of changes it says would add $54 million to revenues and extend the fund's solvency to 17.5 years.

The recommendations include adding $3 million to the fund yearly, increasing contributions from both employers and employees, change the level of subsidyfor premiums based on age of retirement, and changing the age of eligibility.

The work group also recommends the plan adopt disease management approaches and a statewide list of covered prescription drugs.



Plan Rewards Performance, Dual Enrollment

New Mexico colleges and universities would get extra funds for meeting performance goals and for attracting high school students with dual enrollment programs under a proposal by the Formula Enhancement Task Force.

A draft of the task force proposal presented to the committee in October lists full funding of enrollment-driven "workload," funding for inflation, a tuition credit for dual credit classes, and ongoing funding for performance as the top priorities.

A preliminary estimate of the additional cost of the funding formula revamp indicates higher education spending would be about $16 million higher under the new formula.

The task force is proposing a factor in workload funding that would soften the blow for schools with declining enrollment and trigger funding increases earlier for enrollment growth. Five of the state's colleges and universities saw enrollment drop more than 5 percent for the first time this fiscal year.

In response to legislation encouraging colleges to offer classes to high school students at no cost, the proposed funding formula includes a factor that compensates colleges that don't charge for dual enrollment courses.

The task force also prioritized performance funding. A pilot program funded by the Legislature in 2006 rewarded colleges and universities for meeting goals on freshmen enrollment and the share of students who stay enrolled a sophomores.

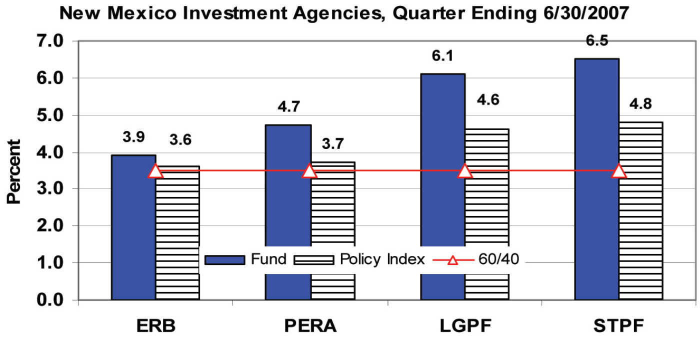
Investment Returns Mixed for Year, Strong for Quarter

The state's four major investment funds all returned more than 17.6 percent for FY07, and all exceeded a conservative "60/40" portfolio used as a comparison. The Public Employee Retirement Association fund and the severance tax permanent fund both exceeded their goals, or benchmarks, for the year, while the Educational Retirement Board fund and land grant permanent fund came in slightly below theirs.

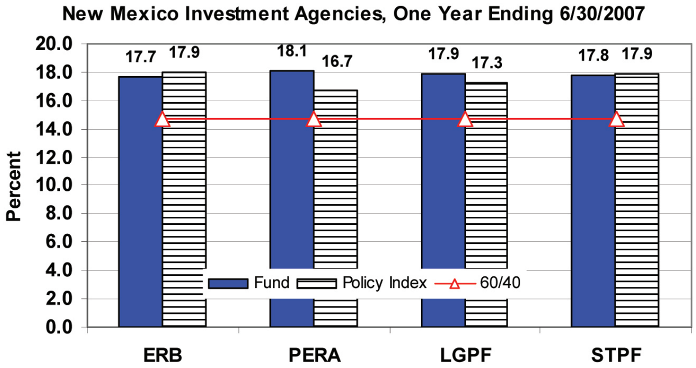
For the last quarter of FY07, all the funds exceeded both the comparison portfolio and their benchmarks.

For the five years ending June 30, the PERA fund outperformed its benchmark of a 10.5 percent return with a return of 11.7 percent. The land grant permanent fund also slightly exceeded its benchmark. Both the severance tax permanent fund and the ERB fund were below their benchmarks. All four performed better than the comparison portfolio.

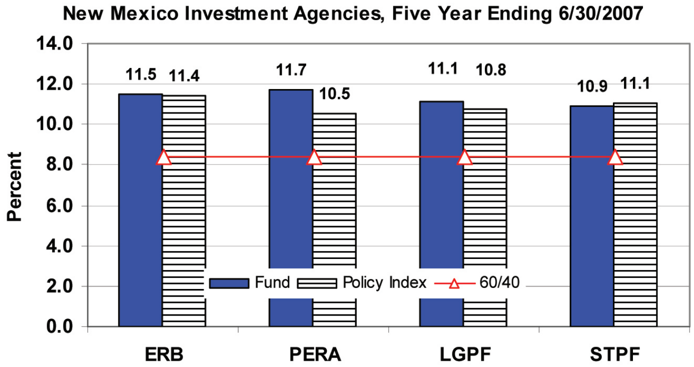
New Mexico Investment Agencies, Quarter Ending 6/30/2007



New Mexico Investment Agencies, One Year Ending 6/30/2007



New Mexico Investment Agencies, Five Year Ending 6/30/2007



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On the Table

Slow Start Up Limits Brain Injury Spending

Of the 325 brain injury patients who have applied for self-directed long-term services through the Mi Via program since the program started in January, just 26 have met the medical and eligibility requirements and are receiving care. The Aging and Long-Term Services Department reports it is unlikely it will spend all of the $1.87 million appropriated for the program for FY08.

Fewer NM Mortgages Past Due

State banking regulators report 2.1 percent of prime mortgages and 10 percent of subprime mortgages in New Mexico were past due in the second quarter of 2007, compared with national figures of 2.7 percent of prime loans and 14.8 percent of subprime loans.

Tax Penalties Waived and Refunded

The Taxation and Revenue Department has responded to complaints by refunding or waiving $3.5 million in penalties on New Mexicans who failed to pay quarterly estimated income taxes. Most of the penalties were small, averaging $81.40 for 43,000 taxpayers. More than $2.7 million will be refunded to taxpayers, with the balance in assessments waived.

$1.5 Million Awarded for City Revitalization

Eleven New Mexico communities have received a total of $1.5 million in state money for MainStreet revitalization projects. The 2007 awards include $110,000 for the second phase of a streetscape project in Artesia, $300,000 for design and construction of a streetscape plan for part of Walnut Street in Clayton, almost $300,000 for a pavilion connecting two neighboring historic districts in Las Cruces, $125,000 for a parking lot off Bridge Street in Las Vegas, and $300,000 to restore the Shuler Theater in Raton. The Legislature appropriated $4.5 million in capital outlay funding over the last three years for MainStreet revitalization programs statewide.

Death Penalty Cases Stalled by Lack of Funds

The Supreme Court has ruled that the prosecution of two prison inmates charged with killing a guard during a 1999 Santa Rosa prison riot cannot move forward until the Legislature appropriates more money for defense lawyers. The lawyers are under contract with the state because the defendants are indigent. The defense teams estimate they need another $200,000. A little under $4.4 million in state money has been spent on the case so far through the Attorney General, Public Defender, and district attorney offices.

Companies Get $1.4 Million for Job Training

The Job Training Incentive Program board has approved $1.4 million in grants to seven companies planning 116 possible new jobs. October's JTIP awards include $126,000 for 10 jobs at Santa Fe Aero Services; $94,000 for five jobs at Management Sciences, Inc., a transportation research company in Albuquerque; and a little over $1 million for 88 new jobs at Therapeutics, a pharmaceutical distribution company in Albuquerque.

Transitions

The Public Employee Retirement Association Board has voted to appoint former board member Susan Biernacki, an Albuquerque city attorney, as the municipal board member to complete the term vacated by retired Lou Hoffman.

Gail Reese has retired as the city of Albuquerque chief financial officer.

Bob Gish will retire in December. Gish has been PERA's investment director for the last 10 years, spent seven years at the State Investment Council, and served four years at the State Board of Finance

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