LFC Newsletter

A publication of the **Legislative Finance Committee**
Representative Luciano "Lucky" Varela, Chairman
Senator John Arthur Smith, Vice Chairman
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From the Chairman

Whew!

By the time this newsletter comes out, Congress will have probably completed action on another stimulus package for frantic state governments. That means Medicaid managers can relax a little, and New Mexico's public school districts, which had been announcing increasingly desperate proposals for cutting spending for the current year, can now breathe a sigh of relief. This year at least, the worst has already happened.

But there's always next year.

Even with budget cuts and projected revenue growth of $286 million, the state still faces an expected shortfall of almost a quarter of a billion dollars in FY12 because of the need to replace temporary federal stimulus funds that are supporting programs this year.

Once again, the state must cut spending, raise revenues, or both. And it's getting harder and harder to find places to cut. Restructuring, a high-priority focus of interim efforts, could result in some savings, but we also must continue to look hard at tax breaks and loopholes and state-administered fees for additional revenues. We must scrutinize how much state agencies pay in rent and spend on outside contracts.

It is, perhaps, inadvisable to talk about cutting tax breaks and programs both during an election year. But we must be realistic. Next year is just around the corner.

Representative Luciano "Lucky" Varela
Chairman

$1 Billion in Capital Unspent

More than $1 billion in capital outlay funding approved since 2005 remains unspent, about a third of the total authorized, LFC analysis shows.

Although $325 million of the $1 billion is for projects approved in the last two years, another $700 million is for projects more than two years old, with some $400 million of that from projects approved in 2008. Eighty percent of the funding for the 673 projects initially funded in 2008 is unspent.

Slightly more than half of the outstanding capital outlay is for 284 projects funded at $1 million or more. Staff testified at a hearing in July that 60 percent of those projects are on schedule and another 30 percent are active. However, 30 projects are idle.

LFC analysts highlighted several projects in their report, including the $6 million State Police district office in Las Cruces, initially funded in 2006. The existing building, designed for 12 staff members, is the workplace for 26 employees. The "holding facility" for suspected offenders is three chairs next to a horizontal bar. The suspects are handcuffed to the bar.

The original site picked for the new facility was in a drainage system and far from roads and utility lines. An alternative site was picked and construction is expected to begin this fall; however, additional funds were appropriated this year to build a communications tower – the new site is too far from the existing tower – and more money will be needed to furnish and equip the office.

The hearing brief also noted delays in the completion of the Lordsburg port of entry, initially funded in 2005. Officers for the Motor Transportation Division have operated the port of entry out of a portable building since 1993, when a truck driver being chased by Arizona police crashed into the existing building.

Construction on the $11.5 million project, which includes space for indoor truck inspections and drug seizure and evidence rooms as well as electronic license plate readers, is expected to be complete in October.

More money will be needed for the highway on and off ramps to the facility. Project managers did not anticipate road improvements needed to handle the heavy truck traffic.

Capital outlay is funded through voter-approved general obligation bonds, paid off with property taxes; severance tax bonds, backed with tax revenue from oil and mining activity; and non-recurring general fund revenue.

Early projections indicate the state will have no non-recurring money available for capital outlay this year. Severance tax bonding capacity is expected to be $200 million.

Healthcare Reform Has Little Impact on NM High-Risk Pool

New Mexico is already providing the piece of healthcare reform aimed at kick-starting insurance coverage for high-risk patients, and the federal legislation will do little to expand coverage or lower the state's $50 million tab.

New Mexico has had a medical insurance pool since 1987 for those who cannot get insurance or can only get it at a very high cost – a population targeted by a provision of the federal Patient Protection and Affordable Care Act. The federal legislation authorizes and funds similar pools to provide coverage for high-risk patients until the law prohibiting insurance companies from excluding high-risk patients goes into effect in 2014.

However, testimony at a committee hearing in July indicated the federal legislation will only moderately expand the number of high-risk patients getting coverage, from 9,000 to 10,000. In addition, the federal program, funded with $37 million federal dollars over three years, will do nothing to lower the state's current costs for running the state-created program.

Under the existing pool program, those with pre-existing conditions who have been denied affordable coverage can pay a capped premium to enter the nonprofit, quasi-governmental pool. The state subsidizes the premium on a sliding scale for those earning up to 400 percent of the federal poverty level, about $43,320 a year for an individual.

Premiums make up about 25 percent of the pool's revenue. The difference between revenue from premiums and claims is collected through an assessment charged to insurance companies. To offset the assessments, the insurers receive a 50 percent to 75 percent credit of the assessed amount for the premium tax they owe to the state, a credit that will add up to $52 million in foregone income in 2010 and likely to double by 2013.

Under the federal program, people must be uninsured for six months before signing up for the federal pool – a restriction that prevents members of the existing state pool from switching to the federal pool. In addition, the federal rules allow higher premiums than currently in place in the state program. Rather than raise the premiums for those already in the state-funded pool, the state plans to subsidize premiums for those in the federally funded pool.

NM Healthcare Costs Increase 53% since FY06

Total spending on healthcare benefits for public employees and retirees has increased from $619 million in FY06 to a projected $947 million in FY11.

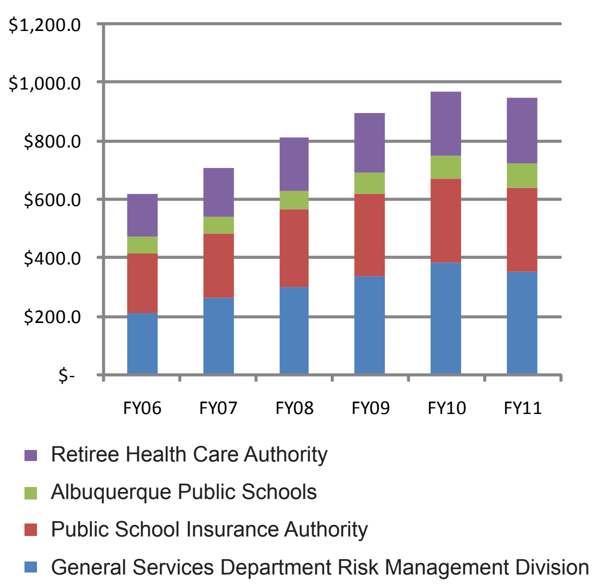
Among the seven agencies that manage benefits, the largest increase has been at the Risk Management Division of the General Services Department, which manages the healthcare plans for state employees. Spending in that agency has increased from $213 million in FY06 to $353 million in FY11, or 66 percent.

The smallest increase has been in the Public School Insurance Authority, which provides coverage to all public school districts in the state except the Albuquerque Public Schools. Spending on benefits by the authority, which is self-insured, has increased 42 percent since FY06, from $202 million to $286 million.

Employees covered by the authority pay the highest monthly premiums of all active state employees.

State Spending on Healthcare Benefits

(in millions)



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On the Table

Welfare Running Out of Money

The Human Service Department is predicting a $26 million to $31 million shortfall for the fiscal year. The shortfall is the result of an $18 million overestimate of the carry-over from last year, increased enrollment in the cash assistance Temporary Assistance for Needy Families Program, and slightly higher-than-expected administrative costs for replacing the caseload computer system. The estimate also reflects the lack of a federal block grant the department expects but has not received.

The department is considering cutting cash assistance benefits by 15 percent to 20 percent and reducing transfers to other agencies, including money for domestic violence, pre-kindergarten, and childcare programs at the Children, Youth and Families Department.

Juvenile Population Drops Again

The average daily population in the state's juvenile detention facilities dropped for the fourth year in a row in FY10. The average population in secure facilities was 212, compared with 270 in FY06.

NMSU Business Center Gets $1.5 Million

The U.S. Economic Development Administration has awarded the New Mexico State University Arrowhead Center a $1.5 million grant for infrastructure improvements to the Arrowhead Business and Research Park. The grant will allow the university to finish the park's wastewater system, install street lighting, and conduct an engineering study.

Diesel Leak Costs State Half Million So Far

The New Mexico Environment Department has contracted with Brown Environmental, Inc., to clean up a diesel spill at the Love's Truck Stop in Milan, a project that has cost $575,000 so far. The leak, estimated at 10,000 gallons, was found during an annual test. New Mexico has about 1,000 leaking underground petroleum tanks. Property owners are liable for the first $10,000 of clean up costs.

NM Personal Care Costs Among Highest

New Mexico spent more per person for Medicaid-funded personal care services than most states in 2006. New Mexico's cost of $15,965 a person per year was the fifth highest among the 32 states that include the services in their Medicaid programs. The cost of the New Mexico personal care program, designed to allow elderly clients to receive care in their homes instead of a nursing home, has grown 178 percent since the state added the services in 2000. The total cost in FY08 was $218.5 million. The state is considering changes to the program that would reduce costs.

Health Facilities Overspend by $1 Million

The Health Department's Facilities Management Program overspent its general fund appropriation by $962,000 in FY10. The department is working on collecting payments from other payers to offset the overspending.

Transitions

LFC analyst Paul Aguilar has been elected to the National Conference of State Legislatures executive committee.

Kyle Burns, LFC analyst, has resigned to enroll in an master's degree program in San Francisco. Jacob Candelaria of the evaluation unit has taken a job with the Center for Law and Poverty.

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