



LFC Newsletter

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Legislative Finance Committee

Senator John Arthur Smith, Chairman

Representative Patricia Lundstrom, Vice Chairwoman

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From the Chair More Than Ever

New Mexico has mostly escaped the vitriolic partisanship that has so bedeviled us nationally. While debate on the national level has been marked by aggressive hyperbole and gamesmanship, New Mexico's elected leaders have worked together to help the state weather two major financial downturns in the last dozen years.

Now is not the time to change that.

When the Legislature meets again, many of the members will be new. That's the natural order of things. But while a new point of view is refreshing, while it can bring perspective to old arguments, it should not force out respectful interaction. The new members, along with old members, must continue to recognize that, with few exceptions, all legislators, no matter the political stripe, are doing their best to represent the needs of their districts.

The disagreement that is likely to be sparked by bringing together so many divergent views is, in fact, a defining characteristic of democracy. That's what we do. We bring together representatives of all that is New Mexico to build a consensus. The environmentalist from Taos is not likely to have the same priorities as the landman from Hobbs. Our job is to find a balance between those differing priorities.

New Mexico legislators will have their hands full during the next session. The Covid-19 pandemic has wrecked our economy and threatens our healthcare system. It will take years for our public schools and our children to recover. The oil industry that has been our unreliable but powerful economic driver has been hit hard. The need for legislators to collaborate for the good of New Mexicans is greater than ever.

Fortunately, New Mexico is working from a solid base of strong reserve funds, a base built on the collaboration of legislators, a collaboration that has served us well in past financial crises. As I described in this space some 12 years ago – between the Great Recession and the oil market crash that started in 2014 – New Mexico is best served when legislators put people before partisanship.

"If either the executive or the opposition party had decided to dig in their heels over ideology, they would have tied the state up in knots, strangling all New Mexicans in the process."

*Senator John Arthur Smith
Chairman*

The committee will hold a hybrid meeting in November in the Senate chambers of the capitol. In accordance with public health orders, only legislators, presenters, and their staffs will be allowed to attend in person. The meeting will be streamed live at www.nmlegis.gov.

Regulations Target Methane

Regulations to control methane emissions could provide a net benefit to the state in higher revenue and lower health costs, an environmental advocate told the committee in October, but a representative of the oil and gas industry said producers are reducing emissions without government intervention and regulatory costs could put some operators out of business.

Erik Schlenker-Goodrich, Western Environmental Law Center executive director, and Ben Shepperd, Permian Basin Petroleum Association president, testified during a hearing on proposed state regulations of emissions from oil and gas production venting and flaring of methane and ozone precursors, nitrogen oxides and volatile organic compounds that react to create ground-level ozone.

The Environment Department, which enforces air quality laws, and the Energy, Minerals and Natural Resources Department, responsible for regulating the industry, are working on complementary regulations to monitor and control emissions. As proposed, the new rules would require extensive record keeping, particularly from high emitters, and encourage producers to upgrade equipment and employ prac-

tices to reduce emissions.

The intent of the Energy, Minerals and Natural Resources rules, already submitted to the Oil Conservation Commission for final action, is to reduce emissions by a fixed amount every year starting in 2022, with a goal of capturing 98 percent of emissions by 2026.

Members raised concerns about the burden the new rules would place on an industry critical to the New Mexico economy and asked for more in-depth analysis of the fiscal implications.

Schlenker-Goodrich told the committee 1 million tons of methane is wasted each year as a by-product of New Mexico oil and gas production, the same amount as 22 coal-fired plants or 28 million cars. The gas is worth \$275 million and could generate \$43 million for the state through fees and taxes if captured, he said.

However, he said calculations of a net benefit to the state rely on the state closing loopholes for small producers.

Shepperd testified oil field emissions came down between 2011 and 2017, even as production went up. He said a proposed record-keeping requirement to tag all equipment alone would cost \$26 thousand a year per producer.

State Police Struggle with Staffing

Efforts to recruit state police, already hampered by the pandemic and solvency measures adopted this summer, would be hit harder under the Department of Public Safety request for the FY22 budget year, LFC analysis shows.

Directed by the governor, state agencies have submitted budget requests that generally reflect a 5 percent cut in general fund revenue from the current year.

The department, scheduled to present its request to the committee at 1:30 p.m. on November 17, has reached its 5 percent target primarily by cutting funding for currently vacant positions.

In its request, \$4.7 million of a requested \$6.4 million reduction in general fund revenue would come from funding for vacant positions in the Law Enforcement Program.

The requested cuts for FY22 are in addition to steps taken after the special legislative session this summer, when the department's initial \$10.2 million increase for the current budget year was cut to \$1.4 million for solvency.

Those steps included the rollback a new pay plan and the cancellation of one of two state police recruit schools, already impractical because of the pandemic. While the department recently implemented pay increases for officers, partially using savings, the raises are unsustainable under its request for FY22.

Further, LFC analysis indicates the department will likely experience a 6 percent drop in the state police force if it holds just one recruit school in both FY21 and FY22. The agency currently has about 670 state police officer positions filled out of 732 authorized.

Funding for police agencies became controversial earlier this year because of police-involved fatalities.

In a draft of the committee's annual report to the Legislature, staff note New Mexico has the highest rate of people killed by police in the country.

Although police-involved violence is generally a local issue, the state decides who can be certified as a law enforcement officer.

Oil, Natural Gas Production Inches Back Up

Taxation and Revenue Department data shows New Mexico produced 31.6 million barrels of oil in August, up from 31 million barrels in July but still below the peak of 35 million barrels in March.

Rystad Energy reports the majority of shut-in wells had come back online by July, but drilling activity remains low and the energy analytics company expects shale output to decline in the fourth quarter of 2020 and continue to decline into 2021.

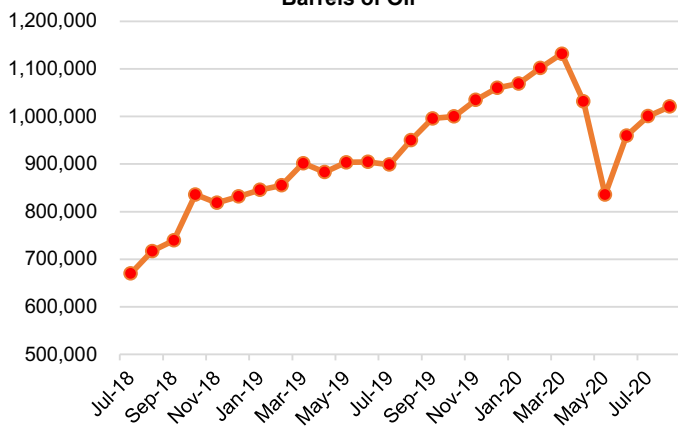
New Mexico oil was \$40.04 per barrel in August, compared with an average of \$44.01 per barrel in FY20.

New Mexico produced 164.7 billion cubic feet of natural gas in August, up from 158.9 billion cubic feet in July due to resumption of production from shut-in wells. The state's natural gas averaged \$2.23 per thousand cubic feet in August, or \$1.34 after accounting for transportation and processing deductions. The net average price in FY20 was \$1.09 per thousand cubic feet.

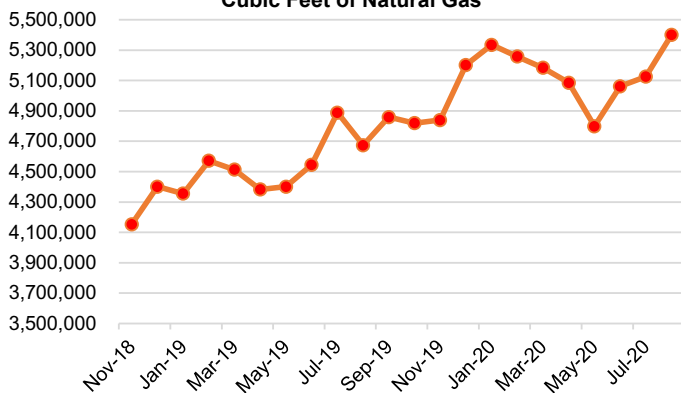
Average Daily Production

Taxation and Revenue GenTax Data

Barrels of Oil



Cubic Feet of Natural Gas



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On the Table

Unemployment Nearly Doubles

New Mexico's seasonally adjusted unemployment rate was 9.4 percent in September, down from the 11.4 percent rate in August but almost twice the 4.8 percent rate from September 2019.

Teachers can be Paid with Relief Funds

Although guidance from the U.S. Treasury on how states can use federal coronavirus relief funds has changed frequently, LFC staff estimates New Mexico should be able to offset \$305 million in teachers' salaries with its allocation from the CARES Act. New Mexico received \$1.25 billion in relief funds through the act, and action during the special legislative session authorized the use of \$750 million of that before December 30. LFC estimate 51 percent of teacher and instructional assistant salaries are eligible under a provision that allows states to use the funds for the costs of diverting education faculty and staff to substantially different tasks, such as providing IT support outside ordinary responsibilities.

NM Growth in Assaults Outstrips Nation

New Mexico's aggravated assault rate grew 54.2 percent between 2014 and 2019, close to six times the growth in the national rate of 9.2 percent. Aggravated assaults in New Mexico, which had the second highest violent crime rate in the nation in 2019, make up 78.2 percent of the violent crime, while aggravated assaults are 68 percent of violent crime nationally. Although Alaska has the highest violent crime rate in the country, New Mexico's rate of aggravated assaults is 9.1 percent higher than Alaska's; Tennessee, the third most violent state, has an aggravated assault rate 42.4 percent lower than New Mexico's.

FCC Opens Access for Tribal Broadband

The Federal Communications Commission granted 2.5 gigahertz broadcast licenses ideal for high-speed wireless Internet to 15 Native American communities in New Mexico. The Rural Tribal Priority Window, which closed in September, provided an opportunity to directly access unassigned signal capacity over tribal lands. Tribal governments granted licenses will need to raise funds to install infrastructure.

Cities, Counties Revenue Up and Down

On average, counties' general fund revenues grew by 6 percent in FY20, compared with the prior year, but municipalities saw general fund revenue shrink by an average of 3.8 percent. In general, the property tax revenue collected by counties is more stable than local gross receipts tax revenues.

Transitions

The Public Education Department has hired a new assistant secretary of Indian education, Lashawna Tso. Tso most recently served as legislative chief of staff in the Navajo Nation Office of the Speaker.

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