LFC Newsletter

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

Volume 11 Issue 05 November 2010

From the Chairman

Worse or Worser, $257 or $452?

The news was bad enough when the committee staff came out with projections that the state will be $257 million short of what it will need next year to maintain services. Now the administration has set that figure at $452 million.

The differences? The LFC assumed the continuation of several provisions that are expected to save some $90 million, including requiring state and public school employees to pay a greater share of their pension fund contributions and the diversion of the tobacco settlement moneys to the general fund. The administration did not include those because it will take legislative action and approval from the new governor for them to continue.

The administration also built inflationary cost growth into its estimate while the LFC staff assumed agencies will absorb those costs. In addition, the administration used more recent, higher numbers for the massive shortfall in Medicaid.

It's almost irrelevant whether the shortfall turns out to be closer to $257 million or $452 million. The state is in a very deep hole either way. And it is not a hole we will be able to get out of without making some difficult and unpopular decisions, decisions that might conflict with campaign promises.

It might have been politically expedient a month ago to promise not to cut Medicaid or public schools or to raise taxes. But Medicaid and public schools are 60 percent of the budget. Protecting those two very large pieces of the budget pie from any whittling will mean taking another 22 percent from every other state agency, even using the lower LFC-projected shortfall. That would be on top of the 15 percent cuts those agencies have already absorbed in the last few years.

Cutting benefits for the poor who receive health care through Medicaid or the children in our public schools is sure to bring protests. But policy makers must be able to look at all possibilities for balancing the budget. The Legislature and the new executive will have to work together to keep the state in the black while causing the least harm to New Mexicans.

Representative Luciano "Lucky" Varela
Chairman

Economic Investment Policy Means Losses for Fund

The state is foregoing millions of dollars a year for the general fund by using some investment funds for economic incentives.

The committee is scheduled to hear about the impact of the state policy that allows the use of some of the severance tax permanent funds to stimulate economic activity at 8:30 a.m. on November 18.

LFC analysis concludes the state could lose $35 million over the next nine years by continuing to divert some funds from traditional investments. The analysis compared the performance of the severance tax fund and the land grant fund, which has no diversions, and found the severance tax has underperformed the land grant fund for at least 10 years.

Currently, some $571 million of the severance tax fund is invested in economically targeted investments. Almost half of that is invested in private equity and another 42 percent is invested in loans to film productions.

Sun Mountain Capital, a private company that advises the State Investment Council on the Private Equity Investment Program, reported in May that the $265 million invested through that program attracted an additional $1.6 billion in investments from outside New Mexico. The 56 companies in the portfolio had created 1,286 full-time jobs with an average salary of more than $62,000 a year, the company said.

However, the LFC report notes that the Sun Mountain Capital numbers are not audited or verified in any way, and the state has no formal process for assessing the impact of its economic investments.

Although the goal of the economic investments is to encourage expansion of certain industries, the LFC analysis further notes the benefits tend to go to private individuals. The investments should be judged by whether they generate more in state and local revenues than they increase the cost of public services, the report says.

Changes Planned for DD Services

Health Department managers hope to save nearly $6 million in the program that provides home-based care to the development disabled by more strictly enforcing spending limits.

Cost-containment plans for the program, commonly called the DD waiver because services are provided under a waiver to the institutional care required by federal Medicaid regulations, were outlined during the committee's October hearing on the Health Department budget.

The department estimates that implementing cost-containment measures will save $5.9 million this budget year, if effective in January, and almost twice that next budget year.

The changes with the biggest impact would be a cap on the total that could be spent on any client in a year, cuts in the reimbursement rates for services, and stricter oversight of payments.

However, LFC staff has raised concerns that the department is not moving quickly enough toward cost containment in the current year and, instead, has focused its efforts on the process for renewing the waiver, which expires in June 2011.

A department outline of changes planned for the DD waiver program emphasizes the use of a valid assessment tool to identify individual support needs and the allocation of services that reflects those needs. The changes in the outline are similar to those recommended in an LFC evaluation released in June.

The Legislature has struggled to eliminate a waiting list for DD waiver services, increasing funding by some 30 percent in the years before the recession hit. At the end of FY10, 3,848 developmentally disabled clients were receiving wavier services; however, nearly 5,000 were on the waiting list.

The average annual cost per client is expected to grow more than 11 percent in FY12 compared with FY11, from about $74,000 to $85,000.

Because of the loss of federal funds, the department estimates the budget for the program will need to grow about $41 million in FY12 to $104 million.

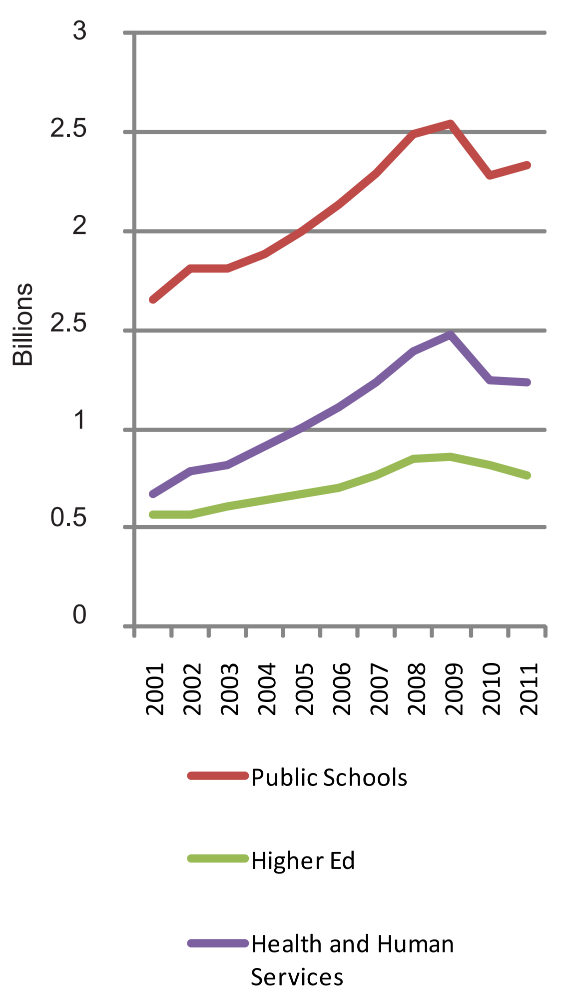
Long-Term Budget Growth High, Despite Recent Cuts

Total appropriations from the general fund have grown 58 percent over the last 10 years, even with the substantial cutbacks in the last two. Total appropriations grew from $3.5 billion in FY01 to $5.2 billion in FY11, after peaking in FY09 at $5.9 billion.

Spending on health and human services nearly doubled between FY01 and FY11, from $673 million to $1.2 billion. Spending growth for public schools was also a key factor in the growth of the budget. Spending on public schools grew from $1.7 billion in FY01 to $2.3 billion in FY11.

The figures for growth for the public schools and health and human services would be even higher if federal dollars were also counted. Federal stimulus money has been used the last two years to offset a drop in general fund support for those two areas.

Appropriation Growth Over 10 Years



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Volume 11 Issue 05

Published monthly in the interim by the Legislative Finance Committee.

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www.nmlegis.gov/lcs/lfc/lfcdefault.aspx

On the Table

Tax Collections Up in October

Deposits from the combined reporting system, mostly gross receipts taxes and personal income tax withholding, were up about 12 percent in October compared with a year ago.

Amnesty Offer Attracts Thousands

More than 26,000 New Mexico taxpayers applied for relief under the tax amnesty program before the September 30 deadline. The Taxation and Revenue Department reports it has processed one-fifth of the requests. Taxpayers who qualify have 180 days to pay the assessment without interest or penalty. The department has collected about $285,000 in delinquent payments so far.

Food, Cash Assistance Caseloads Up

The Supplemental Nutrition Assistance Program caseload was up 22.7 percent in September compared with a year ago. More than 165,000 New Mexicans were receiving food assistance. The caseload for the Temporary Assistance for Needy Families was also up in September. More than 21,000 families were enrolled, an 11 percent increase from a year ago. Both programs also saw slight increases from August – 0.3 percent for SNAP and 1.6 percent for TANF.

Highway Maintenance Down

The number of highway miles that underwent maintenance in FY10 was down a third from FY09. The Transportation Department reports 2,432 miles of highway were repaired in FY10, compared with 3,691 in FY09. Because of budget cuts, that number is expected to drop again in FY11.

Unemployment Fund Still in Trouble

Even with the increase in employer contributions set for January, the Workforce Solutions Department projects the state unemployment insurance trust fund will be insolvent by August 2011. The department paid unemployed New Mexicans $376 million in unemployment insurance benefits in FY10. The department is scheduled to present options for generating revenue and reducing expenses to the committee during its hearing in November.

TANF Could Get Extra Fed Funds

New Mexico could be eligible for $22.1 million in federal contingency funds for the Temporary Assistance for Needy Families program because of congressional budget action. Congress passed a continuing resolution for the budget that replenishes the TANF contingency fund and extends the distribution to the states until FY12. The influx of additional TANF funds to New Mexico could offset cuts in child care or other TANF-supported programs.

Transitions

Andrew Moralez, director of the Border Authority, has accepted the job of city manager for Sunland Park. He is expected to be replaced by Bill Hume, a policy adviser to the governor.

Dennis Prescott, a vice president at Baylor University, has been selected as New Mexico State University's vice president for university advancement and president of the NMSU Foundation. The position pays $230,000.

The Regulation and Licensing Department has named Michael Vargon acting director of the Securities Division.

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