



LFC Newsletter

A publication of the Legislative Finance Committee

Senator George Muñoz, Chairman
Representative Nathan Small, Vice Chairman
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From the Chairman

Fiscal Prudence

As we enter the budget development season, we are fortunate to be in a strong fiscal position, thanks to our disciplined approach of keeping spending growth below revenue growth during years of surplus. However, with revenue growth now slowing, it is crucial that we manage spending with care to effectively serve our people and to foster the growth and diversification of New Mexico's economy.

The key figure to focus on is 2.8 percent—the projected growth rate of total revenues, both recurring and nonrecurring, for FY26. This number not only defines our financial limits but also presents an opportunity for targeted investment.

Most state agency budget requests are now in, and they show a clear trend: the average request for recurring (ongoing) state spending has jumped into double digits. As of September 1, and not yet including the significant budgets for public schools and colleges due in November, agencies have requested an additional \$823 million for the 2025-2026 fiscal year, representing an 18 percent increase over this year's budget. Health and human services agencies alone, which account for three-quarters of the requests so far, are seeking a 21.5 percent increase. Judicial agencies have requested a 12.3 percent increase, while natural resources agencies are asking for about 20 percent more and public safety agencies for 8 percent.

When the proposed budgets for public schools and colleges—comprising approximately 65 percent of all ongoing state general fund spending—are submitted, the total request for new, recurring general fund spending could easily surpass \$1 billion.

Although the state is expected to have enough new money next year to potentially accommodate this billion-dollar increase, that does not mean we should.

Additionally, while we have traditionally focused on recurring revenues and spending, nonrecurring spending has grown significantly. Therefore, we must now consider total revenue and total spending comprehensively. Agencies are not only requesting at least \$823 million in new, recurring spending but also more than \$2 billion in one-time appropriations of state revenues.

At this critical juncture, our fiscal prudence will be put to the test. We must carefully balance the urgency of meeting immediate needs with a disciplined approach to ensure long-term stability and sustainable growth, recognizing that each dollar spent today affects our ability to invest in future generations.

Senator George Muñoz
Chairman

Cleaning Water for Use Faces Numerous Hurdles

The Environment Department is again asking for hundreds of millions of dollars to develop alternative water supplies, but the plan to get usable water from brackish supplies and oil production still has numerous hurdles to clear, LFC staff analysis suggests.

The department is asking for \$250 million to invest in the technology and promote a market for a “strategic water supply,” part of the state’s 50 year water plan and the topic of a committee hearing scheduled for 3 p.m. September 28.

The governor unsuccessfully sought \$500 million for the plan this year.

Currently, New Mexico has no treatment plants for cleaning either brackish water, which has more salt than fresh water, or “produced water” from oil fields, which contains a large number of toxic substances. Further, because produced water differs by oil field, existing technology will need to be adapted for New Mexico.

New Mexico law also prevents the use of produced water outside of the oil field

where it was produced. The water is typically reused on site for injection wells.

The Environment Department has collected technical and economic information on the sourcing, treatment, delivery, storage, and use of brackish and produced water from the industry and others but has not published a report.

The department is also in the processing of amending regulations within the New Mexico Produced Water Act to allow for the industrial use of treated produced water.

The governor has promoted the use of produced water in hydrogen production and supports financial incentives for private companies to develop the technology.

The [federal National Integrated Drought Information System](#) reports some part of every New Mexico county is experiencing drought, with the most severe conditions in southern New Mexico and parts of Rio Arriba and Sandoval counties. Parts of Eddy, Chaves, Otero, Hidalgo, and Luna counties are in extreme drought.

Weaknesses Found in Disaster Funding

The pandemic and a summer with the two largest wildfires in state history exposed weaknesses in the system for allocating emergency funding, but efforts to reform the system have mostly fallen short, committee staff analysis indicates.

Staff [reported](#) to the committee in July the emergency funding process has not been substantially updated in nearly 70 years and recent efforts to update the law have failed.

Among other issues that have been exposed since the pandemic, existing law specifies that emergency funds be drawn from a source that does not exist.

As a result, the executive since FY19 has been drawing emergency funds from the operating reserve when the contingency fund set up for emergencies runs out of money.

Almost \$204 million has been drawn from operating reserves for disaster allotments over the last six years, with much of that outside the legislative appropriation process.

The governor has authority to draw emergency funding in \$750 thousand

increments after declaring an emergency. Although not required, the governor declares an emergency through an executive order, and the administration tracks expenses by the specific order, with some funding carrying over for multiple years.

Committee-endorsed legislation from 2021 would have clarified what qualifies as an emergency, restricted funding withdrawals, and set up reporting requirements but failed to pass.

Representatives from the Pew Charitable Trust [told](#) the committee the nationwide costs of responding to disasters in the last 20 years were triple those of the previous 20 years.

A more effective approach—and an approach that can support wildfire mitigation, not just disaster response—might be to establish a dedicated fund for wildfire response made up of state emergency funding and federal reimbursements, which the state receives after it spends its own funds.

The Legislature could designate sources and uses for the fund and create reporting requirements.

Agencies Request \$2.2B of One-Time Funding

State agencies are asking for \$2.2 billion in one-time funding for special projects next year and to cover shortfalls in this and prior years, LFC staff analysis shows.

The amount requested has increase four-fold in the last five years, driven largely by the surplus from record revenue growth in 2022 and 2023.

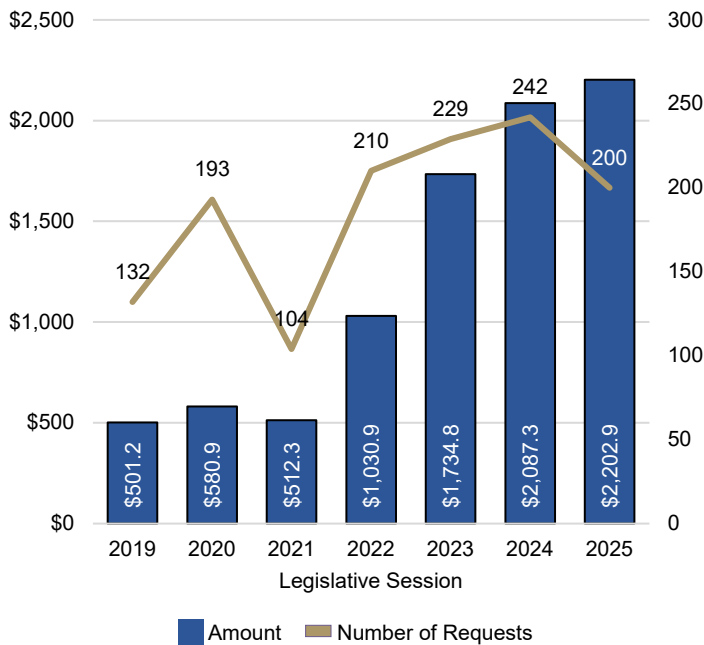
While the total dollar amount, which does not include requests from public schools or colleges, in requests for special, supplemental, and deficiency appropriations is up from this year, the number of separate requests is down, putting the average per request at \$11 million compared with \$8.6 million for this year's requests.

The requests range from \$17,500 to update computers in the 8th Judicial District Court in Colfax, Taos, and Union counties to \$250 million for a strategic water supply program at the Environment Department

The requests will be considered by legislators when they meet for the next regular session in January.

The committee is scheduled to hear a report on unspent money form past nonrecurring appropriations at 8:30 a.m. on September 18.

Special, Supplemental, and Deficiency Requests
Excludes Public Schools and Colleges
(dollars in millions)



On the Table

Employment Strong in Big Counties

New Mexico's two largest counties saw year-over-year employment growth in the first quarter of 2024 at or above the U.S. median, according to the latest payroll data from the federal Bureau of Labor Statistics. Annual employment growth in Doña Ana County came in at 1.9 percent in the first quarter, putting the county in the 25th highest percentile among mid- and large-sized U.S. counties. Bernalillo County saw employment growth of 1.1 percent, which was in the 50th percentile.

New Mexico Losing Population

New Mexico was one of 25 states and the only southwestern state that had negative net household migration from 2021 to 2022, according to the latest income tax returns. About 1,100 more people left New Mexico to live in other states than the number of people who moved to New Mexico from another state. The average annual income of households leaving the state was \$78 thousand, higher than the average income of households who moved to New Mexico (\$75 thousand) and higher than households that did not move (\$70 thousand). Households that left Santa Fe County had an average annual income of nearly \$209 thousand, 55 percent more than the average annual income households that arrived in the county (\$134 thousand). However, in Santa Fe County, 600 more households arrived than left from 2021 to 2022, bucking the statewide trend.

NM Per-College-Student 3rd Highest

The annual State Higher Education Finance report from the State Higher Education Executive Officers Association found New Mexico ranks third highest in the nation for state higher education appropriations per full-time student. New Mexico spends \$21.9 thousand per student, nearly double the national average of \$11 thousand. When total revenue, including tuition, is considered, New Mexico ranks sixth in the nation at \$25.3 thousand, 38 percent higher than the national average of \$18.3 thousand per full-time student.

Ruidoso Fire Impact Outsized

The South Fork and Salt fires might have had a more significant impact on the labor market than other major fires in the state, data suggests. While unemployment in Lincoln County increased nearly 66 percent in July over the same month last year, the 2013 Silver fire—one of the largest in state history that burned in the Gila National Forest near Silver City—was associated with between a 3 percent and 5 percent dip in employment in Grant County. Notably, the Silver fire area is sparsely populated, while the South Fork and Salt fires destroyed more than 1,400 buildings. Assessing the impact of the 2022 Hermit's Peak-Calf Canyon fire on the labor market in San Miguel, Mora, and Taos counties is complicated by its occurrence just after the pandemic.

Transitions

Matt Goodlaw, who has extensive experience in public education data analytics, has joined the LFC evaluation team. He has served as the director for Research and Accountability for the Public Education Department and has a masters in quantitative social science analysis from California State University.

Melissa Sandoval is the new superintendent of the Las Vegas City Schools. She was most recently superintendent in Peñasco.

The Health Care Authority has hired Dan Lanari as director of the Division of Health Improvement, Jen Rodriguez as director of the Developmental Disabilities Support Division, and Colin Baillio as director of the Health Care Affordability Fund.



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