



LFC Newsletter

A publication of the

Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Jimmie C. Hall, Vice Chairman

David Abbey, Director

Volume 17 Issue 3

September 2016

From the Chairman **Insufficient**

If the fact New Mexico officials are violating state law through deficit spending wasn't enough to prompt action on the budget crisis – and it apparently was not – then the announcement New Mexico might lose its credit rating should be.

We've known for two months we were in the red for the fiscal year that ended June 30 and for a month that the deficit for this fiscal year was going to be significantly bigger than we feared.

But we waited and the crisis deepened. In those two months, the numbers got worse, the no-cuts and no-tax factions dug in, election day got closer and possible fall-out of any vote loomed larger, and the potential for compromise was complicated by the introduction of unrelated issues. Instead of getting closer to a solution, we moved further away.

To be clear, satisfying Moody's Investors Services is going to take more than frantically digging into the couch cushions to find loose change – not that there's much left to find. Moody's is looking for structural change that provides a long-term solution. That means new revenue or significant cuts, although the best approach should include both.

We must avoid more of the "penny-wise, pound-foolish" budgeting that has resulted in such things as saving money on payroll only to spend more on contract labor and overtime.

In addition, the credit-rating agency is looking for a sign New Mexico officials are already working on the problem, noting in their announcement New Mexico's "long track record of taking timely action to address budget shortfalls and to maintain adequate reserves."

The past year has been a lesson on the consequences of avoiding the tax reform necessary to reduce the state's reliance on the oil and gas industry and eliminate ineffective and costly tax incentives. Failing to act quickly and decisively on the deficit is likely to teach us how costly it can be to pay more for construction and other bonds because we let our credit ratings slip.

While it is true that compromise in politics, a necessary component in the democratic process, too often provides the ammunition for mud-slinging in elections, New Mexico's power brokers should stop looking ahead to next year and remember they have a critical job they must do today.

Senator John Arthur Smith
Chairman

Drug Costs Up \$240 Million

New Mexico state agencies spent \$680 million on prescription drugs in FY16 and almost two-thirds of that was spent through Medicaid, an LFC Evaluation Unit report finds.

The Human Services Department, which manages the Medicaid health-care program for the poor and is one of seven state agencies that buy prescription drugs as part of a health insurance plan, accounts for \$424 million of the total spending, although much of that is covered by federal funds.

Since FY14, state spending on drugs has increased 54 percent overall – up \$238 million from \$442 million – while drug expenses have increased 83 percent at the Human Services Department, according to the report scheduled to be presented to the committee at 8:30 a.m. September 28.

The report says the increase in Medicaid drug spending, typical among states that expanded Medicaid under the federal Affordable Care Act, is partly due to having more people in the program and partly due to increased spending on

brand-name drugs and high-priced specialty drugs used on complex conditions and rare diseases. Between 2014 and 2016, Medicaid spent almost \$66 million on drugs for 900 people with hepatitis C.

Although data still must be verified, LFC evaluators found the department, over the last two years, paid the private companies that manage Medicaid care about \$208 million more than the companies actually spent on drugs. Part of the discrepancy is driven by an overestimate of expensive hepatitis C treatment needs built into payment agreements with managed care companies. However, the Medicaid program has provisions in place to recover the funds.

The other six state agencies that pay for drugs as part of an insurance plan spent about \$243 million on drugs in FY16, a little more than a third of the total. Spending in those agencies increased 21 percent between FY14 and FY16.

Another three agencies, the Health, Corrections, and Children, Youth and Families departments, buy prescription drugs for clients in their care.

Lost Learning Time Hits Poor Harder

Affluent parents spend six times as much as poor families on after-school and summer enrichment for their children, a national consultant told the committee in August, making poor children particularly dependent on classroom instruction and at greater risk when learning time is lost.

The testimony from Jeannie Oakes, senior fellow of the Learning Policy Institute and presidential professor emeritus at the University of California Los Angeles, echoed many of the findings in an LFC program evaluation on "time on task" in public schools.

The evaluation, released in May, found a third of instructional days are lost to testing preparation, parent-teacher conferences, teacher and student absences, and other interruptions, but also found children in high poverty schools lose more time than other students.

Schools with large populations of students living in poverty lose five days a year to "breakfast after the bell," a program aimed at ensuring low-income children eat before the school day starts, an LFC survey found. The breakfast pro-

gram accounts for almost no lost time in schools with fewer poor children.

In addition, students in poor schools spend more time preparing for tests and more time on remedial lessons, and Public Education Department data shows high poverty schools have higher teacher and student absences.

Further, English learners spend more time on state-mandated assessments and more time out of the classroom than English speakers.

Oakes, in her August presentation, said enrichment outside the classroom and additional time wealthy parents can spend with their children add up to a 6,000 hour learning gap between the poorest and wealthiest students by the time a child is 6 years old.

Oakes and LFC staff both conclude New Mexico should consider expanding the extended school year program K-3 Plus, now used in low-performing schools, to more schools and more grades, more closely monitor school calendars and school district use of funding for at-risk students, and invest in other programs that increase instructional time.

Three-Quarter Billion in Capital Outlay Unspent

About \$773 million for 2,386 New Mexico state-funded capital outlay projects was outstanding at the end of June, including \$116.5 million earmarked for water, tribal projects, and the communities called colonias that lack basic services.

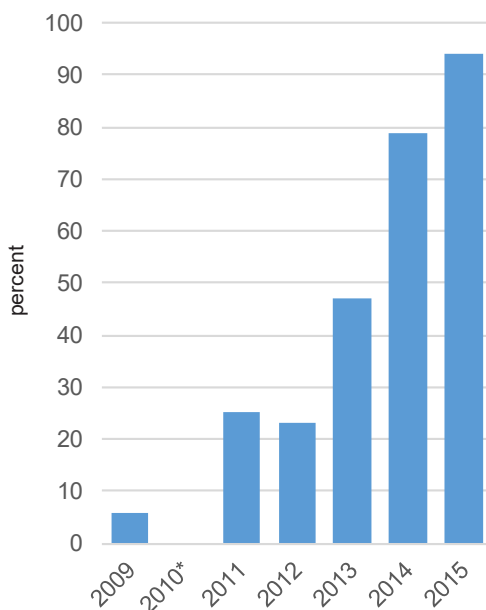
The Legislative Finance Committee quarterly review of Capital Outlay Monitoring System data generated by the Department of Finance and Administration found 203 projects and \$82 million in capital outlay funds were either reverted or expended during the final quarter of the 2016 fiscal year.

Just 6 percent of capital outlay funds authorized in 2015 had been spent as of the end of June and just 21 percent of those authorized in 2014. About half of the funding for 2013 was for inactive projects, while a quarter of the 2012 and 2011 funding was for inactive projects.

For projects authorized for \$1 million or more, \$606 million – 78 percent of all \$1 million-plus projects authorized since 2009 – was outstanding.

The figures include funding from the general fund, severance tax bonds, and general obligation bonds. They do not include about \$374.2 million in outstanding supplemental severance tax bonds for public schools.

**Outstanding Capital Outlay Projects
All Fund Sources**



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Published monthly in the interim by the Legislative Finance Committee.

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On the Table

Agencies Ask for 5.4 Percent Increase

State agencies, excluding public schools and higher education, are asking for an overall 5.4 percent increase in general fund spending over FY17, although almost all of the increase would be for the judiciary and the Human Services Department, which manages Medicaid. The Human Services Department is asking for almost \$120 million of the total of \$143 million in new spending, an 11.4 percent increase mostly due to Medicaid, and the judiciary – including the courts, district attorneys, and public defender – is asking for \$15 million in new spending, or an increase of 5.4 percent. Without those two requests, the average increase is 0.7 percent. Budget requests for most agencies were submitted September 1, although some agencies are expected to submit amended requests for lower amounts. Education agency requests are due November 1 and December 1.

NM To Get \$70M From Federal Oil Lease

New Mexico will receive an estimated \$69.9 million in revenue from a U.S. Bureau of Land Management oil and natural gas lease sale as its share of the bonus paid to win the bid for the lease. Despite the plunge in oil prices, the lease of a parcel in the Permian Basin in southeast New Mexico to Alabama-based Energen set records for the per-acre price and the price for a single parcel.

NM ITT Students Can Continue Education

The 390 New Mexico students affected by the nationwide closure of ITT Technical Institute might have the option of continuing their education with at least one public New Mexico college that has expressed interest in accepting ITT credits, the Higher Education Department reports, in addition to the 10 private schools that had existing credit-transfer agreements with ITT. The for-profit ITT announced it would shut down its 130 schools after the federal Education Department barred it from receiving federal financial aid, including loans and Pell Grants. ITT students who choose not to transfer credits can have their ITT-connected loans forgiven.

ENMU Enrollment At Record High

Eastern New Mexico University reports fall 2016 enrollment is 6,014, the highest in the college's history. First-time freshmen enrollment is up 2 percent, while graduate enrollment climbed by 4 percent. Overall, enrollment at New Mexico colleges and universities was down 7 percent between spring 2015 and spring 2017.

Transitions

Sam Shumway has resigned as Public Education Department chief of staff. Robert Mead, deputy chief public defender and administrative services director, has resigned to become head librarian at the Washington State Law Library. Mead served as N.M. Supreme Court law librarian before joining the Law Offices of the Public Defender.