



LFC Newsletter

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Representative Luciano "Lucky" Varela, Chairman

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From the Chairman

A Complete Toolbox

A contractor would not be expected to shore up a collapsing house with a hammer and some nails, and budget-drafters should not be limited in the tools they have available to fix New Mexico's collapsing budget. We need everything available to us to keep state services standing during these difficult financial times — less spending and new revenue. And we need to look hard, very hard, at how well we are spending the resources we have.

There is a lot of alarmist talk about what will have to be cut to make ends meet. But, while state government is not generally fat, some of those cuts are not as alarming as they sound. Closing two prisons sounds like a drastic measure, but in fact many of the prisons have empty beds. The Crime Victims Reparation Commission spends \$1.3 million to distribute \$1.6 million in reimbursement checks to victims of crime. Surely there is a more efficient way to distribute these important funds.

In the schools, New Mexico spends less of its public school dollar on instruction than the national average and, while it spends about the same on school-level administration, it spends 40 percent more on state- and district-level administration, according to the *Digest of Education Statistics*. Nobody wants to cut classroom spending but maybe we can save on spending outside the classroom.

If we are to succeed in seeing New Mexico through this crisis, we must use every tool at our disposal and we must use them effectively to limit the impact on New Mexicans.

Representative Luciano "Lucky" Varela
Chairman

Stimulus Mostly Unspent

New Mexico has been approved for more than a billion dollars in federal stimulus funds so far but has spent less than a third of that, the latest stimulus tracking report by the New Mexico Office of Recovery and Reinvestment says.

The figures are part of the LFC's monthly report on the state's receipt and use of the funds from the American Recovery and Reinvestment Act. The November report is scheduled for 5 p.m. November 19.

While the state has budgeted \$1.4 million of a total of \$2.1 billion expected to be received, it has spent just \$343 million, about 31 percent of the amount received so far.

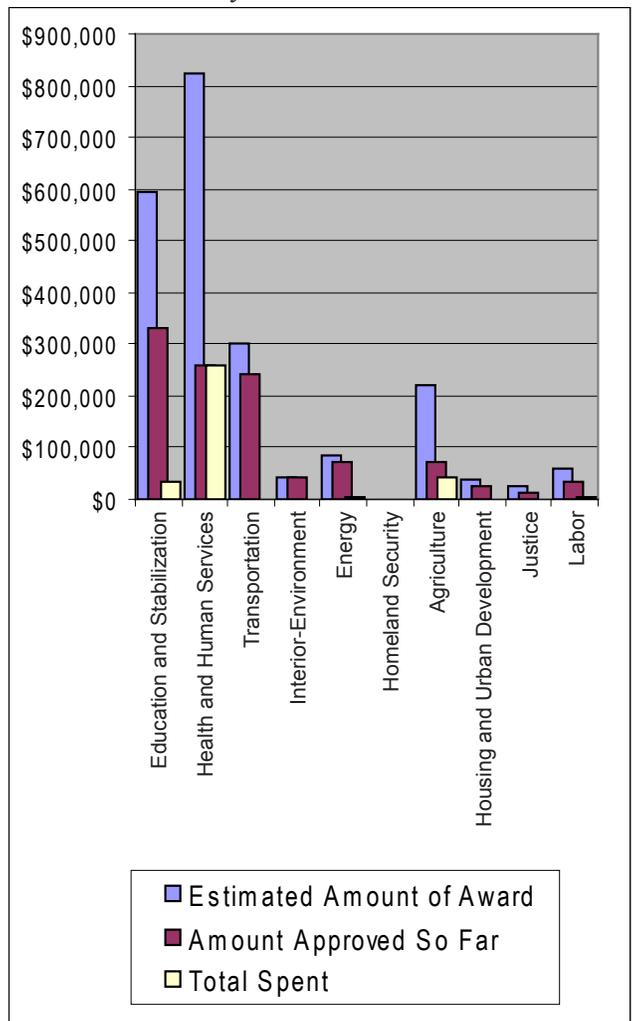
LFC analysis notes that the intent of the federal legislation was to put money into the economy as quickly as possible partly to preserve and create jobs. A condition for receiving highway construction money, for example, is whether the projects are "shovel ready."

The transportation and Medicaid programs and public schools have been most effective at putting the money to work, but the funding for other programs is idle.

Health and social service programs have been approved for the most ARRA dollars so far and

are expected to eventually receive \$822 million in federal stimulus dollars. The programs have spent most of the \$258 million received so far.

Education, the second biggest recipient of the stimulus money, has received about \$331 million so far and spent about \$35 million, or about a tenth. Most of the education money is designated for the public schools and will be spent in 1/12th allotments through the year.



New Mexico Housing Market Gets Softer Hit

New Mexico has not been hit as hard as other states by foreclosures and other problems in the housing market, but a state agency that provides loans to certain homebuyers said policymakers should keep an eye on the trends in the state.

In a recent memo that was a follow up to the Mortgage Finance Authority's September budget hearing, Erin Quinn, senior policy advisor for the authority, says the consequences of foreclosure — the loss to the homeowner as well as the impact on neighborhoods — can be severe and New Mexico lawmakers need to stay diligent.

At the end of June, the authority reports the share of subprime loans in foreclosure was 15 percent nationally, compared with 11 percent in New Mexico. The foreclosure rate for all loans was 4.3 percent nationally, compared with 2.6 percent in New Mexico.

New Mexico has received about \$20 million in federal stimulus funds through the Neighborhood Stabilization Program to buy and rehabilitate abandoned and foreclosed properties.

The state Department of Finance and Administration awarded about \$11 million of the federal funds to the cities of

Albuquerque, Las Cruces and Santa Fe.

Of the remaining \$9 million appropriated to the authority, the authority has handed out about \$7 million to groups working on homes and apartments in Rio Rancho, Valencia and Chaves counties, and Bernalillo County outside Albuquerque.

Homes rehabilitated through the Neighborhood Stabilization Program must resell or rent at prices affordable to low- and moderate-income families.

The authority has received a total of about \$97 million in federal stimulus money, including \$63 million for tax credits for certain rental developments.

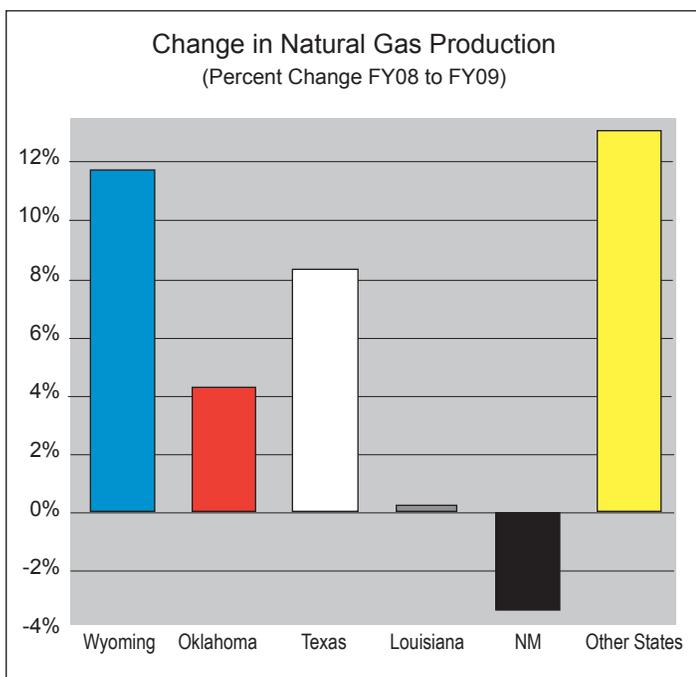
NM Gas Production Falls While Other States Grow

New Mexico was the only major natural gas producing state to experience a decline in production in fiscal year 2009, according to data compiled by the U.S. Energy Information Administration.

In part this reflects the application of new drilling techniques to shale formations in other states. New Mexico has seen little activity in shale formation oil production.

Because New Mexico's producing basins have already been heavily exploited, production will decline unless a substantial number of new wells are drilled. However, lower energy prices and tight credit have limited drilling budgets in New Mexico and elsewhere over the last year.

According to natural gas industry spokespeople, another factor in New Mexico's production decline may be the state's new environmental regulations governing the disposal of liquids, the "pit rules." Industry managers have testified the new rules increase drilling costs and are discouraging new investment.



On the Table

Economic Forecast Slips

Weaker-than-expected employment has prompted the University of New Mexico economic forecasting service called FOR-UNM to project an even weaker economy for 2009 and a longer period until lost jobs are recovered. Total employment is now estimated to have fallen from fall 2008 and fall 2009 by about 41,000 jobs, compared with 27,000 jobs in the previous forecast. Almost all the job losses were in the private sector for a drop of about 6 percent. The biggest drop was in construction, where the number of jobs dropped about 17 percent, but mining and manufacturing, both with about 14 percent declines, were also hit hard. Total employment is forecast to decline by 2.4 percent in FY10, with job growth of about 1.8 percent starting in FY11. Total employment is not forecast to reach the FY08 level again until FY13.

General Fund Revenue Dives

General fund revenue was down 26 percent for the first two months of FY10 compared with the same period in FY09. About \$190 million of the nearly \$250 million difference was due to lower revenue from oil and natural gas taxes and revenues. Without those revenues, total revenue was down 8.7 percent. Declines in gross receipts and corporate income taxes both contributed to the overall decline. Total general fund revenue is forecast to be down almost 10 percent for all of FY10.

Ozone Report Prompts Delay

The Environment Department has delayed a plan to implement stricter targets for emissions in the Four Corners region after summer ozone levels were found to be better than expected. The department also canceled a hearing before the Environmental Improvement Board on greenhouse gas emission reporting requirements set to go into effect in 2010. Instead, the state agency plans to adopt methodology developed by the federal Environmental Protection Agency, an effort to promote uniform standards nationally.

PERA Facing "Crisis"

An unexpected increase in liabilities has weakened the health of the Public Employee Retirement Association fund, with the fund's actuaries declaring the plans for judicial and magistrate retirees at a "crisis point." The actuaries say the plans for those two groups will be insolvent without legislative action. The funding period for the total fund, the estimated time to pay off unfunded liabilities, grew from 13 years to 111 years in 2009, substantially longer than the industry standard of 30 years.

Attendance Up, Money Down

Attendance at this year's State Fair increased by 1.5 percent but paid attendance was down 20 percent. Overall total revenue for the 2009 fair was down 8 percent.

Transitions

Kelly Kuentler, who served as the interim Administrative Office of the District Attorneys director, was appointed full-time director. Linda Paul, superintendent of Aztec Schools for 13 years, will lead the new School Leadership Academy attached to the University of New Mexico and funded with a 2009 special appropriation of \$200 thousand.

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