



# THE UNIVERSITY of NEW MEXICO

## UNM January 27<sup>th</sup>, 2010 Legislative Briefing

- Most recent economic consensus reporting predicts a \$900 million shortfall between FY10 and FY 11
- FY 11 Solvency
  - LFC Recommendation:
    - 7.6% cut from FY10 original base and 3.2% for UNM from FY10 Special Session
    - Tuition Credit (6% in-state, 15% out-of-state)
    - Reduces BR & R reduced by 50%
    - Tuition Waivers reduced by 5%
    - Special Projects reduced on average by 8.8%
    - Full Funding Formula \$10,078,759
  - DFA Recommendation:
    - 3% cuts across the board with full flexibility to FY10 post solvency
  - Difference between LFC and DFA is \$2.6 million
    - 4-Years assume 104% of cuts
    - \$200 million gap
      - ❖ LFC recommends a possible 2% salary reduction to help fill gap
    - Both assume revenue enhancement legislation to produce \$200 million in new revenue
- January 26<sup>th</sup>, 2010 – HAFC Hearings for higher education – (create Higher Ed subcommittee)
  - UNM's
- HB 2 General Fund Appropriations Act
  - House Appropriations and Finance Committee (HAFC)
    - Monday, February 1, FINAL REVIEW – General Appropriation Act of 2010
    - Tuesday, February 2, FINAL PASSAGE – General Appropriation Act of 2010
- Capital Outlay
  - SB 113 General Obligation Bond Projects (GOB) (Cisneros)
    - UNM Supports DFA recommendation
      - ❖ UNM accounts for 48% of the State's total FTE equivalent student enrollment and accounts for 32.7% of the total square footage of teaching facilities for higher ed institutions. We request our GOB funding be at or above 32.7%.
  - SB 182 CAPITAL OUTLAY REVERSIONS FOR SOLVENCY (Cisneros)
- January 25<sup>th</sup>, 2010 – UNM Day at the Capitol and Alumni Legislator Reception-
  - Great Success!
- February 3<sup>rd</sup>, deadline for introduction of legislation
- February 18<sup>th</sup>, Session ends (noon)
- February 3<sup>rd</sup>, Next Legislative Briefing
- For legislative updates, bill tracking and committee agendas please go to UNM Office of Government and Community Relations website at <http://govrel.unm.edu/>

TABLE 4

**GENERAL FUND FINANCIAL SUMMARY - RESERVE DETAIL**  
(Dollars in Millions)

	Preliminary FY2009	Estimated FY2010	Estimated FY2011
<b>OPERATING RESERVE</b>			
Beginning balance	\$ 247.2	\$ 37.4	\$ (249.5)
BOF Emergency Appropriations	(1.4)	(2.3)	-
Transfers to appropriation account:			
<i>HB6</i>	(225.0)	-	-
Ending balance	37.4	(249.5)	(249.7)
<i>Percent of previous fiscal year's recurring appropriations</i>	4.89%	-4.13%	-4.63%
<b>APPROPRIATION CONTINGENCY FUND</b>			
Beginning balance (2)	27.5	11.5	24.1
Disaster allotments	(11.2)	(11.0)	(11.0)
Other Appropriations	(13.1)	(1.4)	-
Transfers in (Laws 2009, Ch. 124 (HB2))	-	25.0	-
Revenue and reversions	8.3	-	-
Ending Balance	11.5	24.1	13.1
<b>Education Lock Box</b>			
Beginning balance	69.1	23.0	59.1
Appropriations	(10.3)	(3.9)	-
Transfers in	-	40.0	-
<i>Laws 2009, Ch. 3 (SB79)</i>	(35.8)	-	-
Ending balance	23.0	59.1	59.1
<b>STATE SUPPORT FUND</b>			
Ending balance	1.0	1.0	1.0
<b>TOBACCO PERMANENT FUND</b>			
Beginning balance	135.9	121.0	130.9
Transfers in	48.9	45.5	44.6
Appropriation to tobacco settlement program fund	(24.5)	(22.8)	(22.3)
Gains/Losses	(14.9)	9.9	10.7
<i>Laws 2009, Ch. 3 (SB79)</i>	(24.5)	(22.8)	-
<i>LFC staff recommendation</i>			(22.3)
Ending balance	121.0	130.9	141.6
<b>TAX STABILIZATION RESERVE</b>			
Beginning balance	254.4	198.7	83.7
Transfers in	-	-	-
<i>Laws 2009, Ch. 3 (SB79)</i>	(55.7)	-	-
<i>HB6</i>	-	(115.0)	-
Transfers to Taxpayers Dividend Fund	-	-	-
Ending balance	198.7	83.7	83.7
<i>Percent of previous fiscal year's recurring appropriations</i>	5.0%	1.4%	1.5%
<b>GENERAL FUND ENDING BALANCES</b>	<b>\$ 392.5</b>	<b>\$ 49.3</b>	<b>\$ 48.8</b>
<i>Percent of Recurring Appropriations</i>	6.5%	0.9%	0.9%

TABLE 4

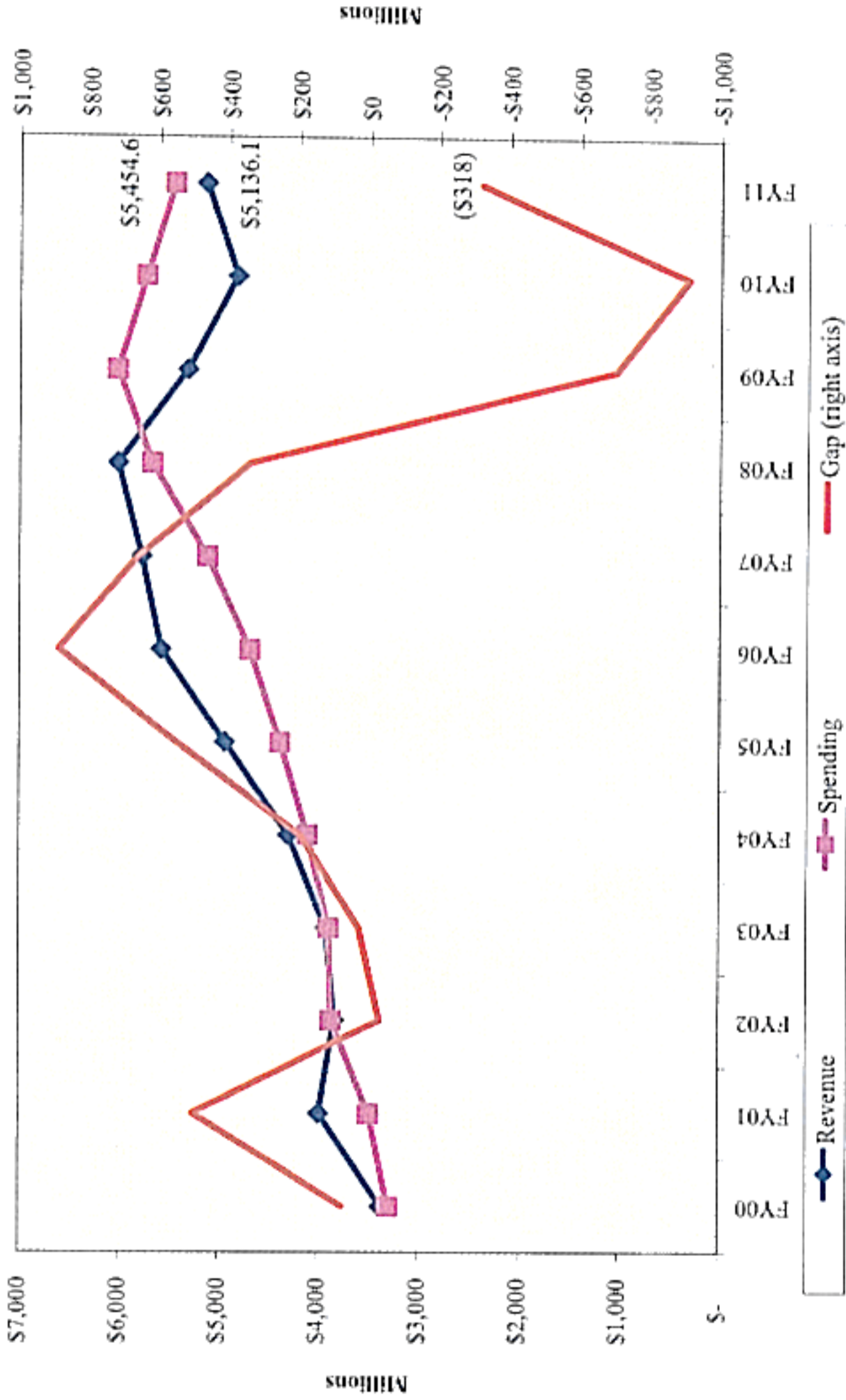
**GENERAL FUND FINANCIAL SUMMARY**  
**LFC Staff Recommendation**  
**(Dollars in Millions)**

APPROPRIATION ACCOUNT	Preliminary FY2009	Estimated FY2010	Estimated FY2011
<b>REVENUE</b>			
Recurring Revenue			
December 2009 Consensus Update	\$ 5,319.6	\$ 4,823.3	\$ 5,120.8
Freeze Fire Protection reversion & TRD Admin. Fee			15.3
<b>Total Recurring Revenue</b>	<b>5,319.6</b>	<b>4,823.3</b>	<b>5,136.1</b>
Nonrecurring Revenue			
October 2009 Revenue Estimate*	425.5	-	-
SB 29 capital outlay swaps**	-	130.0	-
Fund transfers	-	108.3	-
2009 Special Session Reserve Transfers	225.0	115.0	-
<b>Total Non-Recurring Revenue</b>	<b>650.5</b>	<b>353.3</b>	<b>-</b>
<b>TOTAL REVENUE</b>	<b>\$ 5,970.1</b>	<b>\$ 5,176.6</b>	<b>\$ 5,136.1</b>
<b>APPROPRIATIONS</b>			
Recurring Appropriations			
Recurring Appropriations - General	\$ 6,035.1	\$ 5,487.6	\$ 5,336.4
Recurring Appropriations - 2010 Session Feed Bill	-	5.1	-
Recurring Solvency Savings	-	(93.6)	-
<b>Total Recurring Appropriations</b>	<b>6,035.1</b>	<b>5,399.2</b>	<b>5,336.4</b>
Nonrecurring Appropriations			
2009 Fund Transfers	(81.5)	5.7	-
Nonrecurring Solvency Savings	-	100.0	-
	-	(43.7)	-
<b>Total Nonrecurring Appropriations</b>	<b>(81.5)</b>	<b>62.0</b>	<b>-</b>
<b>TOTAL APPROPRIATIONS</b>	<b>\$ 5,953.6</b>	<b>\$ 5,461.1</b>	<b>\$ 5,336.4</b>
Transfer to Reserves	16.5	(284.5)	(200.3)
Additional measures -- to be determined	-	-	200.0 ←
<b>GENERAL FUND RESERVES</b>			
Beginning Balances	\$ 735.0	\$ 392.5	\$ 49.3
Transfers in from Appropriations Account	16.5	(284.5)	(0.3)
Revenue and Reversions	42.3	120.4	55.3
Appropriations, expenditures and transfers out	(401.3)	(179.1)	(55.6)
<b>Ending Balances*</b>	<b>\$ 392.5</b>	<b>\$ 49.3</b>	<b>\$ 48.8</b>
Reserves as a Percent of Recurring Appropriations	6.5%	0.9%	0.9%

\* Excludes potential non-recurring reversions due to Executive Order 2009-044 which directs agencies to reduce expenditures by \$79 million. Also excludes potential \$8.1 million savings from furloughs. If these savings are realized, FY10-ending reserves increase to 2.5% of recurring appropriations after solvency.

\*\*Total voided general fund of \$136.09 million reduced by \$6.09 million per DFA calculation of amounts that can't be voided.

### General Fund Recurring Revenue and Appropriations plus Federal Funds and Other State Funds Supplanting General Fund



- Revenue growth from FY03 to FY11 = 31% (3.4%/year)
- Expenditure growth FY03-FY10 including temporary funds = 47% (5.7%/yr)
- FY10 gap = \$910 million
- FY11 "New Money" = -\$149 million
- Need to replace up to \$288 million in federal money

1/4/10

## **Fiscal Outlook and 2010 LFC Recommendation for FY11**

### **Revenue and Economic Outlook**

From FY08 to FY10 General Fund recurring revenue declined 20 percent, or \$1.2 billion, to \$4.8 billion. New Mexico lost about 40,000 jobs, or 6 percent of the private workforce, and natural gas prices dropped to about \$4 per thousand cubic feet (mcf). The consensus forecast is for around a 2 percent annual rate growth to begin in the spring but with the previous peak not reached until 2012. For FY11 projected General Fund revenue growth is approximately \$300 million, or 6 percent, with significant risks, including unsustainable federal deficits and excess natural gas supplies.

### **New Money**

FY11 projected general fund revenue (\$5.12 billion) is \$149 million less than FY10 appropriations adjusted for both solvency and the executive order and furloughs (\$5.27 billion). In addition, the LFC recommendation assumes federal funds available to supplement general fund for education and Medicaid decline \$288 million from the FY10 level. So, approximately \$437 million (combination of cuts or revenues) is needed for a "flat budget."

### **General Fund Reserves and One Time Appropriations**

Projected general fund reserves ending June 30, 2010, are approximately \$50 million, or 0.9 percent of appropriations. This could rise to 2.5 percent through approximately \$79 million savings directed by Executive Order 2009-44.

General fund recommendations for special or supplemental appropriations are nil. LFC and DFA staff are collaborating to develop a recommendation for voiding capital projects that are inactive to boost reserves.

### **Fiscal Year 2011 Appropriation Recommendation**

The LFC FY11 budget recommendation of \$5.34 billion cuts spending by \$151.3 million from the pre-solvency FY10 operating budget level of \$5.49 billion. The recommendation also reflects a decline in use of federal stimulus funds for Medicaid and public education of almost \$300 million. The LFC FY11 recommendation is \$200 million greater than projected revenue. While this gap may be reduced by at least \$83 million if the federal government enacts a six-month extension of Medicaid stimulus funding scheduled to end December 31, 2010, the full Legislature must identify additional appropriation cuts or revenue enhancements to balance the budget in FY11.

To achieve the spending reductions and avoid across-the-board cuts to agency budgets, the recommendation prioritizes existing programs that demonstrate efficiency and effectiveness and avoid duplication. State employee positions are reduced by 955 mostly through the elimination of nonessential personnel such as public information officers, exempt administrators, and positions that have been vacant for long periods of time or due to the executive hiring freeze.

The recommendation reduces contractual services spending, defers purchases of computers, vehicles and capital outlay items, and maximizes use of agency cash balances.

The FY11 budget recommendations are summarized below.

### **Public Schools**

The committee recommends \$2.4 billion for public school support and related appropriations, an increase of \$128 million over the FY10 adjusted appropriation. This includes \$198.7 million to replace federal fiscal stabilization funds used in the FY10 appropriation and about half of the federal fiscal stabilization funds used in the FY10 solvency bill. The committee recommends the Legislature adopt changes to the funding formula to advance equity and efficiency. Changes with savings follow: changing eligibility requirements for small-school adjustments (\$29.3 million), changing eligibility requirement for small-district adjustments (\$5.3 million), removing related services staff from the

million), removing related services staff from the training and experience factor in the formula (\$18 million), and reducing the unit multiplier in the funding formula for 12<sup>th</sup> grade students (\$15.9 million).

For FY11, public school support and related appropriations would account for 45.1 percent of total appropriations from the general fund.

For FY10 and FY11, school districts will receive approximately \$90 million in extra federal Title I funding and \$95 million in extra special education funding from the American Recovery and Reinvestment Act that can be used to makeup a large part of the reductions to general fund appropriations.

### **Higher Education**

The committee recommends a total of \$788.4 million recurring general fund appropriations for higher education, including the Higher Education Department and special schools, which represents a decrease of \$64.8 million, or 7.6 percent, from the FY10 original appropriation. The recommendation starts with formula funding for workload at a cost of \$21.2 million. The cost of workload growth is the largest since FY05. The recommendation takes growth credit for a tuition increase of 6 percent for resident students and 15 percent for nonresident students, which reduces general fund appropriations to higher education institutions by \$13.3 million and \$3 million, respectively. In addition, the recommendation includes an additional tuition increase for in-state students at two-year colleges, which reduces general fund appropriations by \$4.2 million. In contrast, student financial aid funding through the Higher Education Department is one of the few areas in the whole budget held flat.

The higher education recommendation reduces building renewal and replacement funding by 50 percent; assumes productivity savings of \$10.4 million, targeted to administrative and overhead operating; assumes a 5 percent reduction in tuition waivers at all of the state's post secondary institutions for general fund savings of \$3 million; and includes a \$10.4 million reduction in budgets for instruction and general costs, pro-rated based on each institutions share of the institution and general budget. This approach treats all students the same, regardless of the enrollment growth or the timing of enrollment growth at the state's colleges and universities. Also, general fund appropriations for instruction and general purposes are supplanted with federal stimulus funds of \$10.9 million. Finally, the recommendation reduces research and public service projects outside the funding formula by \$12.6 million from the FY10 original appropriations.

### **Human Services Department**

The committee recommends total Human Service Department appropriations of \$4.48 billion for FY11, a 4.9 percent increase over FY10. The recommendation from the general fund of \$787.2 million is a 9.9 percent increase from FY10. The increase is necessary to replace lapsing federal funds in Medicaid from the enhanced federal matching (FMAP) rate. The department will have to implement administrative and nonessential program saving in FY11 to continue the most critical functions – Medicaid healthcare coverage, cash assistance and support services for families in the Temporary Assistance for Needy Families (TANF) program, substance abuse and mental health services, and helping parents get child support payments.

### **Department of Health**

The committee recommends total expenditures of \$522 million, with revenues of \$270.7 million from the general fund. This is a decrease of \$15.3 million in appropriations from the general fund, or 5.2 percent. The recommendation eliminated 126 FTE vacant for more than one year and reduces contracts by 7 percent.

### **Children, Youth and Families Department**

The committee recommends \$382.4 million for the Children, Youth and Families Department. The total includes \$189.5 million from the general fund, an \$11.1 million, or 5.5 percent, decrease from the FY10 operating budget and a \$5.1 million, or 2.6 percent, decrease from FY10 executive order budget adjustments. The committee recommends general fund decreases of \$1.5 million in personal services and employee benefits, \$8.3 million in contractual services, and \$1.9 million in childcare assistance. The recommendation includes \$1 million from the domestic violence offender treatment and intervention fund for domestic violence programs. Also, the committee recommends TANF funding of \$1.5 million for pre-kindergarten programs, \$2 million for domestic violence programs, and \$7.2 million for childcare assistance.

**Public Safety** The recommendation for the New Mexico Corrections Department (NMCD) is \$271.7 million from the general fund, a \$12.9 million, or 4.5 percent, decrease from the FY10 operating budget. The reduction is primarily due to a proposed decrease in the cost of the private prison and medical contracts. The NMCD FY11 request estimates an average daily male inmate population of 5,983, an increase of 1 percent over FY10.

The FY11 LFC recommendation from the general fund for the Department of Public Safety (DPS) totals \$91 million, a \$3.7 million, or 4.1 percent, decrease from the FY10 operating budget. The total agency recommendation is 6.9 percent lower than FY10, principally due to lower recommendations from the general fund. DPS has extremely high vacancy rates, particularly for certified law enforcement officers and forensic scientist positions.

**Measures To Close Funding Gap** The LFC appropriation recommendation requires additional measures to close the gap between appropriations and revenue. Specific measures that provide \$95 million of reductions follow.

**Compensation Reduction.** A 2 percent salary reduction for all public employees, including those in public schools and higher education, is recommended to save \$76.2 million. The \$41.5 million reduction for public schools would be implemented through a reduction to the state equalization guarantee and distributed through an adjustment to the unit value. Districts should implement this savings by eliminating three professional development days outside the 180-day instructional calendar. For higher education, the 2 percent compensation reduction of \$18 million is applied to instruction and general appropriations as well as all line-item appropriations. The implementation of this salary reduction is at the discretion of the governing board of each institution.

To reduce the appropriation for state employee salaries by 2 percent, a total of \$16.8 million, options include reducing the number of exempt employees, assuming higher agency vacancy rates, implementing furloughs, eliminating paid holidays, reducing the accrual rate for annual leave, reducing salaries perhaps linked to income levels, or swapping between the employee and employer share of retirement contributions.

**Eliminate Return to Work.** Return-to-work (RTW) programs allow a retiree to return as an employee without suspension of a state pension. House Bill 616 would have phased out the RTW program for state employees but it was vetoed. Laws 2009, Chapter 288, extended the RTW program for educators to 2022. Statutes for both the Public Employee Retirement Association and the Educational Retirement Board require the employer pay the employee's portion of pension contributions for RTW employees. Ending the RTW programs without grandfathering current RTW employees would generate approximately \$7 million general fund savings in FY11.

**Adjust Vision and Dental Benefits.** The recommendation assumes a 50 percent reduction in the employer contribution toward the dental and vision components benefit for all public employees. For FY11 this would generate \$10 million for the general fund.

**Measures to Be Determined.** Reflecting significant uncertainty regarding the general fund revenue outlook, the status of executive initiatives to reduce spending, the course of additional federal stimulus initiatives, and executive and legislative tax policy studies, the LFC recommendation leaves \$200 million of budget balancing measures to be determined.

Most promising is the prospect that the enhanced federal Medicaid assistance percentage enacted in the 2009 American Recovery and Reinvestment Act will be extended at least six months. An official of the National Conference of State Legislatures indicates "confidence" of this extension. This would allow reversing the \$83 million increase in general fund appropriations to the Human Services and Health Departments.

**Reductions in Spending and Solvency Measures - \$509.7 million**

The Executive is recommending an FY11 budget that includes:

- Carrying forward budget reductions made in HB17/33 and the expenditure reductions mandated by EO 2009-44 - \$218 million in savings
- Additional 3% reduction in spending - \$158.1 million in savings

**Executive Recommendation Summary**

(Dollars in Thousands)

	FY10 Original Operating	Adjusted Budget After HB17/33 & EO	FY11 Recomm	Dollar Change	Percent Change
Legislative	19,974.6	18,970.9	18,456.7	(514.2)	-2.7%
Judicial	210,293.1	206,084.6	204,127.3	(1,957.3)	-0.9%
General Control	198,851.3	190,496.9	187,488.1	(3,008.8)	-1.6%
Commerce and Industry	58,209.3	55,538.7	54,816.9	(721.8)	-1.3%
Agriculture, Energy and Natural Resources	82,100.2	78,134.2	77,781.0	(353.2)	-0.5%
Health, Hospitals and Human Services	1,297,961.2	1,249,719.9	1,245,742.9	(3,977.0)	-0.3%
Medicaid, Replace Nonrecurring Tobacco Funds			29,000.0	29,000.0	0.0*
Public Safety	393,287.1	378,245.6	385,419.6	7,174.0	1.9%
Transportation	-	-	-	-	0.0%
Other Education	48,226.2	45,649.8	45,490.0	(159.8)	-0.4%
Higher Education	853,195.2	816,389.9	837,709.0	21,319.1	2.6%
Public School Support	2,325,584.3	2,230,429.2	2,278,128.8	47,699.6	2.1%
Replace Nonrecurring ARRA Funds			186,164.0	186,164.0	0.0*
Ethics Commission	-	-	200.0	200.0	0.0%
Other:					
DoIT Telecommunication Rate Reductions	-	-	(500.0)	(500.0)	-
GSD Risk Insurance Premium Reductions	-	-	(1,978.6)	(1,978.6)	-
DoIT HRMS Rate Reductions	-	-	(366.8)	(366.8)	-
Commission on Government Efficiency	-	-	(25,000.0)	(25,000.0)	-
Additional Three Percent	-	-	(158,089.8)	(158,089.8)	-
Other	-	-	(7,967.4)	(7,967.4)	-
Total Other	-	-	(193,902.6)	(193,902.6)	-
<b>Grand Total</b>	<b>5,487,682.5</b>	<b>5,269,659.7</b>	<b>5,356,621.7</b>	<b>86,962.0</b>	<b>1.7%</b>

\*Including the \$29.0 million in GF recommended to replace nonrecurring Tobacco Settlement funds, the total GF increase for Health, Hospitals and Human Services is 2.0%.

\* Including the \$186.2 million in GF recommended to replace nonrecurring ARRA funds, the total GF increase for public school support is 10.5%.



- **Committee on Government Efficiency Recommendations - \$25 million in savings**
  - Later this week the Governor's Commission on Government Efficiency will release findings for multi-year government restructuring efforts, as well as specific recommendations for changes that can be implemented in the 2010 Regular Session to produce concrete savings in FY11.
  - These recommendations include strategies such as consolidating cabinet agencies and programs, and reductions in boards and commissions.
  - Some of the Committee's recommendations will be proposed by the Executive as legislation during the 2010 session to help close the budget gap.
- **Restructuring Medicaid Services – \$67.5 million in savings**
  - HSD and DOH are currently exploring cost containment strategies to make the Medicaid and DD waiver programs more fiscally and administratively efficient.
  - HSD issued a concept paper and is leading public discussions on several options for restructuring Medicaid services.
  - The Executive recommendation for Medicaid reflects a net increase of \$32.9 million in General Fund for Medicaid, which includes:
    - \$29.0 million increase to replace Tobacco Settlement funds
    - \$67.6 million increase to accommodate enrollment growth (assumes temporary FMAP extension through June 30, 2011)
    - \$3.8 million from tobacco revenue
    - (\$67.5) million in anticipated savings from cost containment measures
- **Delay increase in ERB contribution - \$18.7 million in savings**
  - In 2005, a law was enacted that incrementally increased employer and employee contributions to ERB over a 7-year period (FY06-FY12). The implementation of the employee contribution increases was completed in FY09, but the implementation of the employer increases is not scheduled to be completed until FY12.
  - In the 2009 Special Session, the Executive recommended delaying the incremental increase of the employer contribution for FY10 and FY11, to FY12 and FY13, with the final year of implementation in FY14.
  - The current proposal would delay increases in FY11 and FY12 until FY13 and FY14.
- **Other initiatives – \$22.4 million in savings**
  - Reductions in exempt positions - \$3.9 million
  - Return-to-work contributions - \$4 million
  - Using more tobacco revenue to fund Medicaid - \$3.8 million
  - Reducing GSD risk insurance premiums - \$1.9 million