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In the Bleak Midwinter: New Mexico's 2016 Budget

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New Mexico—An Overview

In early spring 2016, New Mexico was still experiencing a bleak midwinter. The economy is showing signs of recovery, but the recovery is slow, uneven and behind the state's western neighbors and the nation. Promising economic forecasts in December gave way to revised downward projections in January and, while costs have risen, state revenues have not. Demographically more people are leaving New Mexico than arriving. The people who remain are poorer and less educated than their national or regional counterparts. Politically, scandals have rocked both the executive and legislative branches. It has been a difficult winter in New Mexico and forecasts portend a windy, dry spring, meteorologically and economically.

Demographics

New Mexico is a large state geographically with a small, diverse population home to just over two million people (2,085,189) as of July 2015. The state is 47 percent Hispanic, making it number one in the country for the greatest percentage of Hispanics as a percentage of total population. Another 10 percent of the population is Native American, making New Mexico a majority-minority state (United States Census Bureau Census Quick Facts 2015).

While New Mexico's population is diverse, it is not uniformly distributed. The three major population centers are located along the Interstate 25 corridor, a route that runs north and south and divides the state east and west. Two of the three major population centers lie in the north central part of the state. This area is also home to most of the state's reservation lands, all the federally recognized Pueblos, the Navajo tribe, and one of the two Apache tribes.

This area is home to two national laboratories and a major military base, Kirtland Air Force Base. Three major towns along the interstate corridor; Las Cruces, Albuquerque, and Santa Fe, account for more than half the state population. The remainder of the state is largely rural. The overall demographic picture is one of contrasts—rich and poor, urban and rural, concentrated and sparse.

As a majority-minority state in the western sun-belt, one might presume that New Mexico is growing. It is not. Unlike neighboring states, it is shrinking demographically, and more people left the state than moved into the state in 2015 (New Mexico Legislative Council Service 2015a). Though early indications of outward migration first drew attention in 2014, the trend seems to have accelerated in 2015 (New Mexico Legislative Finance Committee 2015b).

While a shrinking population is not in itself an indicator of economic troubles, it is a reflection of economic unease in the state. New Mexico has some of the highest rates of poverty in the

country, with 30 percent of the state's children living in poverty (Nathanson 2016). The poverty ranking, released by the Kids Count program at the Annie E. Casey Foundation, tracks 16 indicators of child wellbeing and uses those indicators to rank the 50 states. New Mexico ranks 49th overall in child wellbeing (Nathanson 2016).

Also measured by the foundation were a number of education factors including high school graduation rates. According to the report, 26 percent of New Mexico high school students do not graduate on time, an improvement from previous years (Nathanson 2016). Poverty is prevalent and affects the state demographically and economically.

The New Mexico Economy

Economically, New Mexico is suffering. High poverty and low education rates have combined to give the state a bleak economic picture. New Mexico entered the great recession of 2008 more slowly than the rest of the country and didn't feel the most drastic effects of the recession until 2009 (Seckler 2014). Though state and national economies have largely recovered, New Mexico has recovered more slowly.

The state's recovery is two years slower than the rest of the country and slower than neighboring states (New Mexico Legislative Council Service 2015a). Employment growth has been slow since 2009. It was stronger in 2015, but slowed again at the end of the year (Mitchell 2016). The unemployment rate has risen to 6.6 percent (compared with national averages near 5 percent).

December 2015 unemployment figures ranked New Mexico dead last with the highest unemployment rate in the country. January adjustments allowed New Mexico to cede last place to Mississippi. Under the adjusted numbers, New Mexico dropped to the position of third highest unemployment in the country in January (Rugaber 2016).

Despite the grim economic facts and unsettling demographic trends, there are some bright spots on the economic front. New Mexico has experienced economic growth at a rate of 1.2 percent or an increase of 10,250 jobs a year. Income growth is forecast to rise to 3.3 percent in 2016 and 5.1 percent in 2018. New growth should hold steady, with the majority of new jobs expected in health care services and the social assistance sector (Mitchell 2016).

Health care has been the driver of New Mexico's job growth accounting for 56 percent of new jobs over the last year. New Mexico job growth has remained broad-based, with eight industries adding jobs and five posting losses. Manufacturing and mining reported job losses and slow or no growth (Mitchell 2016). Poor reports in these areas bear special mention as they have been the drivers of the New Mexico economy in past years.

Unemployment figures and growth are the staples of an economic report. But any discussion of New Mexico's economic situation has to include the impact of oil and gas on the state economy. While health care jobs may lead the job growth numbers, it is oil and gas production that provides the foundation of the state economy. Economists at the University of New Mexico calculate that every one dollar change to the price of oil barrels results in a \$10 million change in revenues (Mitchell 2016).

According to the New Mexico Tax Research Institute, oil and gas contributions to the New Mexico general fund reached their peak in fiscal year 2014, accounting for 35.1 percent of the general fund. The recent rapid decline in oil prices has had a dramatic effect on New Mexico's economy. When the price of oil is high, New Mexico receives substantial infusions to its permanent and general funds. High oil prices also support high wage energy sector jobs.

When the price of oil falls, state and local revenues fall, employment rates fall, and spending falls. For every one job lost in oil and gas, another 1.1 additional jobs are lost (Mitchell 2016). In July 2014 the price of oil was \$106 a barrel. In January 2016, the price fell to \$27.96 a barrel (Mitchell 2016). It is difficult to emphasize enough the impact of this fall. The dropping price of oil “tore a monster-size hole in NM’s budget” upending economic forecasts and budget plans mid-way through the January 2016 legislative session (Krasnow 2016).

Economic forecasts are ongoing endeavors, but the work to create budgeting parameters starts in the fall before a winter legislative session. In late fall and early winter, economic forecasters from the legislative and executive branches work together on a consensus revenue forecast to predict budget revenues available to the legislature when it commences its annual session in January. In August of 2015, oil prices were trading at \$41 a barrel. By December, that figure had fallen to \$40, and by late January 2016, it had stabilized at \$31 a barrel. The December forecast left legislators hopeful of \$232 million in new money with visions of employee raises and education, public safety, and Medicaid expansions filling legislative heads. By late January, budget leaders’ dreams had turned to nightmares with appropriations committees sweeping the state’s fiscal corners just to maintain current spending levels.

While plunging oil and gas prices are part of the revenue nightmare, they are not the only problem. The oil and gas downturn rippled into other sectors and broad-based tax receipts (on the sale of goods and services) were also down (Krasnow 2016). Economic forecasters publicly worried that many retail transactions are migrating to the internet, depriving the state of tax receipts. Less tax revenue and fewer taxed transactions coupled with tax credits adopted by the legislature in recent years have combined to result in a steady revenue decline.

The steady decline accelerated rapidly in the closing weeks of 2015 and the beginning of 2016. By late January, revenue forecasts were revised downward \$144 million (Krasnow 2016). The shrinking revenue stream affects current fiscal year budgets and future plans. Fortunately, the state has maintained healthy general fund reserves in recent years. The state closed fiscal year 2015 with \$713 million in reserves, an amount equal to about 11.6 percent of general spending. By the end of fiscal year 2016 (June 30 2016) general fund reserves are expected to drop to \$379 million or 6.1 percent of general spending (Krasnow 2016).

Declining revenue forecasts, shrinking reserves, and increasing Medicaid costs paved a rocky road for legislators heading into the January 2016 legislative session. Unfortunately, money woes were not the only bad news as New Mexicans were also treated to an almost-annual political corruption scandal and its fallout.

The 2016 Legislative Session

Article IV of the constitution of New Mexico provides that regular sessions of the legislature will convene each year on the third Tuesday in January. In even numbered years the legislature meets for 30 days in a budget session. During these “short” sessions, the constitution restricts legislative consideration of legislation to budget, taxes and revenue matters, veto overrides, and bills drawn pursuant to special message of the governor (Article IV, Section 5, Constitution of New Mexico).

Governor Martinez has been generous with messages expanding the breadth of financial sessions to include a number of issues of the day. In 2016 that included education, criminal justice and public safety, economic and labor measures, and motor vehicle issues. In her state of the state address on the legislature’s opening day, the governor called on lawmakers to increase pen-

alties for DWI, expand the state three-strikes law to include additional crimes, increase the pay of teachers, prohibit the social promotion of third graders, and pass legislation amending the state drivers' license law to comply with federal Real-ID requirements.

Current New Mexico allows individuals to acquire a driver's license regardless of immigration status—a provision that the governor has long opposed. The governor asked legislators to adopt legislation making the state a right-to-work state (Boyd 2016a). Lawmakers added ethics legislation and bail reform to the mix (Boyd 2016a). The hefty list of difficult issues, coupled with the moving target of revenues and the need to pass a balanced budget, provided a significant challenge to lawmakers, all of whom faced the voters in the 2016 general election. Given the weight and complexity of their task, it is best to divide their consideration between fiscal and policy proposals.

Legislative Fiscal Efforts

At the heart of any 30-day legislative session lies the need to pass a budget for the next fiscal year. In the spring of 2015, lawmakers adopted a \$6.2 billion dollar budget, an increase of 1.3 percent over the previous year (New Mexico Legislative Council Service 2015b). The 2015 effort took effect with the beginning of the new fiscal year on July 1, 2015. Through the summer and early fall of 2015, projected revenue estimates remained steady, and lawmakers looked forward to increased revenues and “new money” in 2016.

Consensus forecasts in late August 2015 showed anticipated revenues for Fiscal Year 2016 to be \$6.248 billion and anticipated Fiscal Year 2017 revenue of \$6.528 billion—including \$293 million in new money. Revenue forecasters expected new money (increased revenues) even while acknowledging that the economy had begun to contract and expressing concerns about the continued outward migration from the state. By December of 2015, revenue forecasts started to crack, with the Fiscal Year 2016 revenue expectations revised downward to \$6.17 billion and Fiscal Year 2017 projections down to \$6.47 billion (New Mexico Legislative Finance Committee 2015b). Acknowledging weak tax collections, increased tax credits, and negative job growth, forecasters still forecast \$231 million in new money, an increase of 3.7 percent over Fiscal Year 2016.

Revenue forecasts, like politics, are a moving target and by late January of 2016, revenue forecasters were revising estimates again, this time sharply downward. The new forecast, released in late January, predicted only \$30 million in new money. By that point Governor Martinez had already floated her proposed Fiscal Year 2017 budget with an anticipated overall increase of 3.7 percent proposing teacher raises and expanded education and public safety programs.

Democratic and Republican lawmakers were left to recreate a significantly leaner budget in a very short time. The new budget would need to reconcile the limited amount of new money and the expected increased cost of current government. Just to maintain programs at current levels, lawmakers would need to find \$100 million in additional money (Krasnow 2016). Medicaid costs alone are anticipated to require \$50 to \$85 million in new money in Fiscal Year 2017 (Goldsmith 2016).

While lawmakers tried to reconcile program needs and bleak economic forecasts, they were hit with another dose of bad news. Revenues for the current fiscal year (Fiscal Year 2016) were being revised downward by \$145 million. General fund reserves that legislators had been able to

maintain at over 10 percent were going to drop to less than 8 percent just to maintain current budget levels (Lee 2016).

In the closing weeks of the legislative session in February 2016, lawmakers agreed on a revised budget. The new budget of \$6.2 billion shaved millions off overall spending but included increases for public schools, Medicaid, prison guards, and police officers. The legislature passed several capital outlay infrastructure bills authorizing about \$166 million in severance tax bond funded projects and another \$186 million in general obligation bonds.

In the 30-day session the focus is necessarily fiscal, as the main requirement of the session is to pass an annual budget for the upcoming fiscal year. While budgets are the primary focus, legislators invariably take up a wide variety of other issues that often occupy more battleground than the budget. This year, as in most years, those were comprised of a group of perennial favorites and a few new issues. Most issues fell under the headings of education, crime and public safety, business/labor and economy, health, general government and ethics.

Education

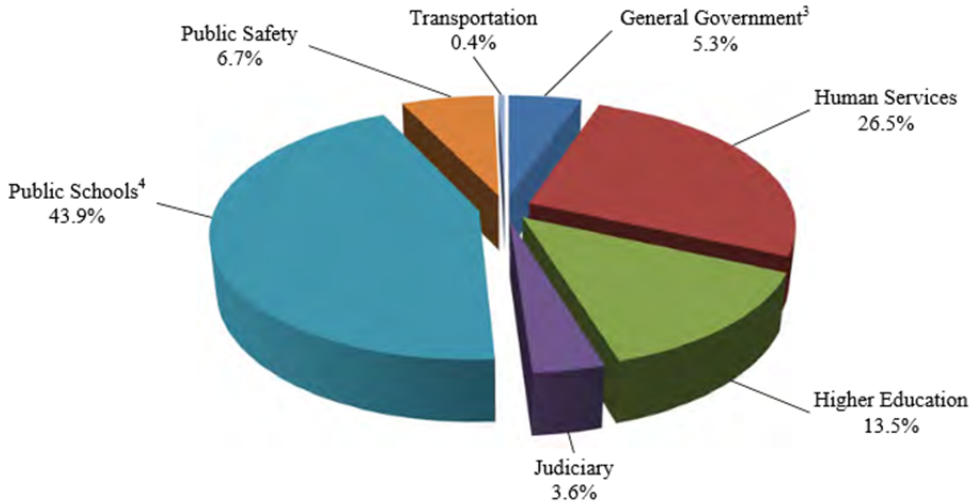
Education finances and programs are always in play and always produce major battles in a legislative session. In any given year, funding K-12 education takes more than 43 percent percent of the budget, and higher education (colleges and universities) takes another 13.5 percent (See Chart 1). Operational funding for K-12 schools is distributed through a statutory funding formula that accounts for number and types of kids and special needs in each district. Democrats have long championed the use of the formula while Republican Susana Martinez has increasingly wanted to fund special projects outside the formula.

The fight is multidimensional as formula funding goes to districts for allocation by local school boards, while special projects and their mandates generally run through the state Public Education Department under the direction of the governor. While this dispute played out in the fight over raises this year, lack of money made the dispute less fierce than in years past. In the end, Governor Martinez prevailed in her effort to mandate increasing minimum salaries for beginning teachers.

In addition to school funding, legislators enacted a variety of public school bills. Following loud complaints from students, parents, and teachers, lawmakers agreed to reduce some testing requirements, primarily for high school students. Once again law makers refused to give Governor Martinez one of her signature bills, ending social promotion of third-graders unable to demonstrate reading proficiency (ABQJournal News Staff 2016). The legislature failed to pass a constitutional amendment to increase annual payouts from the severance tax permanent fund to provide for early childhood programs.

They also did not pass legislation crafted to close an existing loophole on school employee background checks, an issue that drew public concern after the recent Albuquerque Public Schools debacle employing an Assistant Superintendent of Schools with a pending Colorado child molestation indictment (Burgess 2015). In higher education, the legislature once again failed to deal with its ailing lottery scholarship program. The program provides tuition assistance at New Mexico universities to New Mexico high school graduates. Its funding source, the New Mexico lottery, has seen declining revenues and long-term financial stability solutions have been elusive.

CHART 1
GENERAL FUND APPROPRIATIONS¹ - FISCAL YEAR 2016
Fifty-Second Legislature, First Session and First Special Session, 2015
\$6,261,802,500²



¹Includes regular session appropriations in Chapter 1 (Feed Bill) and Sections 4 and 13 of Chapter 101 (General Appropriation Act of 2015); also includes special session appropriations in Chapter 3 (capital outlay projects).
²Total reflects \$2.4 million reduction in Section 10 of the General Appropriation Act of 2015.
³Legislature, General Control, Commerce and Industry, Agriculture, Energy and Natural Resources
⁴Other Education, Public School Support

Note: Created by NM Legislative Council Service Highlights 2015.

Crime and Public Safety

High crime rates have long plagued New Mexico and the fall and winter of 2015–2016 have been particularly violent. The death of two police officers in separate incidents and the road rage killing of a four year-old girl focused the national spotlight on New Mexico’s high crime rate. Coming into the session, legislators and the governor were in rare agreement, acknowledging the need to provide for an overhaul of the state’s bail system to allow judges to keep individuals charged with violent offenses in custody longer. The legislature increased penalties for repeat DWI offenders and provided funding to clear a year-long backlog of unprocessed rape test kits that had embarrassed public safety officials. Legislators did not pass legislation advocated by the governor expanding the state’s “three-strikes legislation” to include more crimes and imposing mandatory minimums for serious violent offenders (ABQJournal News Staff 2016).

Business/ Economy/ Labor

A number of economic and business bills were introduced during the legislature’s 2016 session, though little broad-based legislation passed. What did pass was legislation to reduce unemployment compensation tax rates for some employers and legislation to reduce workers’ compensation payouts if alcohol or drugs contributed to a workplace injury. More visible in the business category was what did not pass, namely the governor’s efforts to pass right-to-work legisla-

tion and legislation to exempt state projects from the prevailing public works minimum wage (ABQJournal New Staff 2016).

Though the legislature did not pass significant business legislation, business was the subject of discussion before and during the legislative session. While reporting the decline of oil and gas and mining in New Mexico, economic forecasters have noted the significant role of health care as a driver of job growth in the state. Health care has accounted for 56 percent of new jobs in the past year. In part, this has been driven by Medicaid expansion under the Affordable Health Care Act (New Mexico Legislative Council Service 2015a). Predictably, it is that growth that provides the legislature with one of its greater challenges—how to pay for Medicaid expansion.

Health Care

Health care is always an issue in New Mexico as the state struggles to provide health care to its citizens. The state opted to expand Medicaid coverage under the Affordable Care Act, and Medicaid coverage is up 57 percent since 2013. Medicaid currently covers one-third of all New Mexicans. Paying for the expansion, coupled with the ever-increasing cost of health care, presents an ongoing challenge to state fiscal and health policymakers.

In a separate health-related issue, legislators attempted to settle a pending question of legal jurisdiction of malpractice claims. Individuals in New Mexico's large rural border areas are often shipped to Texas or Arizona to larger medical centers. A pending medical malpractice lawsuit attempted to apply state malpractice laws to a doctor working in Texas. Lawmakers passed legislation clarifying jurisdiction of medical malpractice suits when health care is provided out-of-state (ABQJournal News Staff 2016).

General Government

The classic intersection of government and people occurs in the motor vehicle department offices and, once again, the issue of who gets a driver's license occupied hours of debate. Many years ago, the legislature passed legislation authorizing the issuance of driver's licenses to individuals regardless of immigration status. Since her election to the governor's office in 2010, Governor Susana Martinez has sought the repeal of that authorization.

She had been unsuccessful in this quest for over half a decade. This year, backed by threats of federal Real ID enforcement that would prohibit the use of New Mexico driver's licenses to enter military installations and board airplanes, lawmakers passed compromise legislation to impose tougher federal ID requirements for licenses. The legislation provides driver authorization cards for undocumented immigrants and others (Richardson 2016). The legislation passage marks a turning point for Governor Martinez as the issue has taken center stage on her legislative agenda since her first election in 2010.

Ethics

Finally, ethics and the conduct of public officials continue to occupy the spotlight in New Mexico, which has weak ethics laws and weaker enforcement (Greenblatt 2016). The recent troubles of the secretary of state's office, as well as the pending investigation of a former state senator, prompted legislative leaders to once again propose ethics laws and ethics reform legislation. A package of legislation was eventually considered in the January session, though almost all of the package failed. Lawmakers had sought to create a state ethics commission and the dis-

closure of more campaign contributions, as well as disclosure of legislative capital project allocations. Almost all legislation failed, though legislation modernizing the on-line reporting system for political contributions and lobbyist expenditures did pass (ABQJournal News Staff 2016).

Conclusion

As the bleak midwinter of 2016 drew to a close, New Mexico legislators adjourned their annual regular session. They passed a budget, signed by the governor, and dealt with the basic task of financing state government. Whether their efforts will prove sufficient remains to be seen. Ethics reform, public perceptions of corruption, endemic poverty, unemployment and an uncertain economic forecast wait in the wings as issues that remain to be resolved.

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