

Winter Magazine 2018
New Mexico Notes

Good News for New Mexico

Nearly half a billion dollars in fresh money is headed to New Mexico.

After several cash-lean budget years that prompted spending cuts and other austerity measures, a big revenue boom has hit New Mexico. State lawmakers will have an estimated \$1.2 billion in “new” money available in the coming budget year due to unprecedented oil production levels and overall economic growth, according to new revenue figures released Wednesday by legislative and executive economists. The state is on track to spend \$6.3 billion this budget year, while revenues are expected to reach \$7.5 billion for the 2020 budget year, which starts next July 1. New money is defined as the difference between projected incoming revenue and current state spending levels.

“Hopefully, we won’t foul this thing up,” Sen. John Arthur Smith, D-Deming, vice chairman of the Legislative Finance Committee, said after the revenue estimates were presented at a meeting in Taos. *“It’s great news for the entire state, but we still have huge economic problems.”*

The eye-opening revenue figure could allow for state spending levels to hit an all-time high, and give lawmakers options to increase spending on public schools, health care and other programs next year, when a new governor will be in office. One legislator even raised the possibility of its paving the way for a funding boost for several University of New Mexico athletics programs that are scheduled to be eliminated. However, economists cautioned that the projected revenue growth – an 18 percent spike from current spending levels – is based primarily on taxes and royalties associated with oil drilling in southeastern New Mexico, a historically volatile revenue source.

“This spike is unprecedented,” Legislative Finance Committee chief economist Jon Clark told lawmakers. *“We’re relying on the oil industry more than we ever have before.”* Clark and other economists recommended lawmakers maintain cash reserves of at least 20 percent of state spending – or more than \$1 billion. In addition, the state’s two large public retirement systems are facing long-term funding concerns and lawmakers have been ordered by a judge to come up with a plan by April to ensure at-risk public school students, including Hispanics, Native Americans and English-language learners, receive an adequate education.

Rep. Patricia Lundstrom, D-Gallup, chairwoman of both the LFC and a key House budget-writing panel, said the revenue boom will allow lawmakers to backfill funding for programs that were cut in recent years. But she cautioned that not all state agencies will receive budget increases, saying, *“I would not suggest that will necessarily be the case.”* Lundstrom suggested the infusion of new dollars could also allow state lawmakers to provide funding to save men’s soccer and other UNM sports teams that university regents recently voted to eliminate at the end of the year. However, she told the Journal that she felt university leaders had largely ignored legislators’ suggestions during the run-up to the regents’ vote and suggested any additional funds provided would not be a “bailout” to allow UNM to continue to outspend their revenues as has happened in past years. *“I’d be very interested in restoring those four sports, but I’ll be taking a very close look at everything else for UNM,”* Lundstrom said.

‘Economic Driver’

New Mexico is among the most volatile states in the nation when it comes to annual revenue streams, and it has historically relied heavily on oil and natural gas taxes and royalties to help pay for state government operations. There are now 104 active drilling rigs in the state, up from 62 a year ago, according to the New

Mexico Oil and Gas Association, whose executive director, Ryan Flynn, on Wednesday called the industry the state's "economic driver." Specifically, surging oil production in the Permian Basin in southeastern New Mexico accounted for 85 percent of the state's forecast revenue growth since January, according to the LFC.

The oil boom has also had a ripple effect on other industries, as two oil-rich counties – Lea and Eddy – accounted for roughly two-thirds of the state's gross receipts tax revenue growth in the budget year that ended in June, according to the Department of Finance and Administration. There has also been economic growth, albeit slower, in Bernalillo County and other parts of the state, including in the construction, manufacturing and retail sectors. And the state's jobless rate dropped significantly over the past year – from 6.1 percent to 4.7 percent.

But 12 New Mexico counties, most of them largely rural, still posted declines in their gross receipts tax collections in the most recent budget year, and the state continues to have one of the nation's highest poverty rates. "*While we are seeing rising revenues at the state level, not every county is experiencing this,*" Clark said. At a state level, the revenue boom has already allowed New Mexico to replenish cash reserves that were depleted during the recent economic downturn, and \$177 million is projected to be set aside next July in a recently created "rainy-day" fund that would be available to lawmakers for future budget crunches.

Meanwhile, acting Taxation and Revenue Secretary John Monforte attributed much of the state's budget turnaround to the policies of outgoing Governor Susana Martinez, who inherited a budget shortfall upon taking office in 2011. Some lawmakers and economists have questioned that claim, and Senate budget guru Smith said Wednesday that lawmakers had already been working on fixing a previous budget crunch before Martinez became governor. In a statement Wednesday, the two-term Republican governor described the revenue boom as the "*largest budget surplus in New Mexico history.*" "*By right-sizing government, cutting taxes and strengthening our economic development tools we are growing and diversifying our economy,*" Martinez said. "Our private sector is booming, and we are creating new jobs and bringing investment to our state coffers after a record-breaking oil and gas lease sale this week by the U.S. Bureau of Land Management's Carlsbad Field Office.

The two-day, online auction generated \$972.8 million in bonus bids for 142 parcels in Eddy, Lea and Chaves counties, breaking all records for BLM lease sales across the nation, according to the agency. The amount generated is nearly three times the \$358 million the BLM earned from all sales nationwide last year, and more than two times the Agency's record year for lease-sale income in 2008, when it earned \$408.6 million.

New Mexico will reap about \$467 million from the Wednesday and Thursday sales, because 48 percent of the revenue from such lease auctions goes to the State where the oil and gas activity occurs. The rest goes to the U.S. Treasury. The auction results drew praise from U.S. Interior Secretary Ryan Zinke, who said in a news release that the State's robust oil and gas development has turned New Mexico into a "centerpiece" for the country's "*all-of-the-above energy future.*" "*The people of New Mexico will see about half a billion dollars of this right back into their roads, schools and public services,*" Zinke said in a prepared statement. The lease-sale money will significantly increase the State budget for the current fiscal year.

In August, the Legislative Finance Committee and executive economists projected a \$900 million revenue surplus for fiscal year 2019, which began July 1. However, that projection was based on an estimate of just \$200 million from the BLM's latest auction. The \$467 million it actually earned would now push that surplus to nearly \$1.17 billion. Apart from the lease sale's record for total income, the auction also produced the highest bid ever for a single parcel and the highest per-acre bid ever received by the BLM in all its lease sales nationwide. That bid generated \$101.5 million for a 1,240-acre parcel in Eddy County, representing \$81,855 per acre. That's up from BLM's previous record of \$76.7 million for a single parcel

set during an auction in New Mexico in 2016. And it's double the BLM's previous \$40,000 per-acre record bid, set during a 2017 New Mexico auction.

The record-breaking auction reflects an unprecedented boom in oil and gas production in the Permian Basin in West Texas and southeastern New Mexico, particularly in the Delaware Basin, an oval-shaped shale rock formation that protrudes from southwestern Texas northward into Eddy and Lea counties. Modern drilling technologies have turned that zone into one of the most productive oil and gas fields in the world, which is sharply driving up prices for land parcels there.

New Mexico oil production reached an all-time high of 171 million barrels in 2017, and output this year is on track to climb even higher. Production reached 87.5 million barrels as of May, up from 66.8 million barrels in the same period last year, according to the state Oil Conservation Division.

"New Mexico is at the forefront of the oil and gas industry," Ryan Flynn, executive director of the New Mexico Oil and Gas Association, told the Journal. *"We'll see more records being broken going forward."* Unlike the boom-and-bust cycles of the past, the industry expects production to continue climbing for at least a decade, Flynn said. *"This is different than anything we've experienced before,"* he said. *"We're not only seeing record-setting production, but sustained growth that we expect to continue over the next five to ten years."*

Before this week's auction, environmental groups said the BLM was planning to include about two dozen parcels within 10 miles of Carlsbad Caverns National Park. But in late July, the BLM eliminated those parcels from the September auction.

The 2018 NMPMA Convention and Trade Show was a great success. This year's convention was held at Sandia Resort and Casino. Attendance was up over last year and the golf tournament held on the 21st was great, with 120 players. All had a fun time. The tournament was won by Jonas Armenta, Ed Dubois, Mike Riordan and Aubrey Edge. That afternoon the trade show opened, and I want to personally thank all the vendors for their support. This year's keynote speaker was Tom Church, Cabinet Secretary of the NM Dept. of Transportation, who gave a breakdown of transportation needs and how highways play a big role in economic development in New Mexico. At the August 22nd membership meeting, the speakers were Gerry Ramm (Spirit Brand), Linwood Tatro (Federated Insurance), Dana Bahar (Petroleum Storage Tank Bureau Chief), and David Barden (CEO of NM Lottery).

NMPMA Upcoming Events

The NMPMA Convention and Trade Show will be held **August 19-21, 2019**, at Sandia Resort and Casino in Albuquerque, New Mexico.

NMPMA wishes all of you a Merry Christmas and a Happy New Year!!