

Revenue projections continue to fall as oil prices stay low

Written by By Matthew Reichbach NM Political Report
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Revenue projections continue to fall thanks to oil prices remaining lower than previous projections, meaning that there could be some tough decisions in the upcoming legislative session.

The new projections show that legislators will have \$232 million in new funds for the upcoming legislative session, which is down by \$61 million from the previous projections. The projections are for the Fiscal Year 2016 budget and came at a Legislative Finance Committee meeting on Monday.

Even with the reduced amount, Senate Finance Committee chair John Arthur Smith, D-Deming, was skeptical of the projection.

“We hope the revenues materialize, but it’s going to be extremely painful if they don’t,” Smith said.

The two major themes of the presentation to the LFC was that the price of oil continues to fall and that New Mexico continues a slow but steady recovery from the recession.

Elisa Walker-Moran, the chief economist with the Taxation and Revenue Department, said that New Mexico has seen 38 straight months of year-over-year job growth. The most recent numbers show 2,800 jobs in October compared to the previous year.

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Still, New Mexico's unemployment rate of 6.8 percent remains well above the national average and is itself higher than last October's 6.2 percent rate.

Christina Keyes, an economist with LFC, said the 0.3 percent year-over-year job growth "is well below the forecast."

The oil and gas industry in the state continues to keep production up, but oil prices have stubbornly stayed low. The industry, through severance taxes and other streams, is a key part of the state's budget.

Walker-Moran noted, "When the prices decline, production doesn't necessarily decline."

Tom Clifford, the Cabinet Secretary of the New Mexico Department of Finance and Administration, said that the state should expect some recovery on oil prices, but not to expect \$120 per barrel numbers again.

Much of this has to do with the efficiency of new oil and gas extracting technologies, such as fracking.

There are some bright sides to the economy, including health care spending and a budget deal on a federal level that ends sequestration, which will help New Mexico, which has significant federal spending from two national labs and three U.S. Air Force bases.

Rep. Larry Larrañaga, R-Albuquerque, said that the Medicaid spending was worrying because of money that comes from the state's general fund.

He said even with the increased Medicaid funding from the federal government, it "doesn't necessarily translate into the revenue for the state. We're seeing a hit for it on that side of the ledger."

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Clifford noted the state benefits from both a tax on insurance premiums and the gross receipts tax on healthcare spending.

Taxation and Revenue Department Secretary Demesia Padilla mentioned the the projections did not include increased audits from new software.

“I anticipate that we will continue to see increases and that is not in the revenue projections,” she said.

Meanwhile, any across-the-board compensation increases seem like a remote possibility; Clifford instead said that targeted compensation increases for public safety, corrections, child welfare and information technology was more likely.

The public safety increases are an almost certainty.

“It’s going to be very tight because of the Medicaid increases and additional public safety funding,” Clifford told Rep. Luciano “Lucky” Varela when the Santa Fe Democrat asked about the possibility of across the board pay increases.

As for requests from the courts and public defenders’ office for increased funding, Clifford said they would likely not be able to be reached.

Sen. Richard Martinez, Española, said later that with pushes to increase jail time and a constitutional amendment that would allow the denial of bail, public defenders would be taking on more work.

Clifford said the public defender’s office had seen increases in the past and could instead look at more efficient ways to manage their caseload.

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From those on the administration side, there was largely a tone of cautious optimism while noting the problems posed by dropping oil and gas prices.

“Let’s try to be careful to not be too bearish about one issue like the oil price and ignore a lot of good things that are happening in the economy,” Clifford warned, noting that the projection for the previous fiscal year as \$130 million short.

Smith, who had to have the last word, warned, “Let’s not be too bullish.”

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