



LFC Newsletter

A publication of the

Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Patricia Lundstrom, Vice Chairwoman

David Abbey, Director

Volume 21 Issue 01

July 2020

From the Chair Caution

New Mexico has deep experience dealing with economic volatility but nothing compares to now. The pandemic-related global economic crisis is predicted to drag the world into the deepest recession since the Great Depression of 1929. But how long that will last is a guess. We simply do not know if the recovery will be quick or drawn out.

Even more so than with our near constant concern about the ups and downs of the oil and gas industry, New Mexico needs to prepare for the worst. It is possible we will get COVID-19 spread under control and workers, consumers, travelers, diners, and families will be able, with the proper measures in place, to circulate safely again. But it's not looking good. Nationally, COVID is spreading exponentially. And while we are lucky to have strong, proactive, safety-focused leadership in New Mexico, the same cannot be said of our neighbors to the east and west.

Even if we can fully reopen the economy and restore consumer confidence, we are digging out of a very deep hole. One in five New Mexicans is receiving unemployment benefits or the support payments provided to gig workers and other self-employed workers. Gross receipts are down across the state, with receipts down 76 percent for the arts and recreation sector, 38 percent for accommodations and food service, and 21 percent for other services, like hair salons and auto repair.

Caution should be the byword for state budget drafters in the coming year, and restraint the theme for state agencies. Indeed, caution and restraint should be the motif for all of us, at least for the near future. Just because we are bored with quarantine does not mean it's time to congregate socially. Until the spread of COVID-19 is slowed dramatically, the economy will remain depressed. Caution and restraint now, in budget drafting and life, will mean a quicker return to normal.

*Senator John Arthur Smith
Chairman*

Attendance at the LFC July meeting at Cloudcroft High School will be limited to presenters and their staffs, legislators, and legislative staff in accordance with the public health order of June 30. The meeting will be streamed at www.nmlegis.gov. Public comment may be made by email to lfc@nmlegis.gov.

Already Shrinking Colleges Face COVID-19 Crisis

New Mexico college enrollment, already down 15 percent over the last five years, could shrink significantly in the fall; however, some analysts project an increase in enrollment for public colleges, LFC staff reports.

In an analysis of New Mexico college plans for reopening campuses scheduled to be presented to the committee at 10 a.m. on July 16, LFC staff reports some colleges expect enrollment to shrink, with Santa Fe Community College projecting a 30 percent drop and the University of New Mexico expecting a 6 percent decline.

However, while some national forecasts assume similar declines, Moody's credit rating service in June estimated a 2 percent to 5 percent increase in college enrollment for some schools, citing student preferences to stay closer to home.

The investment firm noted data suggests public colleges with high percentages of in-state students could see enrollment grow.

In-state students make up 82 percent of enrollment at UNM and 70 percent of that at New Mexico State University.

Notably, New Mexico college enrollment has declined even as the number of New Mexico high school graduates attending college has increased, an indication many New Mexico graduates are choosing out-of-state schools.

LFC staff reports colleges have yet to lay off any faculty but staff involved in day-to-day support services have lost jobs, and associated businesses, like those that provide housing and food, have suffered.

The state's 24 colleges and universities vary on the instructional approaches, infection response, and level of detail in their plans for reopening their campuses, LFC analysis shows.

All continue to offer online classes and plan to keep online options in the fall, but two-year schools are generally choosing to emphasize distance learning, while most four-year schools – along with San Juan and New Mexico Junior colleges – are planning to offer socially distanced on-campus classes accessible online to students who don't want to be in the classroom.

Inmate Classification Raises Concerns

New Mexico inmates are frequently placed in higher security settings than might be necessary, an approach that could cost the state up to \$28 million a year, LFC analysis suggests.

In *Policy Spotlight: Inmate Classification*, scheduled to be heard by the committee at 1:30 p.m. on July 13, Program Evaluation Unit staff reports 60 percent of inmates who entered the system between 2014 and 2016 were scored as minimum security, but only 27 percent are currently housed in minimum-security housing.

The majority instead are held in medium-security settings, according to the report.

However, staff notes, the Corrections Department's scoring tool has never been validated, making it impossible to determine if the higher classifications are inappropriate.

While sticking to the determinations of the scoring tool would save the state an estimated \$28 million, a validated tool might find the placements appropriate, and the higher cost of more

secure housing necessary.

The report indicates the department's current classification system evolved in response to prison violence in the 1990s linked to inmates being underclassified.

An independent investigation of the August 1999 stabbing death of a guard and subsequent riot concluded a primary cause was the erroneous placement of high-risk inmates and gang members in a medium-security setting.

The incident prompted the department to redesign its scoring tool, and the department improved its management of security threats, the report says.

However, while the department is currently working with the University of New Mexico to determine if its scoring tool appropriately classifies inmates, the department has failed to regularly review its classification practices or their impact on department operations.

Classification impacts the safety of inmates and prison staff, the cost to taxpayers, and the inmate's access to services and potential of returning to prison after release, staff notes.

Permian Drilling Activity Falls Sharply

New drilling in the Permian Basin fell 64 percent in May compared with a year ago, while the inventory of “drilled but uncomplete” wells remained high.

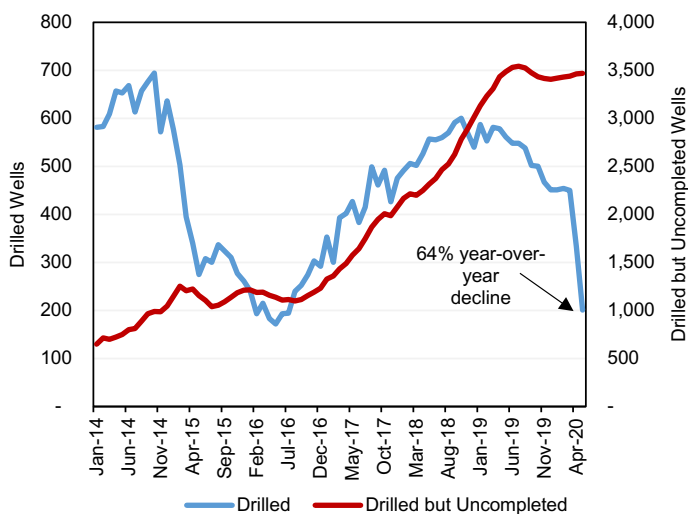
The number of drilling rigs in the New Mexico section of the Permian Basin fell from a peak 117 rigs in March to 48 in July, a 59 percent drop. The number of active rigs in Texas declined 74 percent over the same period.

Oil production in New Mexico dropped 10 percent from March to April, based on data from the Taxation and Revenue Department, while natural gas production declined 11 percent.

New Mexico’s average oil price in April was \$14.38 a barrel; however, oil price forecasts are currently tracking at about \$39 per barrel for the FY21, above the price assumed in state revenue projections.

Committee members are scheduled to hear a report on oil and natural gas industry activity, particularly in the Permian Basin, at 4 p.m. on July 15.

Permian Basin Drilling Activity



Source: Energy Information Administration

On the Table

State Fair Running Up Deficit

The State Fair, which canceled its annual event for 2020, ended FY20 with a \$174 thousand deficit and is spending about \$450 thousand a month on fixed operating costs with little income. The organization is currently only earning income on its leases with the Martin Luther King Jr. Commission, Office of African American Affairs, and African American Performing Arts Center. Monthly payments of \$229 thousand from the casino have been suspended. The fair’s \$12.3 million budget for FY21 is composed entirely of earned revenue.

UNM Lowers Full-Time Tuition Discount

The discount for full-time enrollment at the University of New Mexico is dropping by half. Combined with a 7.8 percent increase in mandatory student fees, the drop in the discount for a 15-credit-hour block from \$800 to \$400 per semester will represent a net effective increase in tuition and fees for full-time students of 17.3 percent. UNM still estimates a decrease in tuition and fee revenue, a result of declining enrollment.

Pilot Project Reduces Flaring

An Oil Conservation Division pilot project with EOG Resources resulted in reduced flaring in oil and natural gas production and a majority of the captured natural gas returned to production. Pipelines can capture the gas co-produced with oil but the gas must be burned through flaring or released into the atmosphere through venting if a producer wants to keep pumping oil when a pipeline is out. The pilot project looped the gas back into the well during pipeline outages and reintroduced the gas into the system when pipeline operations were restored.

Medicaid Match To Continue

The pandemic-related 6.2 percent boost to the federal match for Medicaid expenses will continue at least through September, and the Congressional Budget Office is projecting the match will stay in place through early 2021. With the pandemic boost, the federal government provides almost 81 cents of every dollar New Mexico spends on Medicaid.

Transitions

The Luna Community College board has terminated the contract of President Rolando Rael. Luna is still working with the Higher Learning Commission on moving out of its probationary status for accreditation.

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Fiscal Year 2020-2021 Month 01

Published monthly in the interim by the Legislative Finance Committee.

Staff Editor - Alison Nichols

Writer, Editor - Helen Gaussoin

Questions, comments: 505-986-4550

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Please contact Adreena Lujan at adreena.lujan@nmlegis.gov if you would prefer to receive this newsletter electronically.

Legislative Finance Committee
325 Don Gaspar Street Ste101
Santa Fe NM 87501