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Title

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Permalink

<https://escholarship.org/uc/item/1j39z084>

Journal

California Journal of Politics and Policy, 8(1)

Author

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Publication Date

2016

DOI

10.5070/P2cjpp8130177

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A Study in Contrasts: New Mexico's 2014 Financial and Political Picture

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New Mexico: An Introduction

The one-time home of Georgia O'Keefe, D. H. Lawrence, and Fremont Ellis, New Mexico has long been known as a haven to artists and art colonies. In 2014, New Mexico is an artist's study in contrasts. One of the youngest states in the union, it is home to the country's oldest capitol building.¹ A large state with a small population, New Mexico has a large Hispanic population and a substantial Native American population making it a minority-majority state (United States Census Bureau 2012). Even state politics, or perhaps especially state politics, is a study in contrasts. The corners of New Mexico run conservative and tend to vote Republican. The middle Rio Grande corridor is home to the state's urban population centers; it is more moderate and tends to vote more Democratic. The overall picture is one of contrasts or perhaps dissonance and it is that landscape that best defines New Mexico. It also provides a perceptive foundation for an examination of the state's economic and political landscape in 2014.

The Economic Landscape

As of spring 2014, the economic landscape in New Mexico is mixed though generally positive. State revenues are finally reaching prerecession levels. The recession of 2008 was slow to hit New Mexico and slow to leave. Revenues declined significantly starting in February 2009 with oil dropping to \$39.00 a barrel that month (oil and gas income is a significant contributor to the state coffers). Employment held steady through September 2008 but started to drop in October 2008, and job losses continued through February 2011. New Mexico was one of only six states to have fewer jobs in February 2011 than in 2010. Budget revenues declined steeply through 2008, 2009, and 2010. During the course of the recession, general fund revenues dropped 20 percent. Economic growth was not in positive territory until the spring of 2013. Since that time general fund revenues have climbed steadily. For Fiscal Year 2015, revenues are forecast at nearly \$6.2 billion, a level not seen since 2008 (Legislative Finance Committee 2013).

While economic forecasts are positive and the financial trajectory appears upward, underlying economic indicators provide a bit of uncertainty. Job growth is slow; government jobs are

¹ New Mexico did not become a state until 1912. However, Pedro de Peralta established the oldest continually operated government building in the country in Santa Fe in 1610. The Palace of the Governors still stands on the north side of the Santa Fe plaza and today is home to the Museum of New Mexico.

flat, and private-sector job growth is only about 1.4 percent. New Mexico is not projected to regain the previous peak number of payroll jobs until 2016, eight years after that level was first achieved. This is especially concerning in comparison to job growth numbers of the previous four decades. For four decades, New Mexico has been a national leader in job growth, regularly ranking in the top 15 states nationally. In 2013, New Mexico ranked 48th (Reynis 2014).

In economic forecasting, slow job growth is one piece of the economic equation. One of the factors important to that equation is an educated workforce. Unfortunately, New Mexico is near the bottom of the charts with only 25.8 percent of the population possessing a college degree and only 83.6 percent possessing a high school diploma compared with 28.8 percent and 86 percent nationally (United States Census Bureau: New Mexico). Though the majority of New Mexicans fall behind the national education averages, some New Mexicans are leading the pack. New Mexico is number four in the nation for the number of residents with PhDs. Taken together, the education and job growth numbers point to an unsettling trend. New Mexico has become a state of significant income inequality (Reynis 2014).

Increasing income inequality and slow job growth combine with two other factors important to economic forecasts. First, population growth is down. In recent decades New Mexico has been growing, especially along the Rio Grande corridor. Population growth for the past two decades has been in the double digits. That trend came to a halt with the recession; population growth is currently at a virtual standstill (Chokshi 2014). Second, New Mexico remains heavily dependent on federal expenditures. Though we no longer lead the nation in per capita federal expenditures, 4.3 percent of our income is based on federal dollars compared to 3 percent nationally. In preparing revenue forecasts for Fiscal Year 2015, economists at the University of New Mexico's Bureau of Business and Economic Research (BBER) considered the impact of the recent federal government shutdown and the federal budget sequester. BBER estimates the potential impact of a continued sequester to be a potential loss of up to 20,000 jobs in New Mexico (Reynis 2014). Economically, that is a picture that gives economists and legislators pause.

Finally, though much of the economic picture is clearing, some portions remain unclear. While the governor and legislators cheered the infusion of "new money" into the state coffers, financial experts warned of a few uneasy spots in the revenue forecast. Unease comes from the presence of several unresolved budgetary issues that might have a significant impact on the state. These include a pending dispute with the U.S. Department of Education regarding maintenance-of-effort standards (financial expenditures) for special education students. During the recession, special education funding was impacted. The state is currently in a dispute with U.S. Department of Education regarding whether the state failed to meet appropriate maintenance-of-effort levels. The state has requested a waiver. It received a one-year waiver but has requested that the waiver apply to two more years. The potential state financial liability is estimated to be between \$28 and \$60 million over a two fiscal year period (Legislative Finance Committee 2013). There is also a continued inability to reconcile the state checkbook—a problem long simmering and slow to resolve. Finally, there is a pending fight regarding the state's use of tobacco settlement funds. All three areas could have significant financial impact.

Given increasing income inequality, flat job growth, uneasy education numbers, and frightening federal forecasts, how can New Mexico be back in positive economic territory? Though it is a puzzle, gross receipts are up, construction receipts are strong, and high oil prices and production are enough to make a significant contribution to the state economy. Budget forecasters anticipate a 5.5 percent revenue increase this year and 3.3 percent next year (See Table 1).

Table 1
December 2013 Consensus General Fund Recurring Revenue Outlook
(Millions of Dollars)

	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>
August 2013 Revenue Estimate	\$5,611.1	\$5,779.7	\$6,189.1	\$6,361.4
December 2013 Revisions	\$96.7	\$84	-\$3.1	\$26.2
December 2013 Consensus	\$5,708	\$5,864	\$6,186	\$6,388
Annual amount change	-\$94	\$156	\$322	\$202
Annual percent change	-1.6%	2.7%	5.5%	3.3%

The Political Landscape

While the economic picture remains unclear, it isn't the only thing giving mixed signals. So are the voters at the ballot box. New Mexico, though a blue state, is home to divided government. Republican Governor Susana Martinez is a popular governor entering the last year of her first term. The governor declared her intent to seek reelection entering the fray with no primary opposition and a healthy balance in her campaign fund. She eventually bested her Democratic opponent, Attorney General Gary King, in the 2014 general election.

By contrast, the state legislature is run by Democrats. Democrat Kenny Martinez is the fairly new Speaker of the House. Democratic voting strength in the house has weakened though Democrats continue to enjoy a 37–33 advantage. The state senate, too, is led by Democrats with moderate southern New Mexico Senator Mary Kay Papen sitting in the president pro tem chair and long-time Senate Majority Leader Michael Sanchez leading the chamber. The senate, like the house, has closer margins than in years past but Democrats enjoy a healthy 25–17 advantage in that chamber (New Mexico Legislative Council Service 2014). Closer margins in both chambers are evidence of Governor Martinez's successful and ongoing political efforts to defeat legislators opposing her agenda, and 2014 is a general election year.

The 2014 Legislative Session

The political and economic landscapes collide annually in the legislative session, and 2014 was no exception. Per constitutional mandate, the regular session convened in Santa Fe on the third Tuesday in January. The year being an even numbered one, legislators gathered for a 30-day "budget" session. Article 4, Section 5 of the constitution of New Mexico restricts the content of 30-day sessions to fiscal matters, veto overrides, and bills drawn pursuant to special message of the governor. Governor Martinez, as she did in the 2012 session, was generous with her messages expanding the breadth of nonfiscal matters the session could consider. As has been the case for many years, what was supposed to be a budget session expanded to debates on the major questions of the day.

Since the ostensible purpose of the 30-day session is budgetary, the crafting of the state budget rightly occupies center stage. Consensus revenue forecasts released in December 2013 predict that the state will see a 5.5 percent increase in general revenues in the fiscal year beginning July 2014. Total anticipated revenues of \$6.186 billion gave lawmakers approximately \$292

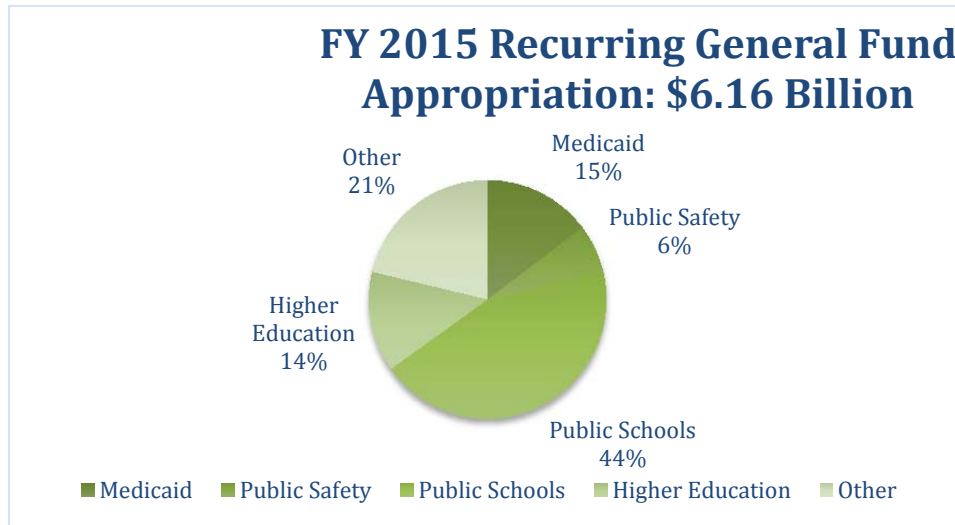
million in “new money,” over and above that which was available in 2013 (Legislative Finance Committee 2013). Much of the money would eventually go to K-12 education, higher education, and healthcare, though as might be anticipated, the debates on the expenditure of new money provided the major fireworks of the session (See Figure 1).

Revenue forecasts in New Mexico are a consensual affair between legislative and executive economists and financial staffs. Revenue expenditure is less consensual, and the legislature and the executive sparred over the appropriate distribution and control of the budget expenditures. Prior to the session, both the governor and the legislature release separate comprehensive proposed budgets. A summary of the executive budget is introduced at the beginning of the legislative session as House Bill 2. That document is soon substituted to reflect legislative priorities. Normally this happens in the house. Even the normally mundane substitution process spawned political fights in 2014 as the house could not summon enough votes to pass its own substitution of the governor’s bill. House Appropriations and Finance Committee Substitute for House Bill 2 stalled on a floor vote of 34–34 (Boyd 2014a). Democrats were hampered by the absence of two ill legislators and the defection of a third, the vote showing the weakness of their margins (Nikolewski 2014).

In response to the house stalemate, the Senate Finance Committee seized the day simultaneously enacting a different legislative budget bill. The senate crafted a compromise sufficient to pass its chamber and eventually the house. The senate bill struck a compromise between executive demands to control more education spending at the state level and local districts preferring local control and money distributed through the statutory state equalization guarantee distribution. Both the executive and legislature agreed on substantial increases in education spending over and above the average general fund increase of 5 percent. Executive appointee Hanna Skandera, a less than popular head of the Public Education Department, lobbied to have greater control of special projects money. In the end, senate budget crafters increased K-12 funding by about \$170 million or about 6.6 percent. The increase provided raises averaging 3 percent to all K-12 educators and provided for the gradual re-establishment of long ago enacted class size limits. Though the legislative bill provided significant raises for all levels of K-12 teachers, the governor vetoed language granting raises to more experienced teachers. The final bill also included additional “nonformula” money to be controlled by the Public Education Department totaling \$95.5 million or 3.5 percent of the total expenditure (Boyd 2014b).

While education expenditures may provoke the biggest fights and account for the biggest chunks of money, they account for only half the state budget picture. In the big picture, the legislature approved an almost \$6.2 billion dollar budget, authorizing a 3 percent raise for all state workers, the first raises since 2008. State police and social workers will get larger raises, higher education employees less at an average of 1.5 percent. The legislature also approved two important pieces for state judges. These were a judicial pension fund solvency fix and separate legislation providing judges with significant raises. (Judicial salaries are set by statute in New Mexico.) Unfortunately for judges, the governor signed the pension fund repair but vetoed the judicial raises. Judges, less than pleased with the gubernatorial action, filed suit against the governor claiming that she exceeded her statutory authority (Monteleone 2014b). In June, the New Mexico Supreme Court ruled that the governor had exceeded her authority and that the state’s judges were entitled to the appropriated raises (Massey 2014a).

Figure 1.



Source: LFC Files, GAA

More than Money: The Big Policy Questions

Though money is the primary focus of the legislative session, some of the biggest political fights are tangential to the money ones. The areas particularly volatile in 2014 were education policy (again), health care, Indian gaming, and water.

Education Policy and its Leader

K-12 education and higher education combine to account for almost 60 percent of the state general fund budget. Who has control of that money is a big fight. Historically, almost all money for K-12 was funneled through the state funding formula which put the money directly under the control of the state's local school districts. Public Education Department Secretary Designate Hanna Skandera proposed rerouting significant amounts of money through her office and control and her efforts spawned some of the biggest financial fights of the 30-day session. Other big education fights centered on Skandera personally. For the fourth year, the Senate refused to confirm Secretary Designate Skandera. She has continued in office despite significant opposition from some legislators and despite continuing tussles with local school boards, teachers, and parent groups. Ms. Skandera has implemented new school-ranking systems, plowed ahead with new controversial teacher evaluations, and imposed additional student-testing requirements. Her actions have managed to alienate a significant portion of the education community, but the legislature can't seem to summon the votes to approve her or remove her from office. A move to bring her nomination to the senate floor failed to garner sufficient support to move her confirmation vote out of the Senate Rules Committee (Simonich 2014b).

The education battleground has many fronts and another significant assault was mounted by proponents of a constitutional amendment to tap the state's rainy-day fund, the severance tax permanent fund. The proposal is to require an annual distribution of 5 percent of the fund to pay

for early childhood education programs. Passage of the measure requires a constitutional amendment, an action that only requires a majority vote in the house and senate and an affirmative vote at a statewide election. Last year proponents failed to get the measure out of committee, and despite vigorous campaigning during the election and the legislative session, proponents once again saw their measure stall in the state senate (Simonich 2014a).

The fight over the distribution of funds for early childhood education was just one battle. Others included the governor's reintroduction of legislation to end social promotion of underachieving third graders. Though a significant campaign issue of the governor's, the legislature has thwarted her efforts and the legislation for many years. Other proposals aimed at undoing the governor's education chief's latest actions on high school graduation requirements did pass with legislation prohibiting the changing of graduation requirements "mid-stream" and allowing marching band and athletic classes to count for physical education credit.

Higher Education

In higher education, the legislature struggles with how to keep the cost of college affordable. Since the late 1990s the state's Lottery Scholarship Act has provided a significant financial resource to New Mexico high school graduates attending New Mexico colleges and universities. The enormously popular program provides student tuition assistance for four years, provided a student meets minimum credit hour and grade point average criteria. The primary source of the fund is the state's lottery fund, a pool of money that has been diminishing. Legislators, students, and university officials have scrambled to financially shore up the popular program. Income into the fund has failed to keep pace with demands on the fund, and worried students and university administrators were faced with potential cutbacks as early as the spring 2014 semester. Despite multiple interim efforts to reshape the fund distribution and ensure long-term viability, lawmakers opted for small eligibility changes and a temporary infusion of money from the liquor excise tax (Baker 2014a). Long-term financial and structural changes were put off to another day, or year, though they remain necessary to achieve long-term stability.

Education policy and financing occupies the biggest corners of the legislative map but it also ties into the state's efforts at economic development. The legislature authorized \$233 million worth of capital projects statewide and authorized putting forth \$169 million in general obligation bonds to the voters. Many of the GO bond projects are upgrades at colleges and universities. The legislature tried another run at increasing the minimum wage following a veto by the governor after last year's session managed to pass increased minimum wage legislation. In 2014 legislative enactment failed. The governor requested and got bills to support economic development including a \$15 million fund to support local economic development efforts and supporting in-plant job training (Quigley 2014).

Health Care

Health care, a fight that has long occupied the national spotlight, remains an issue in New Mexico. Unlike much of America, the existence of the Affordable Care Act is not our primary fight. In fact, it appears the state will benefit financially by choosing to participate in the provisions of the act. When Governor Martinez signaled her intention to voluntarily expand Medicaid under the provisions of the act, she proved a rarity among Republican governors. Nonetheless her decision benefits New Mexicans (over half a million of whom are on Medicaid now) and the

state budget (Quigley 2013). The Legislative Finance Committee anticipates that the state will save approximately \$60 million with the transfer of state coverage initiative clients into the Medicaid expansion program, due to the 100 percent match rate from 2014 to 2016 (Legislative Finance Committee 2013). It is difficult to remember a time when increased Medicaid costs did not occupy a significant percentage of legislative budget discussions. As for the health care exchanges, New Mexico is using the federally operated website to enroll individuals. The exchange appears to be operating without much fanfare, and approximately 15,000 individuals signed up in the first five months.

While the Affordable Care Act has not presented insurmountable obstacles in New Mexico, health care remains a big concern. New Mexico faces two big hurdles in health care. First, New Mexico is a poor state and large numbers of people qualify for indigent health care. Second, it is a largely rural state and rural hospitals have struggled to meet the needs of indigent patients. Rural hospitals came to the legislature seeking financial solutions this session. While their plight was considered in the legislative session, only partial solutions were offered and the long-term problem of providing quality health care over large areas of unpopulated land remains.

Indian Gaming

Native Americans comprise 10 percent of the New Mexico population, and reservation and pueblo lands account for about 10 percent of the state land mass (United States Census Bureau). Tribes and pueblos assert significant political influence in the state though they do not always speak with one voice. This is particularly evident in the pursuit of economic development through the operation of Indian gaming facilities. With the passage of the federal Indian Gaming Regulatory Act of 1988, legislation mandated the involvement of states in the negotiation of gaming compacts for tribes seeking to operate class three or casino-type gaming on Indian lands (Indian Gaming Regulatory Act of 1988). The state's 19 pueblos, mostly located near the I-25 and I-40 corridors, were first to enter the professional gaming markets in the 1990s. The Navajos, primarily located in the northwest quadrant of the state, were slow to enter the gaming business, with the Navajo people voting against the opening of gaming facilities several times (Wagner 2008). Nonetheless, the Navajo Tribal Council ploughed forward and, beginning in 2008, opened three casinos in succession. Two of those casinos are regulated by the state under gaming compacts that expire in mid-2015 (Wilson 2014). For the second year in a row, Navajos brought forward a new compact proposal for legislative approval. The new proposal would allow the Navajo Nation to expand its business, authorizing the opening of up to five casinos and extending the compact for 25 years (Wilson 2014). The proposal was supported by Governor Martinez who negotiated the deal but was opposed by other gaming tribes, particularly the Acomas and the Lagunas who currently operate casinos near the Navajo reservation border (Massey 2014b). The proposal also received the support of the New Mexico House of Representatives passing that chamber. However the New Mexico Senate voted down the compact with a resounding 31–10 vote against the agreement. Navajo Nation President Ben Shelly expressed his disappointment and his resolve to regroup and return another day.

Water

Water is always a fight in the desert Southwest and this year water occupied an even more visible place on the legislative agenda. The legislature approved \$89 million in water projects but

failed to enact legislation placing restrictions on federal water diversion money or to reorganize the water projects capital planning process. In one of her eight vetoes, the governor also derailed legislative attempts to restructure the membership of the state water board.

Miscellaneous

Finally, with plenty on its financial plate, the legislature could not restrain itself from jumping into the social policy pond. Proposed bills and constitutional amendments ranging from legalizing marijuana to outlawing same-sex marriage to banning guns in parts of the state capitol to repealing the law authorizing drivers' licenses regardless of immigration status all had short, unsuccessful lives. Many of the proposals took the form of proposed constitutional amendments, an increasingly popular mechanism for bypassing the veto power of the governor.

Last but not least, after multiple attempts and a plethora of horror stories, the state legislature finally managed to pass a statewide ban on texting-while-driving. Driving while talking on a cell phone is still dealt with on a city-by-city basis.

Summary and Conclusion

After 30 days, legislators left many bills and many fights on the table. Though a budget compromise on education was reached, the underlying fight between state and local school district control was not. The relationship between the governor's unconfirmed education leader and the statewide education community remains bumpy at best. And New Mexico educators continue to struggle with the recipe for academic success. Though statewide graduation rates have risen, they are still low and education officials and the legislature struggle in their efforts to close the achievement gap. Education expenditures continue to account for the greatest percentage of the state budget. Following education is health care, and state and national leaders face enormous challenges in both these areas. Perhaps, given the challenges, it is no wonder that the picture is not clearer. Both the questions and the answers remain blurry.

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