



# LFC Newsletter

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Legislative Finance Committee

Representative Luciano "Lucky" Varela, Chairman

Senator John Arthur Smith, Vice Chairman

David Abbey, Director

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## From the Chairman Fall in Place

The state has invested heavily in early childhood programs because we know that they pay off in the long run. A healthy start and high-quality early learning means the child is more likely to succeed in school and less likely to need social services. But not all investments are created equal. The dominoes must be lined up just so if we want our monetary nudge to make everything fall into place.

Recently, a workshop put together by the Governing Board of the National Research Council – the joint effort of the National Academy of Sciences, the National Academy of Engineering, and the Institute of Medicine – identified key factors that make the broad implementation of early childhood programs successful.

While the payoff is substantial when the state intervenes with a child in a family with socio-economic risks, those interventions must be high-quality and sustainable. Using the state's limited dollars to create programs that will raise up the most vulnerable New Mexicans is just the beginning. We must be prepared to invest in those programs over the long term, knowing that it takes years for some programs to find their stride and few things are more tragic than yanking an underprivileged child from a service that was helping that child thrive.

In addition to sustainability, the workshop also put "demand" on the list of factors; the best program is useless if the families it's designed to help don't know about it or don't understand it. Organizations must reach out and communicate effectively.

The other side of the demand coin is supply; funding nurse home visits for 1,000 infants at risk does nothing if no nurses are available. Similarly, insufficient agency staff to manage and monitor a new or expanded program opens the door to inefficiency and ineffectiveness at best and corruption at worst.

Finally, the workshop identified effective decision-making as essential to the success of a comprehensive program. In theory, the best decisions are based on evidence and an awareness of the specific needs of those being served. In reality, program managers and policymakers are influenced by politics and marketing and must resist being swayed by factors that do little to help the program or the children.

New Mexico will begin to see a return on its investment in early childhood as those children progress through school, enter the workforce, and have children of their own. We must make the right decisions now so we can see the most from that investment.

Representative Luciano "Lucky" Varela  
Chairman

## Release-Eligible Inmates Costly for State

Improving community services for parolees and addressing other issues that lead to offenders serving parole inside prisons could save the state millions of dollars and improve public safety, LFC analysis shows.

An LFC brief prepared for the Corrections Department budget preview hearing scheduled for 3 p.m. on September 24 says the state spends about \$10 million a year on the typically 300 "release-eligible inmates" serving parole inside at any given time.

Limited community resources for parolees, paperwork problems, and inmates who will not participate in the process are the leading causes of the build-up of parolees inside, the brief says.

Research shows inmates released with supervision are less likely to commit new crimes than inmates who "max out" their sentences inside, LFC staff reports.

The Corrections Department is seeking a \$16.6 million increase to its \$280 million budget in FY16, including

nearly \$10 million for private prison costs driven by an estimated 3 percent increase in the prison population.

However, the department might be overestimating population growth. The New Mexico Sentencing Commission is estimating growth at less than half that.

The department's request also includes funding for a plan to have Corrections Industries take over food services from a private contractor and for expected increases in medical care costs, behavioral healthcare costs, and an expansion of programs designed to reduce the chances an inmate will commit new crimes after release.

The department is also expected to ask for funds to cover shortfalls for the current year, currently projected at a maximum of \$10.8 million if the department takes no action to contain costs. The department ended FY14 with a \$6.4 million shortfall, primarily the result of past wages owed under a settlement with employee unions.

## School Superintendents Critique Teacher Evaluation Process

The current teacher evaluation process – mostly based on student test scores and classroom observations – has promise but is fraught with technical glitches and seems to sometimes result in ratings that make little sense, a panel of superintendents told the committee.

Adan Estrada, Cimarron Municipal Schools superintendent, said at a committee hearing in August the Public Education Department should allow districts to review teachers' data before releasing the evaluation results. The evaluation of a physical education teacher in his district included data for a third-grade math teacher and the department said the error was the district's fault, he said.

Staci Diller, Des Moines Municipal Schools superintendent, echoed Estrada's comments and added data accuracy is hampered by the inability to transfer student data to the teacher database.

While teacher evaluations are a good tool for identifying and addressing a teacher's strengths and weaknesses, they are unfair if they are based on bad

information, she said.

Ruben Cordova, Las Vegas City Schools, said his district also had issues with data reliability and, like others on the panel, said Teachscape – the online system that includes the supervisor's observations of a teacher – is time-consuming and difficult to learn.

He said the evaluation process resulted in some highly regarded teachers receiving poor ratings and some poorly regarded teachers receiving high ratings.

Gene Parson, West Las Vegas Public Schools, said the Teachscape process for reporting the results of classroom observation fails to account for how a teacher interacts with students or engages students, both important to teacher effectiveness.

Under Public Education Department rules, a quarter of a teacher's rating is based on classroom observations, a quarter on other factors, and half on student education growth as measured by whether students performed better or worse than expected.

# Investment Funds Outperform Targets

Final FY14 figures for the land grant and severance tax permanent funds and the state's two pension funds show investment returns for the one-, three- and five-year periods exceeded their long-term targets of 7.5 percent and 7.75 percent. Ten-year returns fell short of the targets, because of the recession and partly because past investment policies made the portfolios sensitive to market volatility.

## Investment Funds Returns

Returns as of June 30

	PERA	ERB	LGPF	STPF
Target	7.75%	7.75%	7.5%	7.5%
Quarter	3.81	4.05	3.35	3.48
1-Year	17.28	14.65	15.68	15.76
3-Year	9.78	9.11	9.70	9.15
5-Year	13.26	12.95	13.08	12.34
10-Year	6.60	7.55	7.07	6.41
Ending Balance (billions of dollars)	14.60	11.27	14.19	4.63

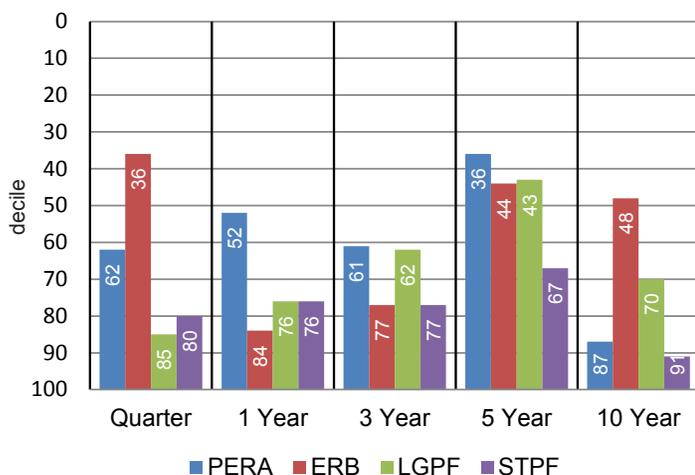
However, the funds' performances are mixed when compared with other similar public funds with market values greater than \$1 billion. All but the severance tax permanent fund outperformed the median of the peer funds in the five-year period but none did better than the median in the one-, three-, and 10-year periods.

Staff at the investment agencies note their long-term performance rankings are affected by rules guiding asset allocation – the distribution of types of investment – in place at the time, as well as the recession.

The State Investment Council, which invests the permanent funds, Educational Retirement Board, and Public Employee Retirement Association have since diversified their portfolios through investment in alternative assets, like hedge funds and private equity.

## Investment Funds Peer Performance

(lower decile is best)



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Writer, Editor - Helen Gaussoin Staff Editor - Rachel S. Gudgel

Questions, comments: 505-986-4550

[www.nmlegis.gov/lfc](http://www.nmlegis.gov/lfc)

Please contact Sharon Boylan at [sharon.boylan@nmlegis.gov](mailto:sharon.boylan@nmlegis.gov) if you would prefer to receive this newsletter electronically.

## On the Table

### Agencies Seek 8.2 percent Increase

Total agency budget requests submitted on September 2 reflect a \$216 million increase in general fund spending for FY16, an 8.2 percent jump from FY15. Judicial agencies asked for about \$22 million more, 9.8 percent over the current year. The Public Defender Department asked for about \$55 million more, a 123 percent increase. The total does not include public schools, colleges, or legislative agencies, which submit their requests later.

### State Employment almost Flat for Two Years

State agencies employed about 22,500 individuals in September 2014, a 1/10th of 1 percent increase from July but a 1 percent drop from the beginning of FY13. The state has more than 3,000 unfilled positions. Meanwhile, the State Personnel Office reported the average number of days to fill a position declined in FY14 to 64 from the FY13 average of 73. The office reports 68 percent of new employees also completed their probation in FY14, compared with 58 percent in FY13.

### Rail Runner Flagmen Slow Trains

The use of “flaggers” at each of the two Santa Fe Rail Runner crossings where people died this summer has added seven to 10 minutes to travel times and, possibly, caused a drop in ridership. Rio Metro has started a safety review for the crossings but has no timeline for completion.

### Builders Seek Extension of Green Credit

The Home Builders Association of Central New Mexico supports a 10-year extension of the sustainable building tax credit, scheduled to expire at the end of 2016. The association says 70 percent of new housing starts are “green” and the credit has led to change despite a sluggish housing market.

### Families Sue HSD over DD Waiver

Several families with members receiving services through the developmental disabilities Medicaid waiver program are suing the Human Services Department over the way the Health Department is using the supports intensity scale assessment to determine a client's level of need and, in turn, the services the client receives. Under a stipulated interim agreement, the agencies have extended services to certain transitional clients and expanded services for other clients.

### Transitions

Jonas Armstrong, an LFC program evaluator, has moved to the fiscal analyst position for natural resources agencies. Connor Jorgensen, already an analyst, is now responsible for the block of agencies that includes transportation and state personnel. Michelle Aubel, a former LFC analyst who left for a job in the administration, has returned as a program evaluator.

The Evaluation Unit has also hired Cody Cravens, who recently earned an MBA from the University of New Mexico, and Brian Hoffmeister, a budget analyst from the Ohio Legislature with an MBA from Ohio State University.

Mark Williams, previously the director the Motor Vehicle Division, is the new director of the Public Health Division.

Wayne Sowell has resigned as director of the Local Government Division.

Legislative Finance Committee  
325 Don Gaspar Street Ste101  
Santa Fe NM 87501