



# LFC Newsletter

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**Legislative Finance Committee**

Senator John Arthur Smith, Chairman

Representative Luciano "Lucky" Varela, Vice Chairman

David Abbey, Director

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*From the Chairman*

## Trading Places

In an interesting switch of roles with the Democratic Legislature, our conservative governor was unhappy with the capital outlay bill passed by the Legislature, not because it was too big, but because it was too small. Governor Martinez wanted to issue \$213 million in severance tax bonds to pay for construction projects throughout the state. The Legislature, looking at the dismal state of the economy, opted for a more cautious \$86.5 million. In the end, the governor signed the bill, ensuring that tens of millions of dollars in work projects will flow to communities and the state's most critical capital outlay needs will be met.

As the state elected officials closest to the daily lives of New Mexicans, we can see the need in the communities, and we would have liked to be more generous. However, spending everything we have now could have easily put us in a jam in the future. By reserving some capacity to fund projects during the 2012 session, we retain the ability to address any unforeseen needs.

It is heartening that New Mexico did not find itself in the frustrating gridlock gripping Congress. Both the governor and Legislature, in this case, cast aside preconceptions about their role in the political dance and acted in what they thought was the best interest of New Mexicans. Let us hope the dance continues.

**Senator John Arthur Smith**  
Chairman

## Recession Revenue Estimates Off in NM, Most States

On average, New Mexico's revenue estimates are more accurate than those in many states, but the state followed the national trend of most substantially missing the mark during the recession, a national study shows.

A 23-year study by the Pew Center on the States and the Rockefeller Institute of Government found that the revenue estimates in most states were off an average of 3.5 percent during the study period.

However, in 2009, half the states overestimated their revenue by more than 10.2 percent, the study found. New Mexico's final pre-budget FY09 revenue estimate was over by 7.7 percent, but the estimate for FY10, a year not included in the national study, was over by less than a half percent. The FY11 forecast was under actual revenue by 2.1 percent.

The committee will hear a report on New Mexico's latest revenue estimates for FY12 and FY13 during its meeting this month. The consensus revenue estimating group is scheduled to report at 8:30 a.m. on October 18.

The national study found that inaccurate revenue estimates for FY09 forced states to accommodate a total unplanned shortfall of \$49 billion, on top of predicted drops in income.

"In a year in which state lawmakers faced \$63 billion midyear budget gaps – coming atop \$47 billion they had already closed when crafting their bud-

gets – the missed forecasts contributed to the need for tough and unexpected choices to cut spending, increase taxes, draw from reserves and borrow money," the study says.

The Pew/Rockefeller study argues that both overestimates and underestimates, which lead to surpluses, are detrimental to states because they hamper proper planning. Surpluses tempt lawmakers to launch new programs or cut taxes without a long-term view.

The study found states underestimated tax collections in 16 of the 23 years of the study.

The accuracy of revenue estimates are dependent on the national forecasts most states rely on and the state's economic base and budget processes. However, the volatility of the revenue streams had the biggest impact on accuracy.

During the most recent recession, states were hit by a downturn in all three of the major state taxes. In 2009, states overestimated personal income taxes by 9.7 percent, corporate income taxes by 19 percent and sales taxes by 2.9 percent.

The decline in sales tax revenue caught many state's off-guard because those taxes are generally stable.

New Mexico is among the state's that rely more heavily on the three major taxes, the study says. However, its estimates of the revenue from those sources was a more accurate than those in most states.

## Questa Mine Site Gets Superfund Priority Listing

More than a decade after initially recommending the Questa molybdenum mining site for Superfund status, the U.S. Environmental Protection Agency has placed the case on the Superfund priority list.

While Chevron Mining Inc., the current owners, have 60 days to respond with a cleanup plan, the EPA says it and the state of New Mexico are already discussing early action at the site that could mean cleanup could start next spring.

An LFC report, prepared for the committee in August before the EPA designation in October, says numerous breaks in a nine-mile pipeline from the mine to tailings ponds have led to con-

tamination of the flood plain along the Red River that poses a threat to a state fishery and endangered species habitat.

Tailing pond leaks and waste-rock piles have also contributed to groundwater and surface-water contamination by both acid and molybdenum. Sediment in nearby Eagle Rock Lake is contaminated with heavy metals.

The EPA says operations at the mine, open intermittently since 1918, left 328 million tons of acid-generating rock in nine piles surrounding the open pit in operation from 1965 to 1983. More than 100 million tons of tailings were dumped in the tailing ponds after the mining operators switched to underground mining.

Being named a Superfund site means the federal government considers it one of the worst contamination situations in the country.

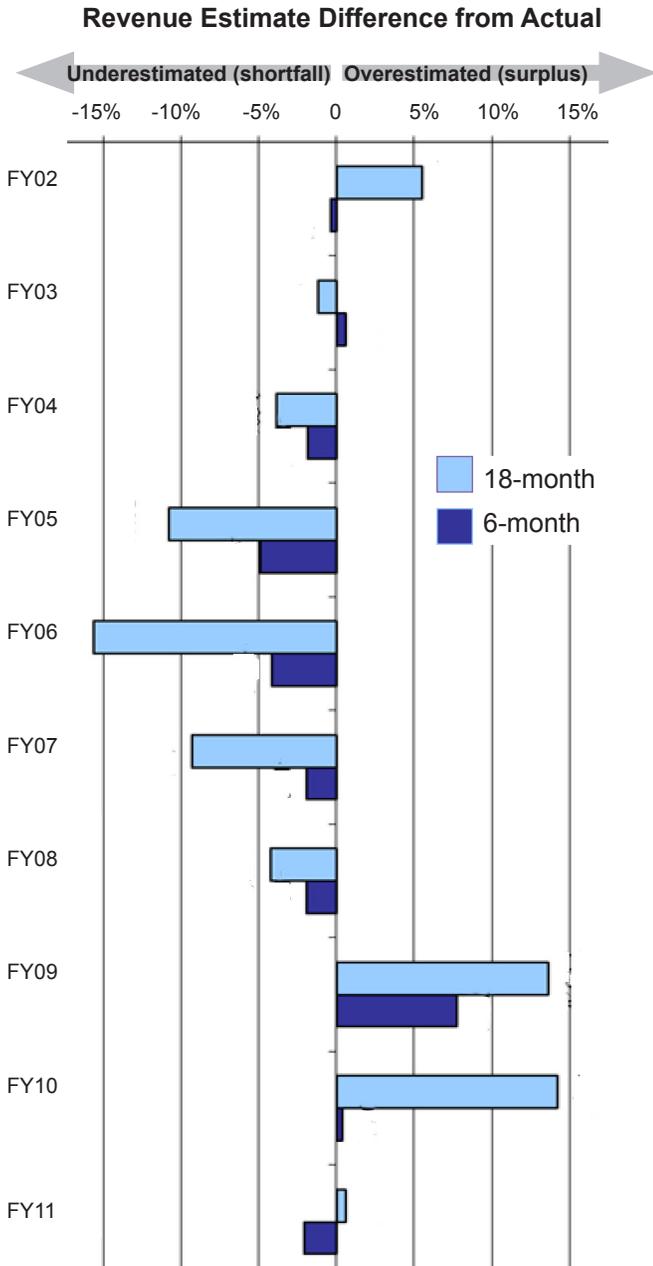
David Partridge, a vice president of Chevron Mining, told the committee that the company has been working on remediation for the last 10 years.

Chevron Technology Ventures has reclaimed 20 acres of the 2,000-acre site and built a test facility for concentrating photovoltaic power.

Molybdenum is primarily used to reinforce steel. While the Questa mine is considered to have some of the highest quality molybdenum in the world, demand has dropped with the drop in demand for U.S. steel.

# Forecast Accuracy Reflects Economic Volatility

A look at New Mexico revenue forecasts for the last 10 years shows the forecast is most likely to differ from actual revenues both when the economy soars and when it dives. Not surprisingly, the estimate put together six months before the start of the fiscal year and used for developing the budget is much more accurate than the forecast prepared 18 months before the year starts.



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## On the Table

### Federal Medicaid Match Will Drop

The Medicaid matching rate for New Mexico will drop from 69.39 percent to 69.07 percent in October 2012, costing the state about \$9 million. The rate is based on a rolling measure of the state's economic condition relative to other states.

### State Land Leases Still Strong

The State Land Office received \$10 million in bonus payments in the September lease sale, compared with \$2.8 million in September 2010.

### NM Personal Income Drops

Personal income growth in New Mexico was 1.1 percent during the second quarter of 2011, better than the annual rankings for 2009 and 2010 but a drop from the 2.1 percent growth of the first quarter. New Mexico was 35th in personal income growth for the quarter, compared with 43rd for the prior two years. Arizona was ranked 28; Texas, 8; and Oklahoma, 4.

### Transportation Forces Company To Repave

The Transportation Department has directed Star Paving to remove and replace the asphalt it laid on U.S. 84/285 south of Española at a cost to the company of \$354,000. The department found the work, one of five phases in a \$68 million reconstruction of the highway, did not meet specifications and would have deteriorated prematurely. Star Paving did the work under a \$8 million contract awarded in 2009. The project was completed in July 2010 after 16 changed orders raised the cost by almost another million dollars.

### Child Abuse Cases Up

The number of accepted reports of child maltreatment has increased by 3,511, or 24.6 percent, since FY08, the Children, Youth and Families Department reports.

### State Overpaid Unemployment Benefits

The U.S. Department of Labor estimates New Mexico paid out almost \$61 million more in unemployment benefits in FY11 than the beneficiaries were owed, a figure equal to 22 percent of the total benefits paid during that period.

### Transitions

Jerry Roark is the Corrections Department's new director of Adult Prisons. Joni Brown and James Lopez were appointed wardens at the Roswell Correctional Facility and the Penitentiary of New Mexico. Alisha Tafuya-Lucero was appointed acting warden at the Springer Correctional Facility. Rick Crespín has moved from deputy administrative services director to administrative services director at the Health Department. Raj Solomon, a former deputy secretary at the Environment Department, has been hired as environmental scientist at the Interstate Stream Commission. India Hatch is no longer director of the Racing Commission. LFC Program Evaluator Jeff Canney has been designated a certified government financial manager by the Association of Government Accountants. Mark Van Dyke has been appointed chief of staff for the Office of the Lieutenant Governor, replacing Rod Montoya. Mark previously served as the office's liaison officer. Beth Wojahn joins the LFC as Committee Services Coordinator. She has a degree from the University of New Mexico in journalism and mass communication and served 10 years in the U.S. Air Force specializing in human resources.

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