



LFC Newsletter

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Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Patricia Lundstrom, Vice Chairwoman

David Abbey, Director

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From the Chairman Foresight

Back in the first days of our state and again during an oil boom in the 1970s, New Mexico policymakers took the long view on the state's bounty of natural resources. Instead of opting for the instant gratification of high revenues, they set up permanent investment funds to ensure the state would continue to get revenue from natural resources long after the resources are gone.

Established in 1912, the \$18 billion land grant permanent fund is one of the largest government-owned investment funds in the country. The State Land Office deposits royalty revenue from the management of state trust land into the fund and 5 percent of the value of the fund is distributed to trust land beneficiaries, with public schools receiving about 85 percent of the distributions. The \$5.3 billion severance tax permanent fund, established in 1973, is the depository for the state severance taxes – assessed on the “severing” of natural resources from the land – that are not being used to repay capital outlay bonds. Unlike the land grant fund, the entire distribution – 4.7 percent of the value of the fund – goes to the general fund.

The permanent funds have served the state well. In FY18 alone, the funds contributed almost \$800 million to public school and other state operations. Over the years, the guarantee of income from the severance tax fund has served as the financial backing for billions in state construction projects. In a state too dependent on the volatile oil and gas industry, income from the permanent funds has become the most reliable source of income to the general fund.

No surprise, the size of these endowments has attracted proposals to increase draws from the funds. However, increasing the share of the funds that can be spent can reduce distributions in the long run. A 1 percent increase in distributions from the land grant fund would so reduce the fund that, after 25 years, the draws would be smaller than they would have been if the rate had never been increased.

And that assumes the value of the funds are stable. Because the funds are dependent on the oil and gas industry, they are subject to the same booms and busts. The value of the severance tax fund dropped following the oil market collapse in 2014 and the combined value of the funds fell by almost 30 percent in the year following the Great Recession.

By all measures, the permanent funds were a smart idea. We must keep that long view. We cannot tear down this investment in the future.

*Senator John Arthur Smith
Chairman*

NM Revenue at Risk From Recession, Oil Bust

State revenues are currently strong, but they remain volatile, with both a long-forecasted recession and an always-possible oil industry downturn threatening stability, LFC analysis indicates.

The committee is scheduled to hear about the volatility and steps to mitigate a downturn at 11:45 a.m. August 28 during its hearing in Red River. The hearing will follow the consensus revenue forecast report scheduled for 8:45 a.m.

While the potential for a recession has been discussed for a year, economists are now starting to see reliable signals a slowdown is imminent, LFC staff reports.

In addition, even though oil production is expected to continue to grow, New Mexico's heavy reliance on the industry – more than a third of state revenue is dependent on oil and gas – means any weakness in prices or production can significantly impact state income.

The Legislature took [steps](#) to smooth out the impact of the booms and busts of the oil industry after a precipitous drop in oil prices in 2014 led to a historic financial crisis.

If certain oil and gas tax revenues exceed typical amounts, the additional funds are deposited into the tax stabilization reserve, allowing the state to capture some oil windfall revenue.

An [attempt](#) to expand that practice to federal mineral leasing revenue, payments to states for mining and drilling

on federal land within the state, passed the Legislature earlier this year but was vetoed by the governor.

The Legislature earlier this year also set aside an amount equal to 21 percent of planned spending in reserves, an amount fiscal planners say would protect the state from deep cuts should a recession hit or the oil industry tank.

LFC staff notes revenues from the state's [permanent funds](#) – investment funds fed by severance taxes, royalties, and other one-time income from oil, gas, and mineral production intended to ensure the state gets long-term income from depletable resources – have become the most reliable source of revenue for state operations, another way the state smooths out the revenue from the volatile oil and gas industry.

Staff indicate the Legislature should consider additional steps to stabilize revenues, such as revisiting the proposal to set aside excess federal mineral leasing revenue and continuing to use oil boom revenue for capital outlay and other costs typically paid for through severance tax revenue bonds, which increases deposits into the severance tax permanent fund and increases the amount the fund can earn on interest.

The Legislature should also be cautious increasing ongoing spending on state agencies because of the risks to revenue, staff suggests.

Agencies Target Criminal Justice Mental Health

The criminal justice system has numerous opportunities to link behavioral health services to those who need them, and New Mexico is working on systems to make it work, state officials told the committee in July.

During a [hearing](#) on coordinating behavioral health and housing services with re-entry efforts at county jails and state prisons, Dr. David Scrase, Human Services Department Secretary, testifying alongside representatives from the Association of Counties and the New Mexico Coalition to End Homelessness, said the state is using a “sequential intercept model” as a framework for communities to target services to offenders with behavioral health needs.

A justice system mental health services team, organized by the state Supreme

Court, has launched training for judges and local policymakers, and the department launched permanent supportive housing services under the Medicaid program in July, HSD managers said. In addition, the Legislature approved a \$2.5 million appropriation for supporting housing and re-entry services for released offenders.

Hank Hughes, executive director of the homelessness coalition, said about 12,000 people received homelessness services in New Mexico in 2018 but another 2,000 individuals and 363 families are waiting for services. He called serving everyone on the waiting list “achievable.”

New Mexico needs another 5,000 beds in permanent supportive housing, he said, and ending homelessness in the state would cost about \$35 million.

Early Childhood Demand Being Met in Some Areas

One-third of state's school districts have enough Head Start, childcare, and prekindergarten program slots for 4-year-olds for every child in that population in the district, LFC analysis shows, but while some areas of the state have too many slots, others do not have enough or any at all.

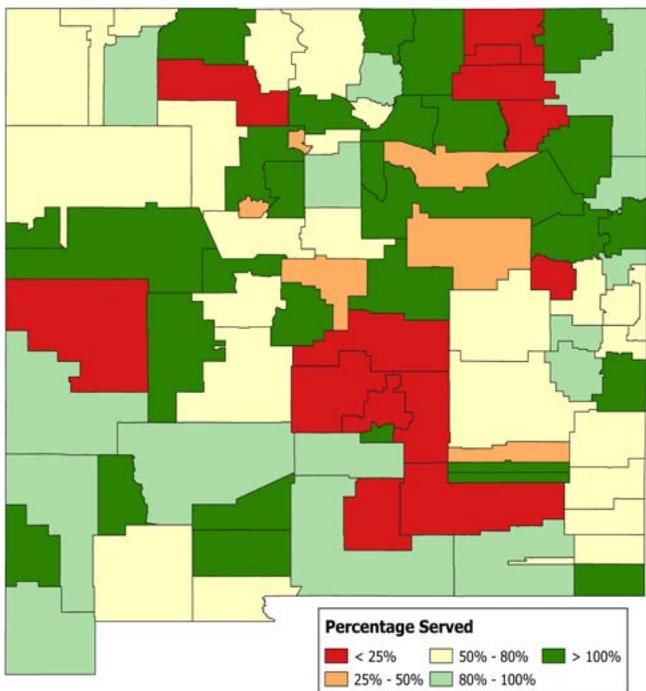
However, the *2019 Accountability Report on Early Childhood* notes saturation of services does not necessarily mean the prekindergarten-age children getting services are better prepared for kindergarten.

LFC studies have found high-quality prekindergarten has a positive impact on kindergarten performance and lasting effects through the 11th grade, but prekindergarten appears to have had less of an impact in the most recent group studied compared with previous years.

In addition, oversaturation of state services in some areas likely has contributed to a 30 percent decline in federally funded Head Start slots statewide since 2012.

The findings indicate the state needs to steer resources to improve programs, not just fund slots, and ensure state resources are used in a way that ensures program fidelity and effectiveness are enhanced, the availability of quality teachers does not outstrip demand, and state funding does not crowd out federal funding. Continued lack of coordination and increasing competition will exacerbate these issues, staff says.

Head Start, Childcare, and Prekindergarten Capacity for 4-Year-Olds



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On the Table

Prison Numbers Up for First Time in Months

Average inmate population was up slightly in July, the first month-to-month increase since September 2018. The July average of 7,040 was a half percent increase over June but a 4.4 percent decrease from a year ago.

Assistance Caseloads Drop

The Medicaid caseload in June was 824,212 individuals, a 1.7 percent decrease from a year ago and a 0.4 percent decrease from May. Medicaid served 1.8 percent fewer children in June, compared with a year ago. The Temporary Assistance for Needy Families caseload was 10,037 in June 2019, a decrease of 7 percent from June 2018.

3D Manufacturer Plans NM Investment

Florida-based Jabil, which designs and manufactures equipment for a variety of industries, is set to make a \$42 million investment in Albuquerque. The company said it plans to make Albuquerque its "center of excellence" for 3D printing. The company said it plans to hire 120 employees over the next five years. The state of New Mexico is set to invest up to \$750 thousand in Local Economic Development Act funding, while the city of Albuquerque will commit up to \$250 thousand in LEDA funds.

State Employees Take-Home Pay Lowest

New Mexico state employee take-home pay is the lowest in the region, largely due to the comparatively higher cost of health insurance. New Mexico state employees receive approximately 70 percent of their total compensation in salary, roughly in line with the seven surrounding states. However, employees' take-home pay is just 55 percent of total compensation, lower than surrounding states.

Road Fund Up

State road fund FY19 revenue receipts were \$45 million over projections, the Department of Transportation reports.

Transitions

LFC has hired a new program evaluator. Mitchel Latimer, a Roswell native and recent University of Denver economics graduate, has interned for former Representative Steve Pearce and Think New Mexico.

Carla Bachechi has joined LFC as a fiscal analyst working on the health-related agencies. Bachechi, a career foreign service officer with the U.S. State Department, has a law degree from Tulane University and a master's in business administration from the University of New Mexico.

LFC Deputy Director Jon Courtney has been elected chair of the National Legislative Program Evaluation Society.

Marco Grajeda, a former field representative for Senator Tom Udall, has been appointed to head the New Mexico Border Authority.

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