LFC Newsletter

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Senator John Arthur Smith, Chairman
Representative Patricia Lundstrom, Vice Chairwoman
David Abbey, Director

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From the Chair

Two-Handed

When New Mexico's income exploded because of the oil boom, some called for spending most of the new money on long-neglected needs, but the voices that called for restraint won out. Those who wanted to set aside what seemed like a hefty 25 percent did not lack compassion for the many vulnerable New Mexicans who need help, they simply recognized a boom always ends in a bust. Strong reserves would allow the state to cushion the blow of an economic decline – whether it was caused by a worldwide recession, like in 2008, or an oil industry implosion, like in 2014, or both, like in 2020.

Turns out, 25 percent is a good target.

Because of high reserves, no one panicked when initial estimates indicated revenues would be $440 million short for FY20. Revenues came in stronger than expected, and the state didn't have to pull from reserves after all, but knowing ample reserves were there prevented budget cuts that, in hindsight, would have been unnecessary.

For FY21, strong reserves allowed policymakers to pare back spending, rather than hack away at programs, mitigating the very painful process of cutting New Mexicans off from vital services. Without the reserves, the state would have been forced to cut $700 million even with federal stimulus funds.

Finally, strong reserves made it possible for us to wait for more information before making decisions about FY22.

The decision to set aside a large reserve wasn't made in a vacuum. We budget based on a forecast, and we know there are risks. While perhaps no economist included "worldwide pandemic" in possible scenarios for 2020, recession and oil bust were there. Stress testing the New Mexico forecast showed the potential for revenue to come in $1 billion to $2 billion less than projected.

Economists are often criticized for hedging their bets – President Harry Truman is reported to have demanded a "one-handed economist" because all his economists would say, "On the one hand ... but on the other." But New Mexico should thank its two-handed economic specialists. Without the other hand and the decision to create a large reserve to cover it, New Mexico might be in much worse shape going into economically precarious times.

Senator John Arthur Smith
Chairman

Attendance at the LFC September meeting will be limited to presenters and their staffs, legislators, and legislative staff in accordance with public health orders. The meeting will be streamed at www.nmlegis.gov. Public comment may be made by email to lfc@nmlegis.gov.

Insurance Management Creates Cost Disparities

A trifurcated approach for providing health insurance for public school and certain government employees means total costs vary by thousands of dollars per policy and some workers pay twice as much as others for similar coverage, LFC analysis indicates.

In a brief prepared for a hearing scheduled for September 30, LFC staff reports total costs for similar plans, the employer and employee share together, vary from $6,512 under the Albuquerque Public Schools to $9,189 under New Mexico Public School Insurance Authority.

At the same time, employees in the NMPSIA, which covers public school employees outside APS, pay $3,676 a year in premiums for a plan similar to one that costs $1,500 for the state and local government employees covered by the state General Service Department.

The report notes most NMPSIA-covered employees are in rural areas, where access and a lack of competition make healthcare more expensive.

Employer costs for NMPSIA, Albuquerque Public Schools, and state employees under GSD are all covered, directly or indirectly, by the state.

In addition, the state is subsidizing local governments, which account for one-third of those covered through GSD, because it must absorb shortfalls in premium revenues.

Despite shortfalls in revenue, GSD has not increased member premiums in FY21 or FY22 and is expected to have a $52 million shortfall in FY22.

Staff reports New Mexico is the only state in a seven-state region that varies employee contributions by income. Additionally, New Mexico does not offer a wide range of plans with different costs. Oklahoma pays a set amount for the employer share sufficient to cover the full cost of a basic plan, although not the cost of higher-priced options.

While all state health insurance plan sponsors expect medical and prescriptions to continue to increase, the total cost may fall because of the Covid-19 pandemic A moratorium on elective care and patient reluctance to seek in-person medical care means fewer people are seeking medical care, but that delayed care might cost more in the future. Direct care for Covid-19 has cost APS, GSD, and NMPSIA providers about $4 million so far.

Covid-19 Suppresses Agency Performance

The final FY20 report cards on agency performance showed mixed results, as always, but the Covid-19 pandemic and related closures were behind the decline in performance – or lack of data to measure performance – in many cases.

The final quarterly report cards for the fiscal year, presented to the committee in August, showed proficiency rates on standardized tests, the primary measure of public school performance, were not available because the tests were canceled for the year; child support collections were up 13 percent because the Child Support Enforcement Division intercepted federal stimulus checks to noncustodial parents; and film production, on its way to a record-breaking year, fell short when all productions came to a halt.

LFC analysis also indicates the pandemic played a role in both increased productivity in the Department of Public Safety forensic chemistry unit, which was freed from court appearances, and a 70 percent drop in fourth quarter productivity in the fingerprint unit, which had to do much of its work remotely.

Staff note the "stark variation" in agency performance shows some agencies can operate efficiently even when employees work remotely.

The report cards were accompanied for the first time with, *NMStat*, a summary of performance on key measures in economic well-being, education and child welfare, health and environment, public safety, infrastructure, and government efficiency.

While agency report cards look at agency success in hitting targets for certain measures, with both the targets and measures developed jointly by LFC analysts and the executive, the LFC-created *NMStat* compares New Mexico performance with national standards, focuses on the impact of a program, and reports on whether performance is improving or declining.

Consumer Confidence Key to State Recovery

New Mexico has more restrictive reopening standards than most states and has taken a harder economic hit since the start of the pandemic than the nation as a whole, but addressing root health concerns and targeting employment assistance could better assist a recovery than ordering businesses to reopen, LFC analysis indicates.

A look at national and state economic data shows significantly more merchants are open in states that have reopened, but reopening orders have only a modest impact on economic recovery.

More important to economic recovery, the brief prepared for the September meeting says, is consumer confidence.

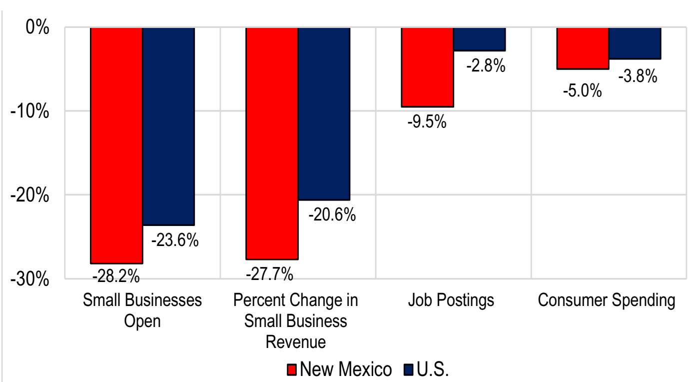
New Mexico, with eight gating criteria for reopening, has more reopening conditions than any other state, and is 37th in the number of Covid-19 cases per population, the brief says.

Staff report a model developed by the Rand Corporation, a research and analysis nonprofit, projects that eliminating all restrictions and interventions could increase gross state income by $300 million, but projected cumulative cases of Covid-19 would increase by nearly 80 percent by December, from about 28.8 thousand now to 52.2 thousand.

The Rand model also indicates allowing businesses – but not schools – to open completely could increase state income by $50 million but increase cases by 6,000 by December.

Staff notes that reopening schools, like mandatory reopening of businesses, is not consistently correlated with the severity of Covid-19 outbreaks.

Percent Change in Key Economic Indicators
January to September 2020



Source: LFC analysis of tracktherecovery.org data.

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On the Table

Counties See Drop in Retail Sales Receipts

Gross receipts tax data indicates the impact on retail sales from the income-boosting federal stimulus funds has started to wane, with retail receipts down in 22 counties in July. While statewide retail receipts were still up from a year ago, July receipts were down 4.2 percent from June. Also in July, matched gross taxable gross receipts showed a 56 percent drop in mining receipts from July 2019, a 2 percent increase in leisure and hospitality receipts from June but a 24 percent decline from July 2019, and the first year-over-year decline in construction receipts, with losses in mining-related construction in Eddy and Lea counties and out-of-state receipts outpacing gains for wind-related construction in Roosevelt and Torrance counties.

Personal Income Tax Collections Up

Despite high unemployment and job losses, personal income tax collections were $156.6 million in July, up $34.9 million from the same month last year, according to preliminary data. Most of the growth was in withholding, up $22.5 million, or 20 percent, from the same month last year.

Children in Eight Counties at Risk

Feeding America, a nonprofit national organization, reports over 40 percent of children in Catron, Luna, McKinley, Cibola, Sierra, Harding, Quay, and Colfax counties are at risk for food insecurity. The New Mexico Association of Food Banks is considering requesting a one-time special appropriation of up to $5 million to provide 3.6 million meals, with 83 percent of the funds to go directly for the purchase of shelf-stable foods and the remaining 17 percent for handling and transportation.

NM Shifts to State Healthcare Exchange

New Mexico is among six states leaving the federal health insurance exchange to run their own marketplaces, which determine eligibility, assist with enrollment, and connect buyers with companies. Evidence suggests state marketplaces attract more consumers, especially young adults, and hold down prices better than the federal exchange.

Transitions

Eric Chenier, former LFC analyst, is now the Administrative Services Division director at the Department of Finance and Administration.

Bryce Pittenger, former director of Behavioral Health Services at the Children, Youth and Families Department, will be the new chief executive officer of the Behavioral Health Collaborative beginning in October.