



LFC Newsletter

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Legislative Finance Committee

Representative Patricia Lundstrom, Chairwoman

Senator John Arthur Smith, Vice Chairman

David Abbey, Director

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From the Chairwoman

All of the Above

When the committee continues its summer road trip with a stop in Carlsbad in June, much of the talk will be about the oil industry. Carlsbad sits on the western edge of the Permian Basin, currently the hottest oil-production site in the nation, and the committee's agenda is heavy with oil-related topics. But the broader issue of economic development in southeastern New Mexico is also on the agenda, and speakers include representatives of local development agencies, the potash industry, and the Waste Isolation Pilot Plant.

Indeed, oil might be big in southeast New Mexico but it's not all that's going on. The region is, naturally, building on oil production activity with a new oil and gas workforce training program at New Mexico Junior College and the invigoration of EnergyPlex in Lea County, an umbrella program for developing all sources of energy – from nuclear to alternative – with business centers, research, incentives, support, and promotion of energy commodities. Already, Eunice is home to the only uranium enrichment facility in North America.

Regional economic development reaches beyond energy, however. Focused on a different kind of fuel, RMS Foods in Hobbs is the only supplier of Boca brand vegetarian alternatives to meat.

In Carlsbad, city officials are looking back to look forward, with plans to return to marketing the city, blessed with the lazy middle of the Pecos River and warm winters, to retirees across the country. Carlsbad, they plan to remind tourists, is the hub for visits to Carlsbad Caverns and Guadalupe Mountains national parks and to Living Desert and Gardens and Brantley Lake state parks.

With recognition that quality of life is essential to attracting new residents and visitors, Hobbs has just completed a 158,000-square-foot multigenerational recreation center with an indoor, three-story jungle gym with 28-foot slides. Not to be dismissed as part of quality of life, microbreweries have moved into the region – some cities have actively recruited their own – and now Carlsbad has two, Roswell and Lovington each have one, and, somewhat inexplicably, the 12,000 people in Artesia have three.

A rebound in oil prices since the crash in 2014 has made southeastern New Mexico one of the bright spots in the New Mexico economy. In turn, revenues from record production levels are helping to rebuild state revenues and rippling through the economy, boosting economies statewide.

But just a week before the Carlsbad meeting, oil prices dropped 6 percent on news that Saudi Arabia was considering increasing supplies, serving as a reminder of how unstable the industry can be. And how important these economic diversity efforts are.

*Representative Patricia Lundstrom
Chairwoman*

Behavioral Health Services Fall Short but Getting Better

New Mexico is first in the nation for alcohol-related deaths and has a drug abuse death rate among men twice the national average, but substance abuse and behavioral health services are getting better, testimony at a May LFC hearing indicated.

While existing services do not meet the needs of all New Mexicans with substance use disorders, federal, state, and local agencies are working on expanding behavioral health services, LFC analysts report in [the hearing brief](#).

Hard-hit McKinley County, which has an alcohol-related death 4.5 times that of the national average, is using grants, state funds, local liquor tax revenues, and local DWI funds for new services and interventions, the brief says.

However, LFC analysts noted the impact of existing services is unclear, services are not coordinated, and funding gaps exist.

Specifically, the brief lists a gap in Medicaid coverage for certain alcohol abuse treatment, jurisdictional issues for patients moving between state and tribal areas and between Indian Health Services and other providers, and the unnecessary use of state general fund dollars for services that could be paid for with Medicaid funds, grants, or other revenue.

Wayne Lindstrom, director of the Behavioral Health Services Division of the Human Services Department, told

the committee the Medicaid program is planning to offer a variety of new behavioral health services under Centennial Care 2.0, the second configuration of the state's primary program of Medicaid services pending federal approval.

The revamped Medicaid program will provide housing support to prevent homelessness and hospital readmissions, implement a screening tool to be used by healthcare providers statewide to identify those with substance use disorders and provide intervention and referral services, and promote national accreditation of residential treatment centers.

Four New Mexicans die each day from alcohol-related health issues, LFC staff reports, and the death rate grew 34 percent between 2010 and 2016. In 2016, New Mexico was second in the nation for drug deaths and is also among the worst states for suicide.

The worst outcomes are concentrated in certain geographic areas of the state, with Rio Arriba and McKinley counties standing out.

The Legislature in 2015 passed a bill creating behavioral health investment zones, identified through epidemiological data on drug overdoses, suicide, alcohol use, and other data.

The governor vetoed the bill; however, the Legislature in 2016 appropriated \$1 million for McKinley and Rio Arriba counties to create the investment zones.

Oil and Gas Production, Prices Up

New Mexico oil production was up 23 percent between July 2017 and March 2018, and per-barrel prices are tracking about \$4 above the \$51 estimate used in the FY18 revenue forecast, LFC staff economists report.

Natural gas production was up as well – 4 percent for the same period – although the increase was driven almost entirely by growth in southeastern New Mexico. Production in northwestern New Mexico has been steadily declining since 2005.

The oil and gas market outlook and industry tax issues are the topics of two committee hearings scheduled to start at 9:30 a.m. on June 4.

In a brief prepared for the hearing, the

economists say New Mexico is on track to produce 190 million barrels of oil in FY18, with 90 percent of new wells using horizontal drilling.

The per-barrel price is expected to reach about \$60 in FY19.

State energy-related revenues – production taxes, rents, and royalties – were up more than \$184 million, or 36.7 percent, in the first eight months of FY18 compared with the same period in FY17.

Gross receipts tax revenue was up 17.3 percent, or \$227.6 million, during the same period, with three-quarters of the growth driven by the mining, construction, retail, and wholesale trade industries and related either directly or indirectly to the oil and gas industry.

Mining Dominates Taxable Earnings

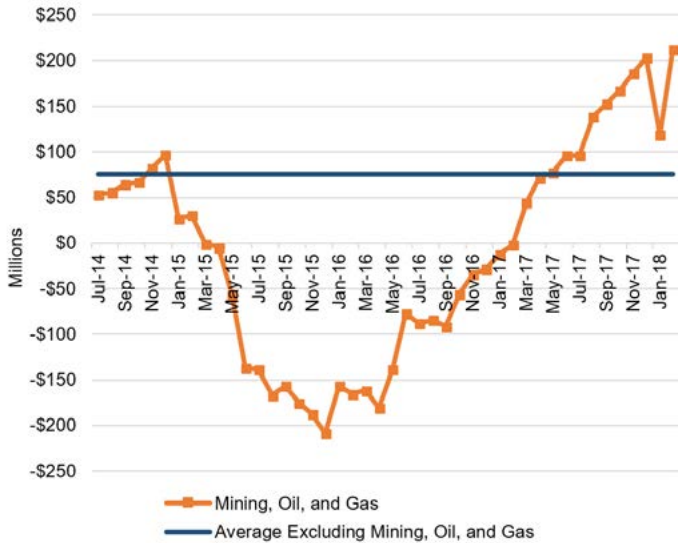
Growth in gross receipts is due more to the mining industry now than at any time since LFC began tracking the figure in 2004, LFC analysis indicates.

Gross receipts are a business's earnings subject to the gross receipts tax and a good indication of what businesses are contributing to the economy.

Mining is adding more taxable revenue to the economy than the long-term average of all other industries combined.

Nearly half of the growth in taxable gross receipts for the first nine months of FY18 – \$2.5 billion of \$5.2 billion – was generated in Eddy and Lea counties, both in the Permian Basin oil production region. About 25 percent was generated outside the state, which is primarily businesses that support the oil and gas industry.

Quarterly Growth in Gross Receipts



Sources: Taxation and Revenue Department matched taxable gross receipts data, LFC

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On the Table

New Mexico Adds Jobs

The number of jobs in New Mexico grew by 1.2 percent between April 2017 and April 2018, or 10,100 jobs. While jobs in the information industry were down 10.7 percent, or 1,400 jobs, the professional and business services, construction, leisure and hospitality, and manufacturing sectors all saw growth.

Prison Population Nearly Flat

The population of 6,579 men and 757 women in state prisons in April was a 0.2 percent increase from a year ago and a 0.2 percent decrease from March 2018.

Insurance Revenue Down

State revenue from taxes and fees on insurance companies was \$36 million in the April reporting period, 40 percent less than the \$63 million estimate based on the consensus forecast and the lowest since January 2015.

Auto Waste Buried at Veterans' Cemetery

The federal Veterans' Administration will allow the state to spend \$160,000 in federal funds to remove auto-related waste at a site donated by the city of Gallup for a Gallup State Veterans' Cemetery. The Board of Finance was told an initial environmental assessment of the former auto salvage yard found small pieces of metal and glass but no cause to investigate further during its review of the donation. The state Department of Veterans' Services has not received a quote for the cost of waste removal, but any expense beyond the federal amount will be the state's responsibility.

New Mexico Agency Targeted by Hackers

An Italian hacking group associated with the "hactivist" group Anonymous recently took down three websites operated by the state Workers' Compensation Administration. The group hacked the agency's main portal, the former main portal that redirects to the main portal, and an interim site that never went live.

Rail Runner Borrows for Safety Measures

The Rio Metro Regional Transit District will borrow \$11 million from the state infrastructure bank to implement federally required improvements to the Rail Runner. Positive train control includes systems to automatically intervene in dangerous situations, such as high speed. The 18-year loan carries 1 percent interest.

Transitions

Jennifer Saavedra, former deputy secretary at the Children, Youth and Families Department, is the new head of the Attorney General's Civil Division.

Tracy Hartzler, former LFC analyst, has been promoted to vice president of finance and operations at Central New Mexico College.