NEW MEXICO ECONOMIC SUMMARY

In The News

- **The decline in oil prices and production is profound** nationally and in New Mexico. The U.S. rig count is down to 440, 514 rigs (54%) lower than last year. Rig count is at the lowest level since 1940, according to Baker Hughes.

- **New Mexico's rig count stands at 19, about half what it was at the beginning of the year** and down from about 100 at the end of 2014. Each rig typically employs 50 workers and another 50 to 70 supporting workers, according to the Energy, Minerals and Natural Resources Department. The decline translates into an estimated loss of more than 9,000 jobs.

- **Presbyterian Healthcare Services announced in March that it is forming a new company** with a group of North Carolina medical providers to operate a Medicaid managed care plan. The *Albuquerque Journal* reported that this entirely new Presbyterian business could bring 600 jobs to Albuquerque.

- **The Border Authority is moving forward with a $2 million study** to explore the feasibility of an international rail crossing at the Santa Teresa port of entry. Mexico is conducting a parallel study of needed connections south of the border. The study comes as the Santa Teresa border crossing is experiencing impressive development and growth.

- **New Mexico's unemployment rate has improved** from 6.8% in November 2015 – the highest in the nation – to 6.4% in February 2016.

April 2016

Sustainable Economy Dependent on Long-Term Solutions; New Mexicans Lured Away by Better Jobs

New Mexico's economic challenge is rooted not merely in the Great Recession, and a recovery is dependent on more than the inevitable, cyclical rebound. While the state's population, employment and income grew rapidly in the 1950s and enjoyed healthy, although relatively slower, growth in the decades that followed, the economy struggles to find traction today.

New Mexicans, especially those who are younger and better educated, are leaving the state for better-paying and more available jobs — and an equally attractive quality of life that includes natural beauty and outdoor recreation — in surrounding states. These young, educated persons are the foundation of a workforce that attracts employers, drives the economy with their spending and helps create a vibrant socioeconomic synergy, all of which is important to a strong economy.

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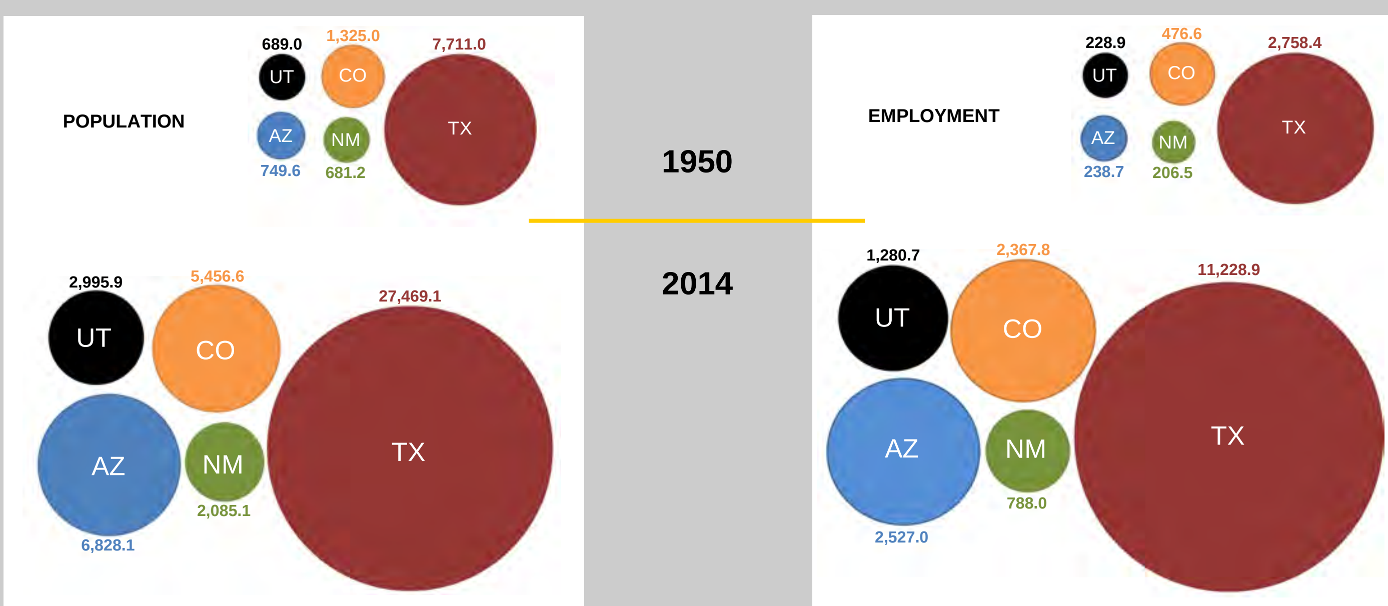
SOUTHWESTERN STATES POPULATION AND EMPLOYMENT COMPARISON - 1950 and 2014
(in thousands)



Source: United States Department of Commerce, Bureau of the Census.

Investment

Market conditions during the second quarter of the fiscal year continued to challenge the investment agencies, with all four investment funds – the land grant and severance tax permanent funds and the education and public employee pension funds – falling far short of return targets for the quarter and producing one-year returns below 2%.

The State Investment Council, which invests the two permanent funds, earned just 2.3% on the Land Grant Permanent Fund and 2.9% on the Severance Tax Permanent Fund for the quarter. With 2.6% and 1.9% for the quarter, respectively, the Educational Retirement Board and the Public Employees Retirement Association (PERA) fared about the same with their funds.

After a dismal first quarter, in which all four funds lost money, market conditions for the second quarter were more positive, with an improving economy in China, a stronger U.S. stock market and solid national job growth. However, a warm winter and excess supply kept oil prices low, extending the bear market for oil futures.

Reflecting the impact of the losses in the first quarter, all four funds show poor one-year returns. The PERA fund lost money for the second quarter in a row with returns of negative 1.1%. The one-year return for the Educational Retirement Fund was 1.8%; the Land Grant Permanent Fund, 0.2%; and the Severance Tax Permanent Fund, 0.7%.

The pension funds have a return target of 7.75%, while the State Investment Council has set the target for the Severance Tax Permanent Fund at 6.75% and the Land Grant Permanent Fund at 7%. The lower target for the Severance Tax Permanent Fund reflects the lower returns from the portion of the fund placed in "economically targeted investments" intended to boost the state's economy as well as provide returns to the fund.

The figures for three-year returns are more encouraging, with both pension funds earning close to 7% and the Land Grant Permanent Fund

Investment (cont.)

and Severance Tax Permanent Fund exceeding 7%.

A comparison of New Mexico's funds against about 50 public funds with more than $1 billion in assets by the Wilshire Trust Universe Comparison Service shows the PERA fund in the bottom quarter of performance by similar funds. The Educational Retirement Fund placed in the top fortieth percentile while the Severance Tax Permanent Fund ranked in the top quarter. The Land Grant Permanent Fund was slightly below the average, with 59% of similar funds outperforming the fund.

General Fund

Recurring general fund revenue for fiscal year (FY) 2016 is still running behind revenue for FY 2015, with the total through January 2016 almost 11% short of the total for the first seven months of the 2015 fiscal year. Year-to-date figures for FY 2016 indicate year-end totals will be close to the February estimates provided as a guide to lawmakers near the end of the legislative session.

Weakness in the oil and gas sector continues to be a significant factor, contributing to a $210 million drop in oil and gas revenues, a 30% year-over-year decline. Rippling through the economy, gross receipts tax revenue through January was down about 9%, or $111 million; compensating tax revenue down 53%, or $33 million; and corporate income tax revenue down 55%, or $91 million. The total decline in FY 2016 revenue through January, compared with the same period in FY 2015, was $383 million, with oil and gas making up more than half of the total.

Projections of year-end revenue based on monthly revenue tracking and assumptions of future collections indicate that total collections will be about $6 billion – $47 million less than the January forecast issued by the Consensus Revenue Estimating Group of executive and legislative economists. That "official" forecast was slightly more optimistic than the estimate provided as a guide in February.

Capital Outlay

Almost 160 capital outlay projects closed and more than $86 million in capital outlay funds were either spent or reverted in the third quarter of FY 2016, leaving nearly $900 million for 2,589 capital outlay projects still outstanding at the end of March 2016.

The Legislative Finance Committee (LFC) quarterly review of Capital Outlay Monitoring System data generated by the Department of Finance and Administration found almost none of the funding approved in 2015 has been spent, and 90% of 2014 funding and 66% of 2013 funding are unspent. About a third of the funding approved in 2012 and 2011 is outstanding. All of the funding approved in 2010 has been spent, although more than 10% of the funding approved in 2009 is still outstanding.

The figures do not include $374 million from supplemental severance tax bonds earmarked for public schools, but they do include $70 million earmarked for water projects, $35 million for the communities known as colonias and $29 million for tribal projects. They include funding from the general fund, severance tax bonds and general obligation bonds.

Among the projects completed during the quarter were equipment replacement at the Taxation and Revenue Department, Las Cruces East Mesa Public Safety Campus construction, San Acacia levee construction and track and other repairs for the Cumbres and Toltec Scenic Railroad. In addition, the Economic Development Department spent $5 million on Local Economic Development Act grants.

The LFC review notes that 79% of the $83.5 million appropriated in 2014 for water projects statewide is unspent and only 30 of the 191 projects have been completed. In addition, $10 million in bonds for 53 projects has been authorized but not issued. About $1 million in projects is idle because 18 entities in 11 counties have not met audit requirements, and bonds cannot be issued. Most of those projects are water system or acequia improvements.

Agency Performance

Strong state park visitation is among the successes in the FY 2016 second quarter report cards on state agency performance, while high prison inmate violence is among the shortcomings.

The LFC agency report cards are a quarterly assessment of how well agency programs have met their performance targets. Under the Accountability in Government Act, state agencies and the legislature moved from a budgeting process based on the costs of salaries, supplies, travel and eight other line items to a process focused on the funding of agencies based on performance. In exchange for greater flexibility in how it spends its funding, each agency must identify its core services, set performance targets for those services and measure actual performance against those targets.

Among the findings:

- The Medical Assistance Division of the Human Services Department, which manages Medicaid, missed seven of nine targets during the quarter. A lower percentage of infants and children received routine medical and dental checkups than in the previous year, with just two out of every five infants covered by Medicaid seeing a doctor regularly.

- The prison population was stable for the quarter, and the number of positive drug tests fell; however, the level of inmate violence rose.

- The Forestry Division of the Energy, Minerals and Natural Resources Department is predicted to fall short of its goal for treating forest and watershed areas, completing just 23% of its annual target. Progress was slowed by muddy roads and increased snowpack. Visitation to state parks is stronger than a year ago and is projected to exceed the annual target; however, revenue generated per visitor is below the target.

- The number of worker health and safety violations reported by the Department of Environment increased four-fold from the first to second quarter, from 61 to 236. In addition, 57,000 New Mexicans are being served by water systems that do not meet health standards.

NEW MEXICO WAGES COMPARED TO NEIGHBORING STATES

Occupations Where New Mexico is Lowest in Wages (8 of 22 occupational categories, or 36%)	Annual Mean Salary Difference Between Best State and New Mexico	Percent Difference	Number of New Mexico Jobs	Percent of All New Mexico Jobs
Management	$25,490	28%	38,800	5%
Business and Financial Operations	$12,360	20%	33,850	4%
Community and Social Service	$6,390	16%	13,850	2%
Legal	$25,910	35%	5,020	1%
Food Preparation and Serving-Related	$1,880	9%	78,210	10%
Sales and Related	$11,810	39%	78,050	10%
Office and Administrative Support	$4,630	14%	118,220	15%
Installation, Maintenance and Repair	$4,480	10%	31,960	4%
Average	**$11,619**	**21%**	**397,960**	**51% Total**

Source: Bureau of Labor Statistics OES Survey.

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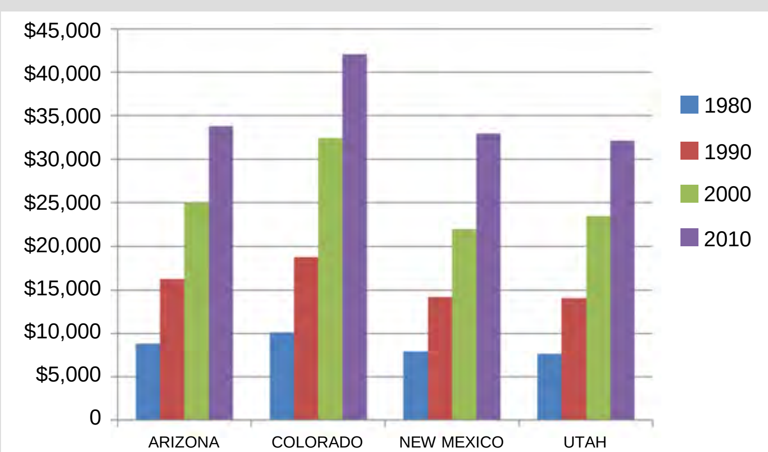
"People are moving out of here. The economy has rebounded faster elsewhere, and they're leaving", Robert Rhatigan of the Geospatial and Population Studies Program at the University of New Mexico told the data users conference last year. He reported that the state's natural expansion is about the same as the rest of the United States, but the outmigration of residents has caused the population to remain flat or decline.

New Mexico's population, which grew by more than 20% between 1990 and 2000, and by more than 13% between 2000 and 2010, is now projected to grow by just 6% between 2010 and 2020. Total non-farm employment grew by just 300 jobs between February 2015 and February 2016, according to the Workforce Solutions Department.

Higher-paying jobs across nearly every field in surrounding states continue to lure New Mexicans away from the Land of Enchantment, according to an analysis by the Legislative Council Service of the Occupational Employment Statistics (OES) Survey by the federal Bureau of Labor Statistics, Department of Labor. The annual mean salary in New Mexico was last or second to last in 18 of the 22 occupation categories surveyed, compared to those in Arizona, Colorado, Texas and Utah. New Mexico salaries were in the middle of the pack in two categories (architecture and engineering; and health care practitioners) and first in two categories (physical and social science occupations; and production occupations).

FOUR CORNERS STATES PER CAPITA INCOME
1980 - 2010



Sources: U.S. Census Bureau, U.S. Department of Labor.

A region's wages depend to a large degree on the mix of industries and the availability of qualified workers and, while New Mexico's expansive tourism sector draws out-of-state dollars, the jobs generated by tourism are often lower-paying jobs that pull down overall wage figures.

New Mexico's success in rebuilding its economy may depend on how many young, educated workers stay long enough to take jobs that do not yet exist.

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