



# LFC Newsletter

A publication of the

**Legislative Finance Committee**

Senator John Arthur Smith, Chairman

Representative Jimmie C. Hall, Vice Chairman

David Abbey, Director

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## *From the Chairman* **Value Added**

Although the many flaws of New Mexico's current capital outlay appropriation process have been discussed for years, change has been slow. That could be, in part, because of fears that small, local projects could be neglected in a statewide assessment of need. Much of the criticism has been aimed at local projects because they are often sponsored by individual legislators, which makes them look like political pork designed to win votes. In addition, local projects often stall because of legal issues or too little funding or lack of support. Before this fall, when some idle capital outlay projects were canceled so the money could help cover the budget shortfall, a third to 90 percent of the per-year funding for local projects authorized in 2012, 2013, and 2014 was outstanding.

That idle money, proceeds from the issuance of bonds, is opportunity wasted. Whatever the reason a project has not progressed – whether it's because the recipient is not authorized to receive state funds, the project needs much more money than allocated, or the project has little community support – stagnant projects tie up money that could go to more worthy projects that stimulate the economy and add value to the community.

This summer, legislative and executive staff and representatives of the associations for counties and municipalities launched a group effort to fix the process for authorizing local capital outlay projects. They identified several factors that contribute to stalled local projects, including an administrative process for getting the money to the community that requires duplicate information submitted to several offices and can take up to a year to complete.

The Board of Finance has already created a web-based process that has dramatically streamlined the administrative process and is no longer issuing bonds for projects with antidonation issues, those with recipients that might not be authorized to receive state money. Legislative staff is focusing on better training for legislators to ensure they pick projects that are ready to go, are high priorities for the community, and do not involve unqualified recipients or recipients that have mismanaged projects in the past.

With very little capital outlay available next year, this maybe a lesser priority. But the Legislature should build on this momentum. LFC staff has put together a list of proposals that need legislative approval, including creating a planning council to prioritize projects and limiting authorization of non-critical projects. Careful review of these proposals could be the next step.

*Senator John Arthur Smith*  
*Chairman*

## **Insurance Agency Disputes Audit Findings, Amounts**

The Office of the Superintendent of Insurance, which worked with the State Auditor to identify almost \$200 million in unpaid insurance premium taxes, says it now doesn't trust that finding and is using different audit methods to determine the unpaid taxes, LFC staff reports.

OSI and LFC staff are scheduled to discuss the status of the insurance premium taxes audit at 4 p.m. November 17 as part of the agency's budget hearing.

State Auditor, LFC, and Department and Finance and Administration staff, after meeting with the OSI staff after the audit was released, have raised questions about why the superintendent is now rejecting the original audit, what method it intends to use instead, and whether staff will try to settle for lesser amounts.

After the audit was released, the superintendent assigned responsibility to collect the unpaid taxes to a different group of staff, and this group, which has not reviewed the original method, has developed a new audit method and rejected the legal interpretation of the

contract attorneys hired by OSI to work with the contract auditors.

Legislative staff have questioned insurance premium tax collections for more than a decade and the Legislature in 2014 provided OSI with \$100,000 to conduct a special audit under the guidance of the State Auditor.

The State Auditor in late September announced auditors had identified \$193 million in underpayments by the five largest healthcare companies for the period between 2010 and 2015. The total amount due from all companies is likely to be much higher, the audit concluded.

"Potential underpayments resulted from insurance companies reporting inconsistently and submitting inconsistent calculations and form OSI not recognizing the resulting errors," the report said.

OSI says it will be issuing an assessment on one company soon and intends to have 50 audits complete by mid-December and 50 more complete by March 1. However, staff did not share its new audit methodology.

## **Medicaid Lowers Cost Estimates**

The Human Services Department has lowered its estimate for the tens of millions of dollars the Medicaid program needs to cover an anticipated shortfall for this fiscal year and growth for FY18.

After adjusting its projections for lower patient use and price trends, the department cut its August estimate of the FY17 shortfall in general fund appropriations by \$9.3 million to just under \$25 million.

For FY18, the department has cut \$37.8 million from its August estimate of program need for new state dollars to \$82.2 million, mostly because of a better-than-expected matching rate from the federal government.

The matching rate is based on a state's economic conditions and, because of a declining economy, federal administrators boosted New Mexico's rate from 71.13 to 72.16, meaning \$72.16 of every \$100 spent on the healthcare program will be covered by the federal govern-

ment. For FY18, that difference reduces the amount of state dollars needed by \$31 million.

The Human Services Department presented a preview of its budget request to the committee in October and is scheduled to present a final request in December.

The department is asking for a total budget of \$7.35 billion in both state and federal dollars for FY18, a 6 percent increase over anticipated spending in FY17. Almost all of the increase is for Medicaid, the department's biggest program. The request with the adjustments seeks about \$1 billion from the state general fund for the program.

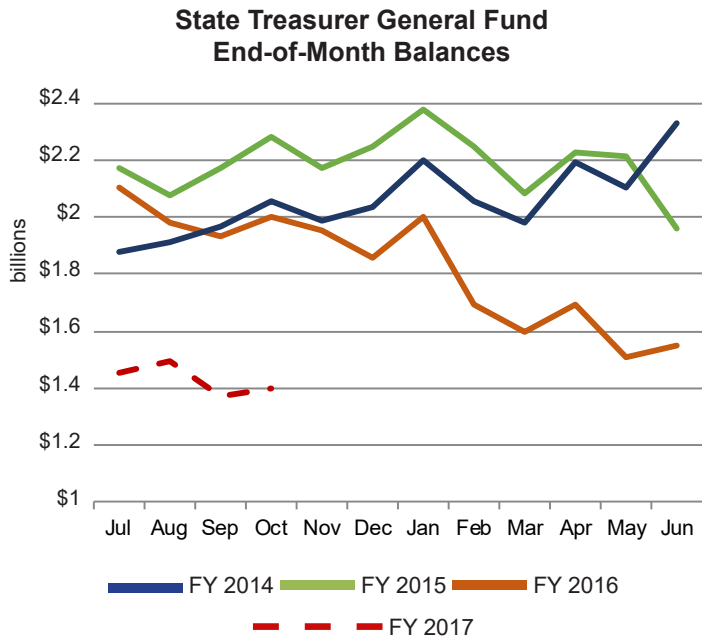
The request for the Temporary Assistance for Needy Families is \$139 million, all from a federal block grant.

While much of that money is for cash assistance, some is used to help clients get high school credentials and training and find work. It is also used for prekindergarten and other child care.

# General Fund Balances Down from Fiscal Year Start

General fund balances held by the State Treasurer rose slightly in October but remained below the \$1.4 billion from the start of the fiscal year and were \$600 million behind the same month a year ago. That 30 percent decline from October 2015 to October 2016 was greater than the declines in all but two months in the last three fiscal years.

On some days in both September in October, the balance fell below \$1 billion to the lowest levels in recent history.



## On the Table

### Economic Forecast Slips

Projected employment growth, personal income growth, and gross state product for FY17 all slipped in the latest New Mexico economic forecast from the University of New Mexico's Bureau of Business and Economic Research. The forecast of real gross state product, a measure of economic activity, dropped from 1.4 percent in the August forecast to 0.4 percent, less than one-fourth the projected national rate. The forecasted employment growth dropped from 0.9 percent to 0.7 percent, and personal income growth fell from 2.9 percent to 2.4 percent.

### NM Expecting \$15.8M in Energy Assistance

The Human Services Department is expecting to get \$15.8 million in federal funds for the Low-Income Home Energy Assistance Program for FY17. The program helps low-income families with their energy bills.

### Auditors Find Problems at Luna College

The Luna Community College has problems with nepotism, hiring practices, transparency, and finances, a Higher Education Department audit has found. The audit reported the college board chair offered the president's job to a candidate without board approval, the board relaxed nepotism policies then hired or promoted family members of the college trustees and president without a competitive application process, and college managers have an inadequate inventory system, placing college assets at risk.

### Water System Fined

The Environment Department has issued a \$163,000 penalty to the Morningstar public drinking water system for providing false information about the quality of the water it provides to 6,000 customers in San Juan County. After receiving complaints of dirty, discolored tap water, state water inspectors visited Morningstar, first in a scheduled visit and then unannounced, and found monitoring data for November 2015 to April 2016 kept at the site did not match data provided to the state. Morningstar then failed to provide monitoring reports for May, June, July and August.

### Transitions

Aimee Barabe, deputy secretary of the Tourism Department, is no longer with the agency.

The governor has appointed Jarod Hofacket of Deming as the new judge in the 6th Judicial District Court

Robert Gorrell, director of the Public School Facilities Authority, has announced he will retire at the end of the fiscal year. He was the founding director of the agency.

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