



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 Familiarity, Contempt

We've been here before.

By the time we started the regular legislative session in January, we were looking at a \$450 million deficit for FY09. That's about the same size of the deficit we are looking at for FY10 as we approach the planned special session. It is critical that we tackle this year's problem with the same focus we used to resolve the FY09 deficit.

To put it bluntly, we are technically violating the state constitution's requirement for a balanced budget because we have borrowed money from restricted state funds and we can't pay it back. We have no choice but to cut spending, transfer money from funds, or raise revenue to cover the nearly half-billion dollar shortfall and we need to do it right away.

The executive and the Legislature are already in agreement on some issues: We will do everything we can to avoid furloughing employees or cutting up critical services. We need to move quickly to give state agencies time to plan. Budget adjustments generally must apply across-the-board because we do not have time to rewrite every agency budget. State agencies, schools and universities need the flexibility to manage their budgets and prioritize their spending. We must focus, not only on the immediate crisis, but on the long-term and avoid any solutions that are merely bandages.

It is disappointing to find ourselves back here again. But, the flip side is that we have been here before and we can build on the success we achieved last year and lessons we have learned in other hard years.

Representative Luciano "Lucky" Varela
Chairman

Reports Reflect Recession, Agency Progress, Struggles

State agency performance reports for FY09 show "key" agencies met their goals in some areas but missed them in others, with the recession both helping and hurting the effort.

The committee is scheduled to hear about the efforts of the agencies to meet goals set for FY09 at 9:30 a.m. on September 29. The hearing will include discussion of the agency report cards, the LFC system for assigning red, yellow and green ratings on the overall performance of the agencies.

The report on the agencies designated as "key" in state statute notes the Human Services Department met its goals for the timely processing of applications in SNAP, the Supplemental Nutrition Assistance Program formerly known as Food Stamps, even though the recession has inflated the roles of the program.

The agency was unable, however, to overcome what is likely the recession's impact on the goals for the Temporary Assistance for Needy Families program. The HSD missed its targets for both the percentage of clients participating in work requirements and the job retention rate among those leaving the program.

The recession, the reports says, also made it difficult for the Transportation Department to meet road maintenance targets because of low revenue in the State Road Fund.

However, the recession probably made it easier for the Environment Department to meet its target for septic

tank inspections. The number of permits was down 23 percent because of the economy-driven slowdown in the construction industry.

Other highlights in the reports:

- The Health Department reports tobacco use was down to almost 20 percent, a 1.5 percent decline from FY08.
- Call center wait times in the unemployment benefits program were down but the 20-minute wait was far from the agency's goal of 5 minutes or less.
- The number of public schools classified as being in need of improvement grew but the percent of students proficient in math improved.
- The number of fatal traffic accidents was down.
- The percentage of inmates committing new crimes within two years of release was down but the Corrections Department missed its goal on that performance measure.
- Although film companies received more in rebates and tax credits, the number of film industry worker days was down. Also the economic impact of the film industry, while up, did not keep pace with the increase in tax benefits to the film industry.
- The Children, Youth and Families Department met its target on the percentage of children abused within six months of prior abuse and the annual rate was slightly lower than last year but quarterly figures show a deteriorating trend.
- The rate of children in foster care determined to be maltreated was up.

State Gets Mixed Return on Public School Investment

A \$700 million increase in public school funding since 2003 has yielded mixed results in student performance and some state education leaders say more could be done to hold schools accountable and get better results.

Almost two-thirds of the state's public schools are classified as "schools in need of improvement" as a result of low student test scores and failure to meet other standards under the federal No Child Left Behind Act. The 506 schools now in the school improvement cycle is twice the 236 in the cycle in 2005.

At the same time, while the percentage of eighth graders proficient in reading has grown from about 52 percent to 62 percent and the percentage for math has grown from 24 percent to 43

percent, the rates for fourth graders has remained fairly flat at about 50 percent for reading and 40 percent for math.

An LFC brief presented to the committee in August suggests, given the state's substantial investment in the schools, schools must rethink how they spend existing funding for better results before the state expands spending.

The brief notes that, while the Public Education Department is authorized to take over schools that repeatedly fail to meet performance standards, the agency is overwhelmed with struggling schools and has yet to step in.

Stan Rounds, Las Cruces schools superintendent, told the committee federal standards are too broad, identifying schools that miss just one of 37 criteria

as failing, and do little to help identify problems.

Financial bonuses in state law for schools that perform well are too small and too vague to act as an incentive, he said. The incentives program has not been funded for several years.

Winston Brooks, superintendent of the Albuquerque schools, said just 27 of the districts 131 schools met federal standards but the district met 10 of 14 performance goals it set for itself.

The district is one of three urban districts in a national study that looks at whether several student assessments throughout the year and data-driven instruction can do more to improve student performance than the once-a-year, high-stakes assessment now in federal law.

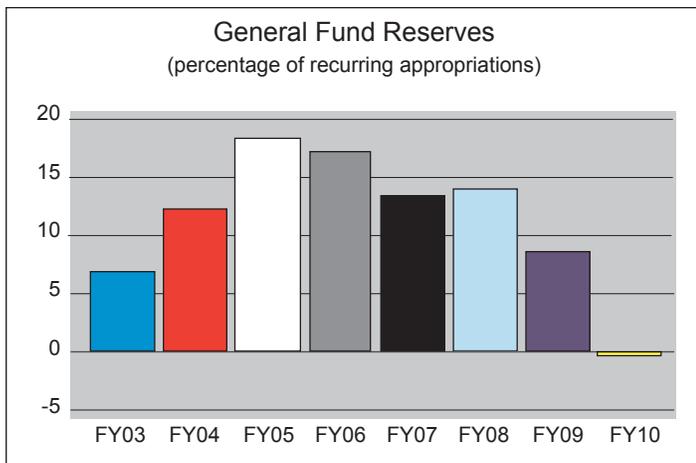
Reserves Will Be Wiped Out Without Budget Action

A \$433 million drop in the forecast for FY10 revenues means, without action to increase revenues or cut spending, the state's savings account will be wiped out.

Current estimates put the reserve balance for FY10 at negative \$6.5 million. Ensuring the reserve in FY10 is 10 percent of ongoing spending – the level considered prudent to cover any continued decline in the economy – will take \$556 million.

The expected \$309 million drop in the FY09 revenue means the final fiscal year tally will show the reserve was at 8 percent at the end of the year. Restoring the reserve will cost about \$114 million.

Revenue forecasts are also down for FY11, FY12 and FY13 and general fund revenues are not expected to return to pre-recession levels before FY15.



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On the Table

Pueblos Get U.S. Bond Money

Santa Clara and Isleta pueblos will receive more than \$22 million each and Acoma Pueblo will receive more than \$8 million from bonds issued by the U.S. Treasury. The three pueblos were among 58 tribes that will receive a total of \$1 billion from the bond proceeds. Santa Clara and Isleta plan to use the money for tourism facilities. Isleta plans to use its money for a steel manufacturing facility.

Property Values Up but Bond Capacity Uncertain

Assessed property values were up 7.9 percent in 2009 compared with 2008 but the increase might not turn into greater bond capacity. Property taxes are used to pay back general obligation bonds and higher property values generally mean greater bonding capacity. However, a district court recently ruled as unconstitutional a state law allowing property values to jump when a house is sold. Also, the oil and gas property share of the value, up 24.3 percent this year, is expected to drop to almost half next year because of falling energy prices.

New Mexico Unemployment Up

New Mexico's August unemployment rate was 7.5 percent compared with 4.3 percent a year ago and 7 percent in July.

Road Fund Revenue Off

Revenue in the unrestricted road fund for FY09 was 6 percent below the figure used in the budget and 4 percent down from FY08. The balance in August was negative \$49 million and the fund is effectively borrowing from the local government road fund, state infrastructure bank and other restricted transportation accounts.

Universities Gain Access to Supercomputer

Forty-four organizations, mostly colleges and universities, will soon have access to the state's supercomputer. The Computing Application Center through the Department of Information and Technology signed a price agreement with Insors Integrated Communication Inc. for \$2 million in computer gateways to access the computer. The gateways are to be delivered over a 15 week period starting in mid-September.

Transitions

Lou Helwig, deputy secretary of the Veterans' Services Department, has resigned. He had worked on veterans' issues on the state and federal level for 30 years.

Tom Baca, aviation director for the Department of Transportation, has retired.

He will be replaced by David Ploeger, the Los Alamos airport manager. Norman Assad has resigned as the district 3 commission on the State Transportation Commission.

The governor has named Marc Prelo to the Gaming Control Board. Prelo has served as an assistant N.M. attorney general and attorney for the villages of Ruidoso and Capitan.

Kimberly Austin-Oser is the new director of the Long-Term Services Program at the Aging and Long-Term Services Department. She replaced Doyle Smith, who retired after 26 years with the state.

Mary McCoy has been appointed the chief financial officer for the Livestock Board. She previously served as a budget analyst at DFA.

Sandra Haug has retired as administrative services director of the Energy, Minerals and Natural Resources Department.

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