



LFC Newsletter

A publication of the Legislative Finance Committee

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From the Chairman

Building the Future

Recently, the Board of Finance warned legislators the state needs to be cautious with the severance tax bonding fund it uses to pay loans for infrastructure because the bonding fund is currently extraordinarily inflated. The Legislature has already taken at least one step to protect the fund—it used general fund revenue for capital outlay this year instead of bonds—but the board warned the current surge in revenues in the funds is distorting the calculation of what can be used. When revenue in the fund drops, the state could have more debt than it can afford to pay.

New Mexico's finances always seem to be at one extreme or another, either racing up or bottoming out. Right now, we're on a high that looks like it will last at least through the year. But the good times could end suddenly if there's a recession, or an oil price war, or something we couldn't predict—like a pandemic. Already, energy economists are estimating the fossil fuel industry, which is driving our growth, is going to peak in about five years and then start a decline.

While the Legislature has taken steps to set aside some of oil and gas revenue windfall now coming to the state, we must also think about how to invest in infrastructure in a way that protects our economic growth but doesn't endanger the bonding fund.

When the committee meets in Las Cruces in late June, it will visit a desalination plant that serves El Paso. El Paso, like much of New Mexico, suffers from a scarcity of fresh water. The plant pulls brackish water from the Hueco Basin underground aquifer and has the capacity to produce up to 27.5 million gallons of drinking water per day.

A lack of water—a problem that is only getting worse because of climate change—is a threat to the economic development of any arid community. Alternative sources of clean water are needed in New Mexico if we want to continue to grow. Right now, desalination plants face a number of obstacles: Desalination is an energy-intensive process, disposal of brine and other by-products is environmentally difficult, and the costs of building and operating plants are high.

We don't have all the answers on how to ensure New Mexico has adequate water supplies in the future, but New Mexico universities are working on ways to overcome these desalination obstacles. With leadership and the extra revenue we have now, desalination could become an option for New Mexico.

No matter how we secure New Mexico's water future, it is likely to be costly, but water security must be a priority for infrastructure spending. Failing to act now, when we have the money, would be even more expensive.

Senator George Muñoz
Chairman

Border Economy Lags in Pandemic Recovery

Economic development in Doña Ana, Hidalgo, and Luna counties outpaced the rest of the state during the Covid-19 pandemic, but the southern border counties have fallen behind, LFC analysis shows.

In a hearing brief scheduled to be presented to the committee at 1:30 p.m. June 27, LFC staff report the border counties saw a 2 percent increase in economic activity for FY23 through April, while the rest of the state saw increases exceeding 8.7 percent.

As measured by matched taxable gross receipts—a reliable indicator of economic activity that matches tax payments against reported gross receipts—business activity outside of the border region has grown by 44.3 percent in the oil-rich counties of Eddy and Lea, 8.7 percent in Albuquerque, and 8.8 percent in the remaining counties.

LFC staff say most of the slowdown in the border counties reflects a decline in construction in Doña Ana and Hidalgo counties after a surge in FY22.

Matched taxable gross receipts are flat in Hidalgo County for FY23 so far,

while MTGR is up slightly for Doña Ana County.

In contrast, Luna County has one of the highest growth rates in the state, 24.3 percent.

While the border region is showing less growth in business activity overall, certain industries are strong. Retail trade, healthcare, and transportation and warehousing are all performing stronger in the border counties than in the rest of the state. Professional services, wholesale trade, real estate are growing at about the same rate as in other counties.

The Economic Development Department concludes in its 20-year strategic plan the border region is suitable for global trade, sustainable energy, intelligent manufacturing, sustainable agriculture, film and television, and outdoor recreation—all targeted by the department as industries key to New Mexico growth.

However, the department finds the border region faces barriers with workforce, physical infrastructure, and post-secondary education out of alignment with job needs in the area.

Juvenile Justice Population Dropping

Juvenile justice referrals to the Children, Youth and Family Department have declined to about a quarter of what they were 13 years ago, with a drop in the youth population and a change in New Mexico's approach to juvenile justice both likely contributors, an LFC evaluation finds.

In *Progress Report: Juvenile Justice Facilities*, scheduled to be presented to the committee at 8 a.m. on June 29, evaluators report the number of referrals to the juvenile justice system, for everything from running away to assault, dropped from 23.9 thousand a year to 5,600 between FY09 and FY22, hitting a low of 4,000 in FY21.

Evaluators note the Children, Youth and Families Department shifted its Juvenile Justice Services program from a punitive, custody-based approach to a rehabilitative, interventionist approach—called *Cambiar*—in FY08. A benefit of the approach was a drop in the number of juvenile offenders committing new offenses.

At the same time, the youth population in New Mexico also dropped and, also possibly contributing, drug and alcohol use among youth also decreased the evaluation finds.

Consistent with the recommendations of a 2016 LFC evaluation of the juvenile justice system, CYFD has closed two secure facilities and two reintegration centers, but staffing has not dropped in proportion to the decline in youth in the system, and the system still has excess capacity, leading to higher per-client costs.

Between FY19 and FY22, the per-client per-year cost of secure facilities rose from \$266.5 thousand to \$383.3 thousand, a 44 percent increase, and the per-referral per-year cost of field supervision rose from \$1,600 to \$2,900, an 81 percent increase.

While the progress report, a follow-up to the 2016 evaluation, finds the department has made progress since 2016, it notes per-client costs are at an all-time high.

Agencies Move \$52 million out of Personnel

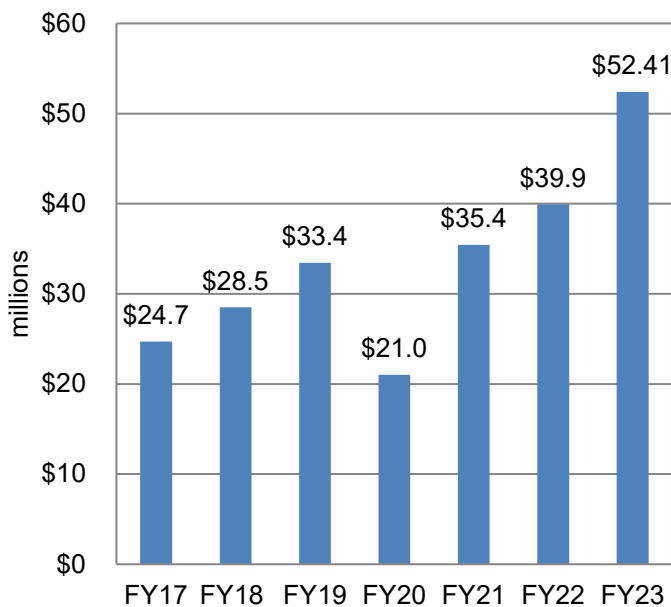
Agencies transferred more than \$52 million from personnel to other uses through the 11th month of FY23, with almost half of that—\$24.5 million—transferred by the Corrections Department.

While the total of transfers out of personnel for FY23 so far is already \$12 million more than the total for FY22, the vacancy rate, the share of all state agency positions that are vacant, is about the same as a year ago, suggesting the increase reflects larger budgets.

In addition to the Corrections Department, the agencies that have transferred the largest amounts in FY23 so far are the Department of Health (\$5.5 million), Law Offices of the Public Defender (\$4.2 million), Department of Public Safety (\$2.4 million), and Taxation and Revenue Department (\$2.3 million).

A flurry of transfers, made through budget adjustment requests, is common in the last few months of the fiscal year. Overall, agencies used budget adjustment requests to increase their budgets by a net of \$4 billion in FY23, compared with \$3.4 billion in FY22.

Annual Transfers out of Personal Services and Employee Benefits Category



On the Table

Oil Peak Expected in Five Years

Demand for crude oil is expected to slow to a trickle within five years and peak as soon as 2028, according to the International Energy Agency. The energy forecaster says transport fuels will probably peak first because of the growing use of electrical vehicles, the war in Ukraine pushing energy transition in Europe, developed nations more rapidly moving to clean energy, and the continuation of remote work started during the Covid-19 pandemic. The decline in transportation fuels will be partially offset by growing demand for jet fuel and other oil products in Asian countries, the agency says.

More Accused Staying Behind Bars

The University of New Mexico's Institute for Social Research reports more pretrial preventive detentions are being granted. So far this year, the 2nd Judicial District Attorney has persuaded the court to detain 59 percent preventive detention motions, compared with the 50 percent that has been the norm since 2019. The average daily population at the Metropolitan Detention Center in May was up 15 percent from the same month a year ago.

Medicaid Up, Other Assistance Down

The Medicaid caseload was up 2.7 percent in April compared with the same month a year, for a total of almost 991 thousand individuals. The caseload for the Supplemental Nutrition Assistance Program—food stamps—was down 4.2 percent, and the caseload for the Temporary Assistance for Needy Families—cash benefits—was down 30 percent.

The “unwinding” of Medicaid benefits because of the end of the public health emergency, which prohibited states from disenrolling members, is expected to result in the loss of 85 thousand individuals. However, the federal Department of Health and Human Services is recommending states take 12 months to redetermine eligibility and to adopt policies that keep people in the system who would otherwise be disenrolled for procedural reasons.

Wetlands Ruling Affects Most NM Waters

The U.S. Supreme Court limiting the definition of wetlands to only those continually connected to a permanent body of water will affect 93 percent of all rivers and streams in New Mexico, the Environment Department says. The department says the state can continue to protect the waters under the Water Quality Permitting Program but will need seven years to build up capacity for permit writing, program implementation, compliance monitoring, enforcement, and data management.

Leadership Experiences High Vacancies

The vacancy rate for cabinet secretaries, deputy secretaries, and division directors was 35 percent in April, well above the 20 percent for all employees. The rate is higher than the roughly 22 percent rate reported for senior leadership for April in 2022, 2021, and 2019. Forty percent of division director positions were empty, possibly because employees are reluctant to move from classified positions to exempt director positions, where they can be removed without cause.

Transitions

Peter Mantos has resigned as secretary of the Department of Information Technology to be the governor's special advisor on IT projects. Grants-Cibola County Schools has named Lane Widner as new superintendent. Widner, currently principal of Grants High School, replaces Max Perez.

Troy Weisler, formerly deputy chief of the State Police, has taken over a chief for Tim Johnson, who is retiring.

Former Acting Superintendent of Insurance Jennifer Cattechis has move to the General Services Department as deputy secretary.

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