

New Mexico Notes by Ruben Baca

In the NM SPOTLIGHT ...

Oil and Natural Gas Prices Trending Ahead of Forecast Oil prices are on track to average \$6 more per barrel in FY21 than the \$43.50/bbl for FY21 in the February forecast, while natural gas prices are expected to average \$3.05 per thousand cubic feet, slightly above the forecast of \$2.45/mcf, economists report. A \$1 change in the annual average New Mexico price of oil has about a \$23 million impact on the general fund, and a 10-cent change in the annual average New Mexico price of natural gas has about a \$14 million impact on the general fund. The price of oil is on track to average \$57/bbl in FY22, compared with \$47/bbl in the forecast, the economists report. In addition, New Mexico is the only top oil-producing state to have recovered to pre-pandemic production levels, despite fewer active drilling rigs. Production is being boosted by output from the completion of wells that were previously “drilled-but-uncompleted.” New Mexico is currently on track to produce about 390 million barrels in FY21, 20 million barrels above the February 2021 projection.

In the last five years, the “tax gap” between what taxpayers owe but fail to pay has grown by more than \$100 million, partly because agency efforts have resulted in greater identification of owed taxes but not an increase in collections, a report finds. In a follow-up to an evaluation of the tax gap in 2016, the Program Evaluation Unit reports the tax gap has grown from \$635 million to \$743 million since its original report. At the same time, spending on tax administration programs increased by 11 percent, and the department invested in technology that has improved its auditing. A progress report scheduled to be presented to the Taxation and Revenue Department has improved its ability to assess taxes, but not its ability to collect them. Taxpayers who dodge their responsibilities force the state to raise taxes to support government services, placing a greater burden on law-abiding taxpayers, the report notes.

Road Fund Steady but Maintenance Lags; Tax Collections Fall Short of Amounts Owed. LFC evaluators point out almost \$593 million in assessed taxes are being challenged by taxpayers in formal protests, a 360 percent increase over the \$161 million under protest in FY17. Noting the potential impact of a halfbillion dollars in protested taxes on revenue forecasts and budgeting, the evaluators report five of the 25 positions in the department’s protest unit are currently vacant and almost \$50 thousand of a \$500 thousand special appropriation for protest litigation was never spent. Many of the weaknesses identified in a 2016 report and a 2017 update remain, the Progress Report says, including a finding that the audit program suffers from high vacancies and turnover among staff. However, the report notes, the Audit and Compliance Division increased productivity in identifying taxes owed until FY21, when assessments per FTE fell by 26 percent. In FY20, division staff assessed an average of \$671 thousand per FTE, a 12-to-1 return on the state’s investment in the division. The state road fund, highly dependent on fuel sales, survived the travel restrictions of the pandemic mostly intact, but road maintenance needs continue to outstrip revenue. The Department of Transportation in January 2020, before the pandemic began, estimated road fund revenue of \$511 million for FY21 and currently anticipates the final total for the year will be between \$508 million and \$513 million. Revenue was partly boosted by a 2019 change to state law that increased the motor vehicle excise tax from 3 percent to 4 percent and earmarked the additional \$50 million to \$60 million in revenue for the road fund.

However, stagnant fuel tax revenue – New Mexico’s 17 cents per gallon has not changed since 1995 and is among the lowest in the nation – and a one-third drop in road fund purchasing power since the year 2000 means the fund cannot keep up with need. The department’s latest pavement condition rating data shows 21 percent of the state’s roads are in poor or very poor condition. The department estimates the gap between maintenance needs and available revenue is \$281 million. Construction costs increased by 23 percent between FY15 and FY20, although increases in materials, which affect construction costs, have not been uniform, with base course costs increasing by

53 percent, structural concrete by 50 percent, and hot mix asphalt by 3 percent. The Legislature approved special general fund appropriations totaling \$819 million between 2018 and 2021 and authorized \$300 million in bonds to help close the gap and for new road construction statewide. As a result of the extra funds and a mild winter, the department is on track to exceed its targets for roadway preservation in FY21, LFC staff reports.

The official and literal launch of space tourism earlier this month, with the first commercial passenger spaceflight from Spaceport America, was a single moment – an inspiring and monumental moment – representing years of work and investment by Virgin Galactic. Similarly, it was also a single step, but a significant step, on New Mexico’s path to becoming a hub for the space industry. New Mexico’s leap of faith into an untested economic sector has not come cheap. The state has invested nearly two decades and hundreds of millions of dollars into Spaceport America. But it has the potential to pay the state back multifold. Virgin Galactic pays the state \$3 million a year for its spaceport lease and employs 180 people who have spent \$9 million on New Mexico real estate. In addition to an estimated 400 commercial flights per month, Virgin Galactic will be training NASA astronauts headed to the International Space Station. SpinLaunch, which has built the world’s largest evacuated centrifuge at the spaceport to fling satellites into space, has 59 New Mexico employees earning an average of \$174 thousand a year. The 10-year economic impact of the company is estimated at \$527 million. Up Aerospace has built a Space Propulsion Center at Spaceport America and Haps Mobile Aerovironment is working on a solar powered stratospheric telecommunications platform at its spaceport facilities. Those are just the tenants. The spaceport also provides services to Exos Aerospace, Boeing, Swift Engineering, C6 Launch, Stratodynamics, and White Sands Research and Developers, LLC. It also hosts the Spaceport America Cup, a rocket engineering competition for student teams, and promotes science and engineering education through its STEM with Spaceport America program. Yes, we’ve invested heavily in the spaceport but it is proving to be a sound investment. The activity at Spaceport America should allow the facility to soon start supporting itself. Its economic success – and high-paying STEM jobs – will ripple through the economy statewide. And it has the potential to be a base of educational and industry opportunity. When President Kennedy engaged the United States in the space race of the 1960s, he faced a brigade of naysayers. And for a while, it seemed they would be proven right. But the space program helped make the United States the powerful leader in science and technology it is today. New Mexico is still at just the beginning of its space journey, but the Virgin Galactic launch suggests we are on the right trajectory.

Vets Home Repairs Estimated at \$25M. The Department of Health and Architectural Research Consultants estimate renovation of the New Mexico State Veterans’ Home would cost \$25 million, while replacement with a similarly sized building would cost between \$53.8 million and \$80.8 million. The facility condition assessment concludes the building is outdated and in poor condition.

Schools Spend on Technology, Air Quality: School districts have reported to the Public Education Department they have used about 45 percent of their second allotment of federal relief funds on ventilation systems to improve air quality, personal protective equipment and other supplies to continue services under pandemic restrictions, and technology, including adaptive technology for students with disabilities. Districts reported spending only 10 percent of the \$392 million they received in the second allotment of elementary and secondary school emergency relief (ESSER II) funds on summer and after-school learning and other programs to recover learning lost when schools suspended in-school classes. Among large districts, only Los Alamos Public Schools reported allocating 100 percent of their ESSER II funds to address learning loss. The American Rescue Plan Act requires school districts to spend at least 20 percent of the third allotment of relief funds – ESSER III funds – to address learning loss. Childcare Assistance Enrollment Up. Childcare Assistance enrollment increased to 14,485 in May, up 639 from the previous month but still significantly below pre-pandemic years. The Early Childhood Education and Care Department recently announced it will increase reimbursement rates for childcare providers and raise the income limit for families to 350 percent of the federal poverty level, allowing for a family of three earning up to \$76,860 a year to receive subsidized childcare.

Workforce Hires Contact Tracers. The Workforce Solutions

Department has hired more than 100 new staff members, including Health Department workers no longer needed for tracing COVID-19 contacts, according to managers. The staff increase will allow the department to return calls to the call center, manned remotely, on the day they are received.

The economic hit of the pandemic has been uneven – Amazon grows ever bigger, and the local salon is forced to close; household savings soar along with mortgage delinquencies. But, without a doubt, the blow to tourism-related businesses has been nearly universal. Between shutdowns and reduced capacities when open, travel restrictions, and consumer fears, the industry has had few options for offsetting pandemic-related losses. In 2019, before the pandemic, one in 12 New Mexico jobs was related to tourism, and the industry generated more than \$700 million in tax revenue for state and local governments. In January 2020, matched taxable gross receipts, a key indicator of business activity, were up more than 15 percent for the leisure and hospitality sector compared with 2018. Three months later, matched taxable gross receipts were down by more than 35 percent. And they stayed down. Even with the vaccine rollout and the loosening of restrictions, as of March, business activity in that industry had not recovered. In a list of the top 25 percent of unemployment claimants by occupation, restaurant servers and cooks and housekeepers were all in the top 10, with waiters and waitresses at number two.

Follow-up Events

Good news! Sandia Resort and Casino OPENED and we continued with our dates of August 23-25, 2021, for our Convention and Trade Show. Look for a follow-up in the next *WPMA News* in the upcoming December Issue. See you in 2022!