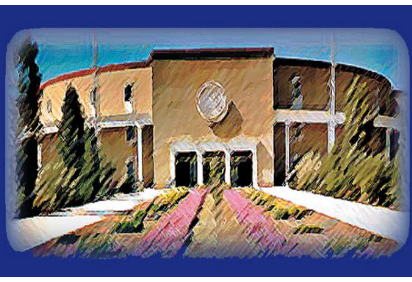


LFC Newsletter

A publication of the **Legislative Finance Committee**
Senator John Arthur Smith, Chairman
Representative Jimmie C. Hall, Vice Chairman
David Abbey, Director

Volume 16 Issue 12 June 2016

Local Leaders Struggle With Capital Bureaucracy

Local governments are frustrated with a capital outlay process that takes too long and requires too much paperwork, the leaders of the Municipal League and the Association of Counties say.

Testifying before the committee in May, Bill Fulginiti of the Municipal League and Steve Kopleman of the Association of Counties said city and county leaders complain the process is confusing and requires a pile of forms and cooperation with multiple agencies, many of which require the same information in different formats.

A grant agreement, a formal agreement between the state and local agency required before the project can be budgeted and proceed, can take up to a year to execute, Fulginiti said. And Kopelman said counties and cities have additional problems with infrastructure capital improvement plans, required by the Governor's Office for a project to be included on the executive's list of recommended projects.

The two said they are looking forward to working with the Department of Finance and Administration and LFC on improving the process and Kopleman said both agencies should consider participating in capital outlay training the association provides for newly elected county officials.

Much of the criticism of New Mexico's capital outlay program has been aimed at local projects, because they are generally sponsored by individual legislators, although they are sometimes included in the governor's recommendations, and often receive piecemeal funding. Kopleman echoed comments from policymakers that projects with inadequate funding often languish.

Between 2012 and 2015, legislators authorized 1,616 local projects, the latest quarterly LFC capital outlay report says. It says from about a third to almost 90 percent of the per-year funding is outstanding for 2012, 2013, and 2014.

However, the report notes information on local projects in the capital project monitoring system, maintained by the Department of Finance and Administration, often is out of date, primarily because local and state agencies fail to update the state-level database.

Five projects totaling $2.6 million are under scrutiny because of potential conflict with the state constitution's anti-donation clause, which prohibits the use of public money for private projects. Those include funding for an addition at the Explora Science Center in Albuquerque, improvements at the Mesilla Valley Community of Hope Health complex in Las Cruces, and renovations to a child development center in Otero County.

Kopleman testified anti-donation issues should be addressed before being considered by the Legislature.

NM Meeting Pecos Obligation to Texas

New Mexico had a credit with Texas at the end of 2014 on the volume of water in the Pecos River reaching the state line, although the state fell short of annual obligations twice during the prior decade, the most recent U.S. Supreme Court special river master report shows.

The special master who oversees New Mexico compliance with Pecos River obligations to Texas is expected to release his report on 2015 sometime this month.

New Mexico has been monitored by a special river master since 1988, when the Supreme Court found New Mexico had underdelivered to Texas from 1950 to 1983 and ordered New Mexico to stay current with its obligation and pay Texas $14 million.

To meet demand, the state bought water rights in the Pecos River basin and pumps groundwater into the river, although it has not had to augment flow since 2013.

The 2014 accounting of New Mexico Pecos River water deliveries to Texas shows New Mexico ended the year with a cumulative credit, despite shortages in 2010 and 2013.

The committee is scheduled to hear about water issues in the Pecos Valley at 8 a.m. on June 17 at its hearing at the Roswell Museum and Art Center.

A National Weather Service report on precipitation in New Mexico says the "water year," which starts in October, has dropped off after a strong start, with the period from January through March the 11th driest on record.

From the Chairman

Sophie's Choice

The noise of the national election is drowning out ... well, pretty much everything else. And even when non-election news does get through, some New Mexicans are so fatigued by the dismal reports about our state's struggles that any similar story just becomes part of the background. But attention right now is critical because New Mexico is getting ready to face some very tough, between-a-rock-and-a-hard-place choices in the months ahead.

The economy and state revenues never really recovered from the Great Recession and won't any time soon given the state's overreliance on the busted oil industry and the staunch position of the no-new-tax proponents. In fact, state government need is expected to outstrip projected revenue by an average of about $120 million each year between FY18 and FY20, with Medicaid growth responsible for much of the shortfall.

In the meantime, at the tip of an iceberg of problems, state-run health facilities are short of nurses, teachers' salaries are uncompetitive, and with some high-priority exceptions, state employee pay has lost so much ground that many state agencies can't find and keep qualified employees, leaving agencies short-handed with overstressed workers and reliant on expensive overtime pay or high-priced contract labor.

State government is stretched thin and we must prioritize the spending of available funds, but how? It's easy to see how education and public safety are core responsibilities of state government, as well as roads, sewers and other infrastructure. Most would argue the core responsibilities also include preventing the outbreak of dangerous diseases, ensuring the safety of air and water, and protecting the vulnerable, both old and young.

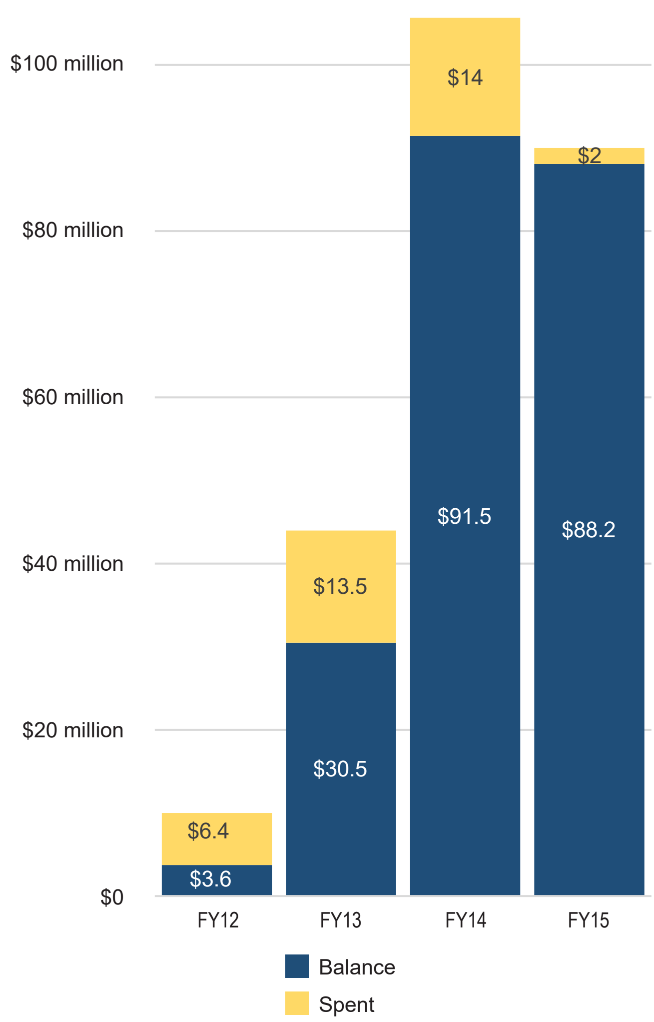
Indeed, every state service is important to someone. But something has to give. We can't continue to limp from budget to budget with the hope that next year will be better or to nickle-and-dime lower-priority programs, essentially killing them through neglect. It might be time for budget drafters to start thinking not just about cutting funding to lower-priority programs, but eliminating them altogether. No one likes eliminating important services – some New Mexicans will suffer – but it's also unrealistic to believe a neglected program, like a three-legged stool missing one leg, can continue to stand. And if we are unwilling or unable to fix it, perhaps it is time to let it go.

Senator John Arthur Smith
Chairman

Local Capital Funds Mostly Idle

Of $250 million in state money appropriated to 1,616 local capital outlay projects between 2012 and 2015, almost $214 million is outstanding, LFC analysis shows. The outstanding share ranges from 36 percent for the $10 million appropriated in 2012 to 98 percent of the $90 million appropriated in 2015. The share of projects approved in 2013 is 70 percent, while the same figure for 2014 projects is 87 percent.

Local Capital Outlay Outstanding Funds
FY12-FY15



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Volume 16 Issue 12
Published monthly in the interim by the Legislative Finance Committee.
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On the Table

General Fund Revenue Lags 10 percent

General fund revenues for FY16 through March totaled $4.1 billion, down 10 percent from the same period in FY15. The drop in gross receipts tax collections appears to have flattened out at about 3 percent to 4 percent. Taxable gross receipts are down 45.9 percent in the mining sector, 28.4 percent in manufacturing, and 28.1 percent in transportation and warehousing. Professional services and health care services continue to show strength, with taxable gross receipts up 17 percent and 8.3 percent, respectively.

Bond Rating Downgraded

Moody's Investors Services has dropped the rating on New Mexico severance tax bonds from Aa1 to Aa2, attributing the downgrade to a sharp reduction in the ratio of debt service to expectations of income.

Oil Production Up From February

March oil production was up about 6.4 percent from February but still lagged production from the same month a year ago by 3.7 percent, the Oil Conservation Division reports. Meanwhile, Sandridge Energy, once called a Wall Street "darling" by the *Wall Street Journal*, and Linn Energy, among the top 25 oil producers in the state, have both declared bankruptcy.

Air Quality Penalty Collections Down

The Environment Department's Air Quality Bureau collected nearly $2 million from penalties in calendar year 2015, down from $2.3 million in 2014 and $2.7 million in 2013. The number of enforcement actions also declined to 42 in 2015 from 51 in 2014 and 50 in 2013.

Infrastructure Money Used for Marketing

One million dollars in Local Economic Development Act funds intended for land, building and infrastructure to support new businesses will be used for marketing instead. The city of Albuquerque "clawed" back the money from Schott Solar and other companies that fell short of promises to create new jobs. The funds can now be used for other economic development purposes, and the city plans to use the money to market Albuquerque as a great location for entrepreneurs.

Transitions

LFC has hired Isaac Romero as a fiscal analyst. Romero has a bachelor's degree in business from the University of New Mexico, where he served as student body president.

Energy, Minerals, and Natural Resources Secretary David Martin has announced his retirement.

Mark Williams, Public Health Division director, has resigned.

Steve Gamble, president of Eastern New Mexico University, is retiring effective August 2017. He has been president since 2001.

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