



THE TAOS NEWS

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Pump the brakes

New Mexico officials expect smaller windfall than first predicted as oil's volatility lies beneath budget

By Andrew Oxford aoxford@sfnewmexican.com

The Taos News, 13 Dec 2018



A burner on a gas well burns the hydrogen sulfide gases on a well north of Carlsbad. It may take decades for Otero Mesa to look like this if the oil and gas industry start to develop it.

State officials said Monday (Dec.10) they expect an additional \$1.1 billion for the next budget year, slightly less money than forecast by experts in August but still enough to brighten the New Mexico government's financial outlook after lean years that alarmed creditors and saw the winnowing of public services.

The windfall gives Gov.-elect Michelle Lujan Grisham and an emboldened Democratic majority in the state House of Representatives room to maneuver when they take office in January.

But at a meeting of the Legislative Finance Committee, economists and lawmakers noted that much of the money pouring into New Mexico's coffers is already spoken for as liabilities pile up and jobs throughout state government go unfilled. Moreover, officials warned the state's relative fortunes are still closely tied to a volatile oil industry.

Monday's budget forecast is certain to stir debate over how much money New Mexico policymakers should set aside in case shock waves rattle the global energy market.

The state's budget this year drew on about \$6.3 billion, but New Mexico's coffers will take in an estimated \$7.6 billion, according to the report published by a group of government economists. The state can expect as much as \$7.4 billion in revenue for the budget year that begins in July, according to the Consensus Revenue Estimating Group.

The group forecast in August that the state would take in more money next year, around \$7.5 billion.

It revised that number down slightly as economists figured the state could not count on the sort of massive, one-time hauls it has claimed this year from leasing rights to oil and gas production.

The group cautioned: "Revenues could rapidly decline not only if the oil industry experiences significant negative shocks but also if growth simply slows more than projected."

New Mexico has been producing record quantities of oil, but the group pointed out that prices have declined in the last few months. The budget forecast counts on barrels of New Mexico oil selling in the low \$50-a-barrel range. If prices fall below that level, the amount the state produces and the revenue government reaps could significantly change.

While more people are working in the state than before the recession – a benchmark the state did not reach until this year – the group noted that economic growth has mostly been focused in a few booming areas.

"Declining unemployment levels show the state no longer has a jobs problem. New Mexico has an income problem, with too many statewide jobs in low-wage positions and a diversification problem," the report said. "... Economic growth is highly concentrated in very few geographic areas within the state, and revenues and the underlying state economy are highly dependent on the volatile energy industry."

The Legislative Finance Committee's staff recommend lawmakers keep about 20 percent of the state's general fund in reserve. The Department of Finance and Administration is calling for even larger reserves – 25 percent.

Asked whether Lujan Grisham would commit to the Legislative Finance Committee's recommendation, the director of her transition team said she would submit her budget in January.

In an email, Dominic Gabello pointed to priorities, such as expanding early childhood education, filling what he described as debilitating rates of vacancies at agencies, such as the Children, Youth and Families Department, and improving pay for public employees, including teachers.

"It will be a fiscally responsible budget that accomplishes these goals while acknowledging the potential economic challenges forecast for future years," Gabello said.

Lawmakers will convene for 60 days starting Jan. 15 to craft a budget and take up what is expected to be a flurry of legislation as Republican Gov. Susana Martinez leaves office.

Some lawmakers have argued the state's financial outlook offers the perfect opportunity to make big changes to the state's long-troubled public education system and take on a range of other projects.

But writing in the Legislative Finance Committee's newsletter last week, state Rep. Patty Lundstrom, D-Gallup, suggested the new money could go fast.

The funds will "bring out virtually every advocacy group in the state – from those who fight for children's services to those who fight for business tax breaks," she wrote.

Lundstrom, who chairs the influential House Appropriations and Finance Committee, pointed to a long list of pressing needs:

- A court has ordered the state has to come up with a plan to improve funding for public education.
- People with disabilities can spend years on waiting lists for some services.
- Some state agencies are woefully understaffed and some employees are paid too little to keep them on the job.
- Some lawmakers are proposing to expand early childhood education programs.

On top of all that, Monday's report noted the state has a backlog in paying out about \$180 million in tax credits under an incentive program for the film industry. And about

\$320 million in contested tax bills are holed up either in a hearing process or in court.

"New Mexico is a poor state with extraordinary need. Even when revenue is strong, it can be hard to stretch our limited resources around all of our critical services," Lundstrom wrote.

Analysts warn that New Mexico has been here before, at least in some ways.

The last time the state saw tax revenue surge so quickly was around 2004 and 2005. The state budget included much of that spike in money to pay for recurring expenses. When revenues fell around 2008 and 2009, the state slashed its budget significantly.

This story first published in the Santa Fe New Mexican, a sibling publication of The Taos News.