



LFC Newsletter

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Legislative Finance Committee

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From the Chairman

Numbing Numbers

Let's admit it, a lot of state financial management is boring to the average person, a reinforcement of the common perception that accountants are dull, detail-oriented number crunchers.

But that number crunching – or, more precisely, bad or incomplete number crunching – can have a huge impact on the state's financial health.

Take the Comprehensive Annual Finance Report, a document that is the compilation of the finance reports from all state agencies. Despite the immensity of the task, it seems obvious that the state would want an accurate report with the complete picture of state finances. But while the state's finance managers are working hard to solve the problem, the truth is the state does not have a current, audited CAFR.

Not having an audited CAFR is a violation of state law, conflicts with accepted government accounting principles, falls short of the Department of Finance and Administration's performance targets, and is very risky for the state. The failure to produce a timely, audited CAFR can impact the state's ability to issue bonds used to fund school construction, water projects and hundreds of millions of dollars in projects across the state. It can mean a drop in the state's bond rating, which would mean the state would have to pay more to get investors to buy our bonds. And, most obviously, it means we don't really know how much money we have or where it's going, a situation that opens the door to fraud.

The state has had difficulty producing a CAFR partly because of problems with cash reconciliation. The DFA is statutorily required to control the state's cash but has been unable to do so since the 2006 implementation of the statewide accounting system, SHARE. Also an issue is the current agency-centric approach to financial management. The current CAFR-creation process requires the Finance Control Division of DFA to manually compile spreadsheets with millions of rows of data from 143 agencies. The task is complicated by inconsistent and incomplete business practices at the agencies and the inadequacies of SHARE.

The DFA has already started to repair the process with the acquisition of a software package that will compile the SHARE data automatically.

In the meantime, the state is waiting for the audit of the 2013 CAFR, which is expected to be released with the disclaimer that the auditor cannot form an opinion about the accuracy of the data. The DFA needs to continue to move toward a reliable single financial statement. It's not an option.

*Representative Luciano "Lucky" Varela
Chairman*

Jobs Council Seeks \$50M for Closing Fund

The Jobs Council, a bipartisan group of legislators, cabinet secretaries and business leaders, is asking for \$70 million to support job creation, most of which would go to a program that funds equipment and construction sought by new or expanding business.

The Jobs Council is scheduled to present its spending request to the committee at 3 p.m. November 19. The hearing will be followed by a review of the Economic Development Department budget request.

The council, created in 2013 with the goal of creating a framework for job creation, estimates the state needs to create about 16,000 new jobs each year for the next 10 years to return to full employment. The state gained 2,500 jobs during FY14.

The council request, partly aligned with the department budget request, includes \$50 million for the Local Economic Development Act program. Under the LEDA program, the state works with local communities to fund land purchases, construction and equipment for businesses interested in moving to or expanding in New Mexico.

The fund is sometimes called the "closing" fund because it is used to "close" deals.

LFC staff has raised concerns about local government's reluctance to recover LEDA funds when businesses don't create promised jobs.

The act includes a requirement that agreements with the businesses include a "clawback" provision that requires a business to pay back a portion of the funds used on infrastructure if fewer jobs are created than expected.

While the agreements include clawback provisions, in some the amount of clawback is a small portion of the total spent by the state.

In addition to the \$50 million for the LEDA program, the council is asking for \$12 million for the Job Training Incentive Program, which reimburses businesses for job training for new employees; \$2 million for cooperative tourism advertising with local communities; and \$4.5 million for the economic development grant fund, which provides matching funds for communities to hire professional economic developers.

Gaming Compacts Due This Session

Five compacts between the state and tribes are set to expire in June and two tribes not yet gaming are asking for new compacts, bringing to seven the number of new compacts that will be considered during the upcoming legislative session.

Jessica Hernandez, general counsel and deputy chief of staff for the governor, told the committee during hearings in October that the Legislature will need to approve compacts for the Acoma and Pojoaque pueblos and the Navajo, Mescalero and Jicarilla tribes. Zuni and Jemez pueblos, which do not have casinos now, are also asking for compacts.

The Governor's Office is negotiating with most of the pueblos and tribes and will submit the proposed agreements to the legislative Committee on Compacts before the session starts, she said.

However, the administration apparently has not renewed negotiations

with Pojoaque Pueblo, which sought to negotiate a compact directly with the U.S. Department of the Interior. A federal court ruled the Interior Department could not approve a compact unless the state acted in bad faith and the parties had tried mediation. A pueblo administrator told a news reporter after the court ruling they believe they will be able to run their two casinos without state supervision once the existing compact expires.

Tribal gaming in New Mexico, legal since 1999, has a litigious history. State and federal suits preceded the adoption of the Compacts Negotiation Act that formalized the state-tribal negotiation process and brought the state into compliance with federal law.

Since then, the state has sued tribes for nonpayment of the state's share of revenue and has had settled disputes with tribes outside of compact negotiations.

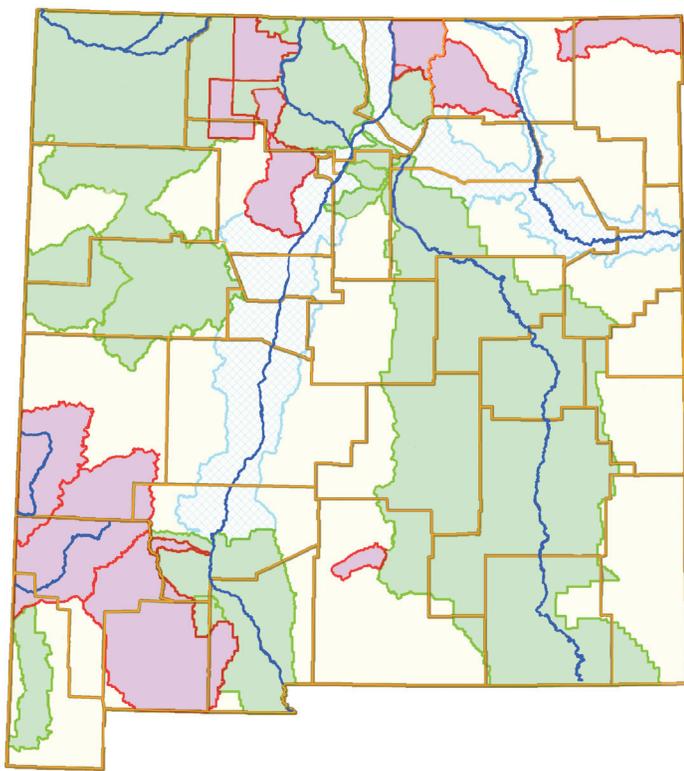
Water Rights Adjudication Moves Slowly

The state is likely decades away from resolving water rights ownership through court adjudication, making it difficult for the state to act if drought forces some water users to be cut off, LFC analysis indicates.

State law gives senior water users, those with the oldest rights, priority over new, or junior, users, but the state has not legally established ownership in more than half of the state's stream systems.

Currently, 12 adjudications are pending in New Mexico: six in state court and six in federal court. Most adjudications started 30 to 60 years ago. The Litigation and Adjudication Program of the State Engineer, responsible for adjudication, reports salaries below those offered in the private sector have made it difficult for the agency to recruit and retain engineers and attorneys.

Adjudication Status



- Major Stream
- County
- Completed Adjudication
- Active Adjudication
- Stream System for Future Adjudication

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On the Table

Schools Plan on More Teachers

School districts and charter schools have budgeted hiring 1,260 more teachers in FY15 and fewer educational assistants, Public Education Department figures show. The budgets include 777 more full-time employees overall.

Spaceport Seeks Special Appropriation

The Spaceport Authority estimates it will be financially stable for FY15, but after the Virgin Galactic accident, submitted a request for a \$3.6 million special appropriation to cover an anticipated shortfall in FY16.

Childcare Provider Rates Up

The average reimbursement rate paid to childcare providers in the Children, Youth and Families Department subsidy program went up 27 percent in FY14, from \$338 per child per month in FY14 to \$430 in FY15. The department used money it saved from a drop in children enrolled in the program to increase provider rates.

Employment Outlook Weakens

In an employment forecast less optimistic than the national numbers issued by IHS Global Insight, the University of New Mexico's Bureau of Business and Economic Research is projecting total employment in New Mexico will grow by 0.5 percent in 2014, 1.2 percent in 2015, and 1.3 percent in FY16. This outlook is a downward revision from BBER's July forecast. In addition, employment growth in health care, strong during the recession, has slowed over the past year.

Schools Hold On to \$196 Million in Cash

Schools districts and charter schools started FY15 with almost \$196 million in cash balances. Cash balances for Albuquerque Public Schools increased \$7.7 million during FY14, a 23 percent jump. Cash balances dropped for Santa Fe, Las Cruces and Rio Rancho schools, with Rio Rancho's balance dropping 25 percent.

NM Commission Gets Millions for Detainees

The Commission for the Blind has adjusted its budget to reflect an increase of \$6.6 million in federal funds for its Business Enterprise Program for food services for immigrant women and children held at the Artesia Federal Law Enforcement Training Center.

Insurance Pool Fees, Enrollment Drop

The state Medical Insurance Pool board has approved a preliminary 2015 budget that assumes big drops in assessments and enrollment. The budget estimates \$61.7 million in assessments, down from a budget of \$109.4 million for 2014, and enrollment of 44,900 member months for 2015, down from a budgeted 90,300 in 2014.