



LFC Newsletter

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Senator John Arthur Smith, Chairman

Representative Patricia Lundstrom, Vice Chairwoman

David Abbey, Director

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From the Chairman Deferred

The state isn't quite done accounting for FY19, which ended June 30, but it is already clear the ongoing oil industry boom fed a second year of extraordinary revenue strength. Based on general fund revenue through March, total revenues for the budget year are expected to be hundreds of millions above projections. With reserves maybe at a healthy level, much of this surplus will be available to address long-neglected, one-time needs.

Last year's bonus allowed the Legislature to fund construction projects throughout the state without relying on interest-incurring bonds and to build state reserves to 20 percent of planned spending, a level economists tell us should be high enough to financially sustain the state when the oil industry inevitably swings back to a bust. This year's bonus, which will only grow between now and the next legislative session in January, could let us tackle other outstanding needs.

A top priority is shoring up the public employee and educator retirement funds. Both are short of what they need to meet their long-term obligations, and that growing liability was cited by a national credit rating agency as a cause when the state's credit rating was downgraded a year ago. The credit downgrade means the state has to pay more to borrow money for infrastructure and other capital outlay.

Legislators have cut benefits, tightened eligibility, and increased contributions from both employers and employees but the pension funds are still projected to fall short. A contributing factor is the failure of the funds to earn as much as they need to through investments. An infusion of cash could help address that problem.

Also of concern is local road quality. During the session earlier this year, the Legislature created a fund with fewer restrictions on spending for local projects, which should enable the Transportation Department to launch local projects more quickly. An appropriation to that fund could put a significant dent in the pent-up demand in local needs.

Among other potential use being discussed is the creation of an endowment for early childhood programs. While the Legislature has invested heavily in services and created a new cabinet-level department just for early childhood, not all families with need have access to prekindergarten, the parental supports available through home visits, or child-care subsidies. An endowment would create a source of income outside the ups and downs of state general fund revenue.

Most years, New Mexico struggles to meet the needs of New Mexicans. For the second year in a row, we will have the means to address some of those needs that have fallen through the cracks.

*Senator John Arthur Smith
Chairman*

Oil Impact Hard to Predict

New Mexico oil production, while slowing, is on track for FY20 total barrels to be more than twice that of FY17, LFC analysis shows, and forecasts call for a significant impact on state revenues – or not.

Production projections for 2020 vary widely depending on market assumptions – from nearly 500 million barrels in the most optimistic industry scenario to about 300 million in the “low case” federal estimate – making it difficult to estimate the impact on state revenues, LFC staff report.

Production in FY17 was slightly over 150 million barrels.

Committee members will hear from LFC staff, oil and gas forecasters, and others about production and the outlook for New Mexico finances during a hearing scheduled for 9 a.m. on July 10.

The latest [LFC general fund tracking report](#) shows FY19 revenue tracking about \$280 million above the December forecast, primarily due to strength in the oil and gas industry.

LFC economists expect the December forecast of \$580 million in “new money” for FY21, estimated revenue less planned FY20 spending, to increase when the forecast is updated in August, but note the large variance in production projections creates a difference in revenue estimates of at least \$320 million.

Those estimates assume a flat crude oil price of \$55 a barrel, even though prices are rarely stable.

A separate hearing on plans to address the impact of the oil boom on the Permian Basin region, where housing and other basic needs and infrastructure have been stretched thin by the uptick in drilling and the influx of workers, is scheduled to follow the oil production hearing at 10:30 a.m. on July 10. Scheduled speakers include a representative of the Permian Strategic Partnership, a group of the 20 largest oil and gas producers in the Permian Basin that has pledged to contribute nearly \$10 million each over the next five years to workforce training and other needs.

Farmer Urges Action on Contamination

The New Mexico dairy farmer hit hardest by groundwater contamination near Cannon Air Force Base told the committee during its June meeting he is grateful for state efforts to force the U.S. government to pay for cleanup and damages but suggested the state could enforce its environmental laws more aggressively.

Art Schaap, owner of the quarantined Highland Dairy, noted other states impose heavy fines on polluters for each day of inaction and New Mexico should consider similar penalties.

A staff brief for the June hearing says Schaap was forced to shut down his dairy in October, at a loss of about \$460 thousand a month, after the state Agriculture Department found milk produced by his cows exceeded safe levels for perfluoroalkyl and polyfluoroalkyl substances, or PFAS, a contaminant found on and around air bases that used PFAS-containing firefighting foam in training exercises.

The milk from Schaap's 4,000 cows is being stored until it can be safely disposed and the cows, which currently cannot be used for milk production or sold for slaughter, are being provided clean water and periodically retested to see if the contaminant can be flushed

from their systems.

The Agriculture Department is working with Schaap to obtain federal funds for dairy producers that have to stop selling their milk because of contamination, and the U.S. Department of Agriculture is looking at changes to that program to allow for the federal purchase of contaminated dairy cattle.

The Air Force responded to a violation issued by the New Mexico Environment Department that called for formal plans to prevent further contamination by suing the state over its regulatory authority. NMED and the Attorney General countersued in March, asking the court to compel the Air Force to start remediation.

Although voluntarily phased out a decade ago, PFAS are slow to break down and PFAS products are still available through foreign markets and leftover stock. Still under study, high levels of PFAS exposure could increase the risk of some cancers, affect child development and the immune system, and interfere with the body's hormones.

The state tested 90 wells within 4 miles of the base and found both wells tested within an “area of concern” close to the base exceeded the PFAS safety threshold.

Prison Violence Down After Assault Surge in FY18

Assaults on inmates and staff in New Mexico state prisons surged in FY18 but was on track to be down for FY19, LFC analysis shows.

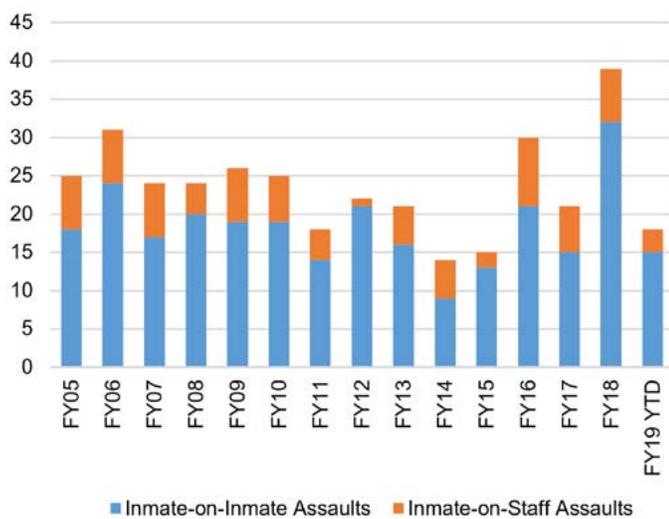
The latest [agency report card](#) for the Corrections Department says the agency reported 39 assaults on inmates and staff that resulted in serious injury in FY18, the highest number of incidents since the department began reporting on the measure in FY05.

Through the third quarter of FY19, which ended in March, the department reported 18 assaults, a 44 percent drop from the same period in FY18.

While the decline suggests some factors contributing to violence have been addressed, the LFC report notes the exact reason violence has dropped is unclear.

Violence was significantly lower in the first quarter of FY19, when lockdowns were in place in facilities throughout the system. Also, overall prison admissions and the share of admissions for violent offenses were both down through the third quarter of FY19, indicating fewer inmates and a lower proportion of violent offenders could be partially responsible for the drop in violence. However, inmate drug use, which can drive violence, was unchanged.

Incidence of Prison Violence



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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.

On the Table

EMNRD Buys Threatened Property

The Energy, Minerals and Natural Resources Department has purchased a feed store located on top of the collapsing Carlsbad brine well for almost \$2 million. Plans for the \$43 million remediation of the Carlsbad brine well call for filling the cavern with over 833,355 cubic feet of grout and removing over 74 thousand barrels of brine. The collapse of the brine well could open up a cavern estimated to be up to 720 feet long, 450 feet wide, 200 feet deep, and about 425 feet below ground.

District Implements K-5 Plus Systemwide

The superintendent of the Deming Public Schools, which has fully implemented the K-5 Plus extended school year program for all students from kindergarten through fifth grade, says the district has been working on phasing in the program districtwide for several years and began working with the media to educate the public since March. Arsenio Romero said other districts might not be prepared for full implementation and the state should consider phasing in K-5 Plus. The Legislature, as part of court-ordered education reforms, moved funding for K-5 Plus from a grant program to the public school funding formula, making it possible for all districts to implement the program. However, some districts have indicated they could not implement the program under the rules set by the state, particularly a requirement that students have the same teacher for the extended days and the regular school year.

Romero said the funding formula factor for K-5 Plus is enough to cover the costs even if not all students participate, suggesting the district could receive enough funding through the factor to pay for other intervention programs.

Inmates Get IDs

Sixty-four inmates at the Northwestern New Mexico Correctional Center and Western New Mexico Correctional Facility in Grants were able to get IDs prior to release through a partnership between the Corrections and Taxation and Revenue departments to bring a mobile Motor Vehicle Division office to the facilities. Probation and parole officials report obtaining an ID is difficult for newly released inmates.

Transitions

LFC has received a 2019 National Legislative Program Evaluation Society Certificate of Impact for its report, [Instructional Time and Extended Learning Opportunities in Public Schools](#).

Nick Schiavo, an engineer and former city of Santa Fe facilities manager, is the new deputy secretary of the Cultural Affairs Department. John Gay has been named director of the Adult Prisons Division of the Corrections Department, Gay has been warden of the Penitentiary of New Mexico since October.

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