



LFC Newsletter

A publication of the **Legislative Finance Committee**

Representative Patricia Lundstrom, Chairwoman
Senator George Muñoz, Vice Chairman
David Abbey, Director

Volume 21 Issue 12

June 2021

From the Chairwoman **Heavy Lift**

The economic hit of the pandemic has been uneven – Amazon grows ever bigger and the local salon is forced to close; household savings soar along with mortgage delinquencies. But, without a doubt, the blow to tourism-related businesses has been nearly universal.

Between shutdowns and reduced capacities when open, travel restrictions, and consumer fears, the industry has had few options for offsetting pandemic-related losses.

In 2019, before the pandemic, one in 12 New Mexico jobs was related to tourism, and the industry generated more than \$700 million in tax revenue for state and local governments. In January 2020, matched taxable gross receipts, a key indicator of business activity, were up more than 15 percent for the leisure and hospitality sector compared with 2018.

Three months later, matched taxable gross receipts were down by more than 35 percent. And they stayed down. Even with the vaccine rollout and the loosening of restrictions, as of March, business activity in that industry had not recovered.

In a list of the top 25 percent of unemployment claimants by occupation, restaurant servers and cooks and housekeepers were all in the top 10, with waiters and waitresses at number two.

Bringing back the industry won't be easy, but communities and businesses in every corner of the state are counting on it.

When the committee meets in Ruidoso this month, the members are scheduled to tour the Lincoln Historic Site and hear a report from the secretary of the Tourism Department on the department's plans for revitalizing the industry and rebuilding the workforce. It is important to recognize that one cannot happen without the other, and that hiring in the hospitality industry, where pay is typically low, appears to have become more difficult for reasons we have yet to discern.

The Tourism Department received a \$7 million special state appropriation earlier this year for reviving tourism and has indicated it has a plan for spending the money. With possibly even more money coming from the federal government, the pressure is on the department to deliver.

Luckily, the department has a lot to work with. While the pandemic hit tourism hard, it didn't put a dent in New Mexico's beautiful mountains or photogenic sunsets. It didn't change the richness of our culture or the uniqueness of our communities. All elements that draw visitors to New Mexico. And will again.

Representative Patty Lundstrom
Chairwoman

Higher Ed Funding Formula Delivers Degrees but Flawed

The higher education formula has been effective in increasing the number of certificates and degrees awarded to students, its primary focus, but suffers from structural and implementation flaws, LFC staff report.

The state started using the current formula in FY13 to shift the distribution of state funds to the state's 24 nonspecial, nontribal colleges from a process based on enrollment and other inputs to one based on outcomes, like degrees. But staff analysis suggests, while the degree count has increased, improvements in educational quality are uneven and elements of the formula promote inequity.

Issues identified in the staff brief prepared for a subcommittee hearing scheduled for 2 p.m. on June 22:

- The formula does not differentiate among the different missions, and different student bodies, served by each school.
- The emphasis on degrees and certificates promotes a race to produce more awards without consideration of the value of the award to the graduate. Raw data shows 17 percent growth in

sub-baccalaureate awards since FY13, while growth baccalaureate degrees was just 2 percent. While many certificates have career value, the formula does not differentiate.

- An element of the formula intended to redistribute funding from low-performing schools to high-performing schools is undermined by a desire to protect all schools from cuts and the small amount of funds earmarked for redistribution.

- The formula only affects the 51 percent of institutional funding that comes from the state; schools that get a substantial share from other sources can afford to be indifferent to formula incentives.

- The formula does not support other performance measures or efforts to align courses and degree requirements among schools to ease degree attainment.

The state Legislature appropriates more than \$1 billion directly to colleges and universities every year for instruction, capital construction, and research and public service projects.

Subcommittee Tours Veterans' Home

The New Mexico Veterans' Home is struggling with staffing, facility, and quality of care issues, committee members learned during their visit in May, with the facility reporting Covid-19-related deaths and LFC staff noting one-in-three positions is vacant and concerns with facility conditions.

A staff brief prepared for the visit to the Truth or Consequences nursing home and assisted living facility notes the facility's performance on three of six health outcome measures improved between FY16 and FY20, with the number of falls and hospitalizations dropping, but medication errors and infections were up. Facility managers also told the committee members on the tour some residents died from Covid-19.

The brief notes 29 percent of the home's 200 state and contract employee positions are vacant. The facility houses about 80 veterans and military family members.

In addition, the State Fire Marshal, Department of Health, and federal

regulators have raised concerns about air quality and other facility conditions.

The General Services Department has identified numerous problems with both the original facility and a newer annex building, which cannot be completely occupied until problems are addressed.

Among the most serious issues at the newly built annex are unstable soil under the foundation causing cracks and trip hazards, an underperforming heating, ventilation and air condition system, bad pumps in the currently unusable rehabilitation pool, and an exterior stone facade that is falling off the building.

Staff told the committee members the pandemic slowed progress on repairs, but most problems are being addressed now.

Committee members questioned how the state Construction Industries Committee missed the issues when it issued a certificate of occupancy.

The LFC Evaluation Unit is scheduled to release a report in July on Department of Health facilities, including the Veterans' Home.

Oil and Natural Gas Prices Trending Ahead of Forecast

Oil prices are on track to average \$6 more per barrel in FY21 than the \$43.50/bbl for FY21 in the February forecast, while natural gas prices are expected to average \$3.05 per thousand cubic feet, slightly above the forecast of \$2.45/mcf, LFC economists report.

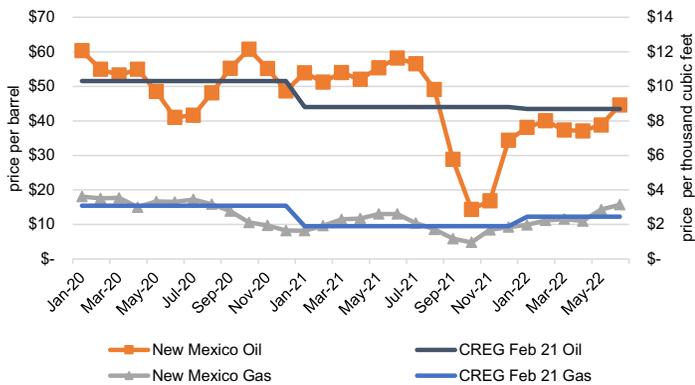
A \$1 change in the annual average New Mexico price of oil has about a \$23 million impact on the general fund, and a 10 cent change in the annual average New Mexico price of natural gas has about a \$14 million impact on the general fund.

The price of oil is on track to average \$57/bbl in FY22, compared with \$47/bbl in the forecast, the economists report.

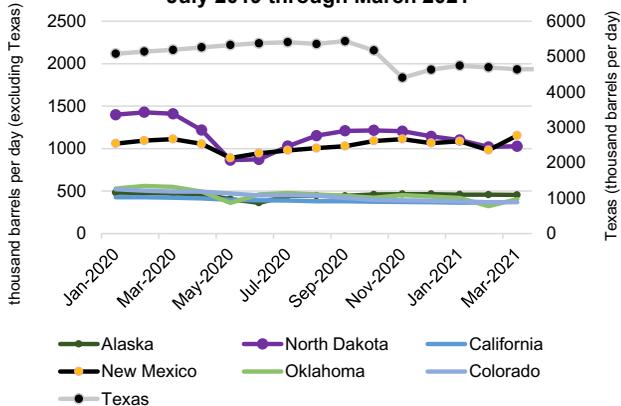
In addition, New Mexico is the only top oil-producing state to have recovered to pre-pandemic production levels, despite fewer active drilling rigs. Staff reports production is being boosted by output from the completion of wells that were previously "drilled-but-uncompleted."

New Mexico is currently on track to produce about 390 million barrels in FY21, 20 million barrels above the February 2021 projection.

Current Oil and Natural Gas Prices



Top Oil-Producing States July 2019 through March 2021



January 2021 Year-Over-Year Production:

Texas – down 12.9 percent
 North Dakota – down 22.8 percent
 New Mexico - flat

On the Table

Federal Crime Victims Funds Down

The amount of money New Mexico will receive from the federal Victims of Crime Act, money used to fund victim advocates and other direct services to victims of crime, will drop 47 percent in FY23. Thirteen state agencies will receive \$1.7 million in FY22, with \$860 thousand of that designated for seven district attorney offices, \$274 thousand for the Department of Public Safety, and \$211 thousand for the Crime Victims Reparation Commission. The total for state agencies could drop to less than \$1 million in FY23 and is not expected to grow in following years without congressional action.

San Juan Producer Tops Methane Emissions

Oil and natural gas producer Hilcorp Energy, with a majority of its production in the San Juan Basin, is the country's largest emitter of methane and second-largest emitter of greenhouse gases, according to U.S. Environmental Protection Agency data. Hilcorp emits 50 percent more methane than Exxon-Mobile, second on the list, even though it produces far less oil and gas.

Gaming Tax Might Reflect Pent Up Demand

The state received gaming excise tax revenue for the first time in a year with the reopening of gaming venues in March. The state expects to receive \$6.1 million in March and \$5.9 million for April, both above the \$5.4 million monthly average before the pandemic, possibly the result of pent-up demand and stimulus checks. The February revenue forecast assumed total excise revenue for FY21 of \$8.5 million. Revenues are now likely to be triple that amount.

Horsemen Sue Commission

The New Mexico Horsemen's Association has sued the State Racing Commission for the second time in six months. In its latest lawsuit, the association is challenging a commission decision to direct racetracks to withhold certain association member fees and 1 percent of purse money that would normally go to the association. The association contends the \$700 thousand in question is a large part of its funding and the Racing Commission is improperly using purse moneys for operational expenses at racetracks

Transitions

Dr. Janis Gonzales will join the Early Childhood Education and Care Department as its medical director. Dr. Gonzales was formerly the bureau chief and medical director for the Family Health Bureau in the Department of Health.

Dominic Garcia, the Public Employee Retirement Association's chief investment officer, resigned effective June 1. PERA is currently without a board chair, executive director, or chief information officer.

David Craig, former LFC employee and director of the Public Education Department School Budget and Finance Division, has moved to ECECD.

LFC Newsletter

2020-2021 Fiscal Year, Month 12

Published monthly in the interim by the Legislative Finance Committee.

Staff Editor - Alison Nichols Writer, Editor - Helen Gaussoin

Questions, comments: 505-986-4550

www.nmlegis.gov/Entity/LFC/Default

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