



LFC Newsletter

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Legislative Finance Committee

Representative Luciano "Lucky" Varela, Chairman

Senator John Arthur Smith, Vice Chairman

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From the Chairman **Long-Term Solution**

New Mexico is a poor state, one of the poorest with one out of every five New Mexicans living on an income below the poverty line. For a family of three – a single parent with two children – that's just \$18,500 a year.

As a poor state, New Mexico has always struggled to address both social issues and economic development. Recently, we learned that we hit the bottom on a national ranking of child welfare at the same time an economist labeled our income growth as "pathetic."

It's not hard to see how the two are connected.

But while child welfare advocates are already on the campaign trail pushing for more state spending on early childhood programs and public schools, business leaders are equally engaged on a plan to fight for a business-friendly tax system and more job training money.

It's critically important for both sides to recognize we cannot build a thriving economy without a healthy, educated workforce and we cannot overcome the social issues that prevent us from having that workforce without a thriving economy.

And both sides need to recognize that it will take a multi-pronged approach to solve New Mexico's systemic problem with poverty.

Children who grow up in poverty are less likely to succeed in school, more likely to get into trouble, less likely to find adequate employment, more likely to need social services, and more likely to raise their own children in poverty.

New Mexico has invested substantially in programs that attempt to overcome the impacts of poverty from birth. This year, we will spend a total of nearly \$200 million on core programs for very young children, including home visits for families with newborns, childcare subsidies, prekindergarten, early special education, and early literacy and other public school supports.

Starting at the beginning of the cycle is essential but we must also look at enhancing public school funding for at-risk students and training programs that prepare New Mexicans for available jobs.

We must also focus on attracting high wage jobs and raising the minimum wage – now so low even full-time employment cannot pull a poor family out of poverty.

With judicious, targeted spending and a balanced approach, New Mexico could finally escape its own poverty cycle.

And then we could have both a healthy economy and healthy communities.

*Representative Luciano "Lucky" Varela
Chairman*

Special Ed Funding Questioned

The funding formula for public schools encourages districts to over-identify students with special needs when lower-cost early intervention programs might be more effective, an LFC report says.

The school funding formula includes an enhancement for special education tied to the number of special needs students in a school district and their level of need but that has resulted in some districts reporting higher-than-probable special education "units," according to the evaluation presented to the committee in August.

At the same time, some districts, particularly those with high numbers of poor students, tend to report lower-than-average numbers, the report says.

The result is that more savvy school districts get a disproportionate share of funds.

The current formula also penalizes districts that invest in early interventions because those services do not come with a formula enhancement.

The evaluation recommends the state consider funding special education based on a district's total enrollment instead of a district count of its special education students.

A "census-based" distribution of

special education funds would ensure all districts get their fair share. Districts with high-needs students could still draw extra funds through a special pool of money for those costs.

The Legislative Finance Committee first began evaluating the funding of special education several years ago when district-reported need for special education "related services," such as speech therapists, surged. Albuquerque Public Schools was responsible for two-thirds of the growth in related-services costs over a two-year period.

Since then, special education numbers have dropped but that drop has been a factor in the state being at risk of losing federal funding for special education.

Federal funding declines if the state reduces spending on special education. In New Mexico, determining how much has been spent on special education is complicated by the state's school funding process, which provides districts with a lump sum related to their enrollment and the specific needs of their students.

The LFC staff evaluation says the state should consider inserting language in the state budget bill that clarifies how much of that money is intended for special education.

Medicaid Wants Less from State; More from Feds, More Overall

State general fund spending on the Medicaid program would drop next year under the Human Services Department's budget request, but federal dollars would go up, driven by expansions in the Affordable Care Act.

The department is seeking \$5.8 billion total, a 7.3 percent increase from the current year. Most of the \$394 million in new spending would come from the federal government and go to the expansion of Medicaid to working class adults.

The agency projects Medicaid enrollment will grow by more than 137,000 with the expansion of Medicaid to adults earning up to 138 percent of the federal poverty level, about \$16,000 for a single person.

However, the federal matching funds rate is going up and the department is asking for \$21 million less from the

state general fund for Medicaid and behavioral health services.

The HSD will present a preview of its budget request during a committee hearing scheduled for 10 a.m. September 27.

Also in the budget request, the department, under fire for its management of behavioral health services, proposes a restructuring of funding for the program to reflect savings of about \$15 million of the \$42 million in general fund spending.

Medicaid will pay for behavioral health care for many uninsured adults under the Affordable Care Act, freeing state funds now being used.

The department is proposing most of the projected savings be used for housing and other support services for clients and for quality and compliance enforcement.

NM Per Capita Income Lags Behind Nation

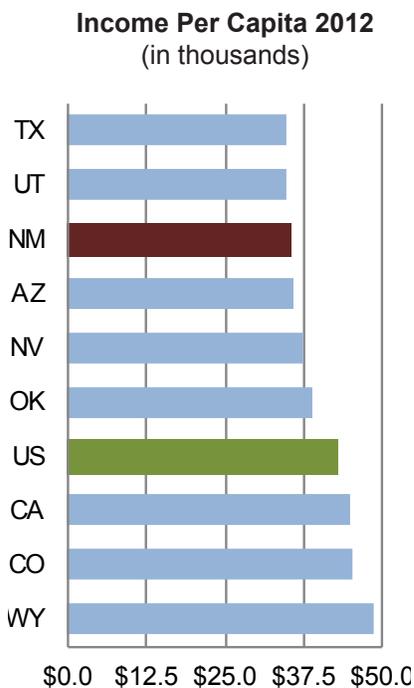
New Mexico's per capita income in 2012 was \$35,100, substantially below the national average of \$42,700. The relatively low per-person figure means the state was in the bottom 10 with a national rank of 43rd.

However, the 2012 figure was an improvement over 2011, both compared with the state figure a year ago and with national figures.

New Mexico's income growth rate of 2.8 percent put it in a tie for the 20th fastest growth rate. In addition, New Mexico per-capita income in 2011 and 2012 exceeded pre-recession figures.

Reflecting the overall income growth, the state's manufacturing sector paid workers more per hour in July 2013 than the same month the year before. Average hourly wages increased in the manufacturing sector from \$15.71 in July 2012 to \$16.15 in July 2013. Average weekly hours worked also rose slightly from 40.1 hours in July 2012 to 40.5 hours in July 2013.

Per capita income varies significantly across the state. Los Alamos County leads the ranking at 180 percent of the state average, followed by Santa Fe County at 128 percent, Eddy County at 116 percent, and Bernalillo County at 111 percent. McKinley County ranks the lowest at 71 percent of the state average, with Luna and Mora counties slightly ahead at 73 percent each.



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On the Table

Agencies Seek \$93 Million More

Fiscal year 2015 budget requests submitted September 1 indicate agencies are asking for \$93 million more from the general fund for next year, about 3.6 percent more than general fund appropriations for the current year. However, the Human Services Department is asking for a decrease for the Medicaid program and three of the state's largest departments – Health, Public Safety and Corrections – are asking for smaller-than-average increases. Without these four large agencies, the average general fund requested increase is 11 percent.

NM High School Grads Need College Help

Half of New Mexico high school graduates who attend a state college need at least one remedial class in English or math, the Higher Education Department reports. All of the college freshmen from nine high schools needed remediation. Those schools were three charter schools in Albuquerque, two schools in the Gallup-McKinley district, a charter school in Jemez Pueblo, and the high schools in Mosquero, San Jon and Vaughn.

Reconciliation Liability Might Grow by \$31M

The Department of Finance and Administration is considering adding \$31 million to the \$70 million liability already booked in its FY12 financial audit as a placeholder for any liabilities arising from unreconciled balances in SHARE, the state's accounting system. The department reports new, detailed reports are helping to quickly identify cash-balance discrepancies that need agency attention. The agency also praised the Department of Transportation for a "nearly flawless" June reconciliation.

Alcohol-Related Traffic Deaths Down

Alcohol-related traffic deaths dropped from 128 in FY12 to 94 in FY13, a 26.6 percent decrease. The total number of traffic fatalities dropped by 19 percent and the number of accidents with injuries dropped by 14 percent. Traffic citations were up significantly.

Suit Alleges HSD Cozy with OptumHealth

A former Human Services Department attorney alleges in a whistleblower and discrimination lawsuit against the department that the agency has been inappropriately generous with OptumHealth, the private contractor that manages state-funded behavioral health services. The suit alleges the department has agreed to let Optum keep 25 percent to 40 percent of the amounts repaid to the department by providers who were overpaid for services – a rate higher than is standard – and has done nothing about OptumHealth's failure to conduct contractually required health audits.

Transitions

Elisa Walker-Moran has resigned as chief economist for LFC to become the chief economist at the Taxation and Revenue Department. Peter vanMoorsel has been promoted to chief economist.

Public Employee Retirement Association Chief Investment Officer Joelle Mevi has resigned. PERA promoted Susan Pittard, its general counsel, to the new position of chief of staff and hired Greg Trujillo, formerly information technology manager for the Educational Retirement Board, to concentrate on improving members services.

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