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**California Journal of Politics and Policy**

**Title**

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**Permalink**

<https://escholarship.org/uc/item/4nw7h63j>

**Journal**

California Journal of Politics and Policy, 5(3)

**Author**

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**Publication Date**

2013-07-01

**DOI**

10.5070/P2ZK5G

Peer reviewed

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# New Mexico: Celebrating One Hundred Years of Statehood, a Recovering Economy, and a Balanced Budget

**Abstract:** As New Mexico enters its centennial year, the state is home to over two million people, a diverse population, a divided government and a five and a half billion dollar general fund budget. This paper will examine the budgeting process, participants and decisions that created New Mexico's budget in its centennial year. In addition to covering the budget, this report will address issues that affect the budget including major legislative and political issues and the political landscape of state government as it approaches FY 2013.

**Keywords:** New Mexico; legislature; governor; FY 2012-13; budget; West.

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## 1 Introduction

In January 1912, President William Howard Taft penned the document proclaiming New Mexico's statehood. At the time, President Taft remarked, "I am glad to give you life. I hope that you will be healthy." One hundred years later, as New Mexico enters its centennial year, the state is home to over two million people, a diverse population, a divided government and a five and a half billion dollar general fund budget. With a nod to President Taft, the state is financially healthy. This paper will examine the budgeting process, participants and decisions that created New Mexico's budget in its centennial year. In addition to covering the budget, this report will address issues that affect the budget including major legislative and political issues and the political landscape of state government as it approaches FY 2013.

## 2 New Mexico – Its Land, People and Income

New Mexico, the country's 5th largest state, is home to a small diverse population concentrated along the central Rio Grande corridor. While large in size, it is small

in population with 2011 census figures estimating 2,082,224 occupants. The population is rapidly growing (15th fastest in the country according to the 2010 census) and poor with more than 18% of the population living in poverty. New Mexico is a minority majority state with 46.3% of the population of Hispanic origin and 9.4% Native American. New Mexico has fewer foreign born residents than most US states (9.7% in New Mexico compared to 12.7% across America), though more than a third of residents speak a language other than English at home (36% as opposed to 20% nationally).

The federal government has an important presence in New Mexico as it is home to two national laboratories, four military bases, and seven national forests. Washington DC also has an important financial presence in New Mexico and for many years, the state has reaped the benefits of large federal appropriations. As recently as 2005, New Mexico led the nation in federal per capita expenditures – more than 2 dollars for every one dollar of tax revenue. In FY 2010 New Mexico ranked 6th among the states in terms of federal per capita expenditures, a total of \$13,577 for every New Mexican. Currently federal dollars account for a third of state GDP.

### 3 The Political Landscape – Past and Present

In 2008, the longtime political landscape of the state shifted at both the state and national levels. At the national level, New Mexico's longtime senior US Senator, former Senate Budget Committee Chairman, Peter Domenici (R-NM) retired. Congressman Tom Udall (D-3rd congressional district) bested Congressman Steve Pearce (R-2nd congressional district) in an election to fill Senator Domenici's seat. As a result of Udall's election victory, New Mexico has, for the first time in almost four decades two serving Democratic US Senators. Senator Udall (D-NM) will soon become the senior senator as his colleague Senator Jeff Bingaman has announced his retirement when his term ends in 2013.

In the US House of Representatives, New Mexico was represented by two Republican members (from the central and southern districts) and one Democratic member (from northern New Mexico). In 2008, Democrats made a clean sweep claiming victory in all three congressional districts. The complete victory was short lived, however, as Republicans recaptured the southern seat in the 2010 elections. Despite significant population gains, New Mexico was not awarded another representative seat after the 2010 census.

While partisan changes were occurring in the US congressional delegation, changes were just beginning at the state level. Though registered Democrats enjoy

a significant numeric advantage in New Mexico (49% of the population are registered Democrats, 32% of the population are registered Republicans), a Republican candidate captured the governor's office in 2010. Former District Attorney Susana Martinez received 54% of the general election vote to become the nation's first Hispanic female governor and the first Republican to occupy the New Mexico governor's office since 2002.

Republicans made significant gains in state offices in 2010, but they did not gain control of the New Mexico State Legislature. At the legislature, Democrats have long controlled the 70-member House and the 42-member Senate though margins have narrowed in recent years. In the Senate, Democrats control 28 seats to the Republican 14, with conservative factions of the Democratic Party wielding significant power in the chamber. In the House, the partisan divide is much smaller with Democrats narrowly maintaining control of the chamber (36-D's to 33-R's, with one Independent).

## 4 Changing the Political Landscape – Redistricting

The New Mexico State Legislature performs the decennial task of redistricting state legislative and congressional seats and it commenced that project in earnest following release of the 2010 census figures. After holding a series of preliminary redistricting meetings, the legislature was called into special session for the purpose of redistricting in September, 2011. The members could not agree on a congressional redistricting plan and the governor vetoed legislatively drawn plans for the state House, Senate and Public Regulation Commission. A series of lawsuits ensued and, in the end, the redistricting was completed, in large part, by the courts. As a result of a series of court orders new legislative and congressional districts are in effect for the election season beginning in March 2012. The court-ordered congressional districts are modifications of existing districts with roughly similar demographics. In the state House, urban areas of the Rio Grande corridor, particularly in Sandoval County (Rio Rancho) and the westside of Albuquerque continue to gain voting strength to the detriment of the state's rural eastern and western counties.

Though redistricting is decennial, the failure of the governor and the legislature to agree on district lines portends an ominous note for future endeavors. Partisan disputes, long a factor in political life, have reached beyond the redistricting process to touch the many important issues that affect the budgeting process.

## 5 The State of the Economy in 2012 – A Rocky but Improving Road

Like almost all states, New Mexico has endured difficult financial times in recent years. At its high point, state general fund revenues totaled \$6.0 billion in FY 2008 and the state adopted an operating budget of \$6.1 billion for FY 2009. Revenues declined significantly, starting in February 2009, with crude petroleum prices dropping to \$39.00 a barrel. (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 steeply declined through 2008, 2009 and 2010. By FY 2010 revenues totaled only \$4.8 billion (See Figures 1 and 2).

The New Mexico constitution requires a balanced budget, so less income to the general treasury required the state to cut expenditures. In addition to regular sessions in 2009, 2010 and 2011, the legislature was called into several special sessions, often for the grim task of cutting existing budgets and plugging ever expanding fiscal holes. The state legislature made substantial budget cuts in 2009, 2010 and 2011, and effectively propped up the budget with temporary federal American Recovery and Reinvestment Act funds, general fund reserves, balances from other state funds and new revenue enhancements. During FY 2009, FY 2010 and FY 2011, the state utilized \$1.13 billion in temporary federal funds and drew \$1.09 billion from state reserves and non-general fund accounts to supplement general fund revenues. The legislature cut spending by \$663 million dollars (11%) to arrive at a \$5.45 billion balanced budget for FY 2012.

At the completion of FY 2012 revenue projections anticipated general fund revenues of approximately \$5.41 billion (up a little <5% from FY 2011 and over 12% since FY 2010). The increase in revenue growth is due, in part, to revenue enhancement legislation enacted in 2010 and, in part, to economic recovery. Additional projected revenue growth in FY 2012 is largely attributed to an increase in gross receipt collections (the state's largest revenue source) and an increase in corporate and personal income tax collections.

## 6 Preparing for FY 2013 – The Process of Budget Preparation

In New Mexico, both the governor and a legislative agency, the Legislative Finance Committee, propose comprehensive state budgets to the legislature.

Budget creation in New Mexico is a year-round event. Budget development begins in mid-June, when the executive budget agency, the Department of Finance and Administration sends budget request instructions to all agencies. Agencies submit their budget requests in September to the executive agency and the Legislative Finance Committee. From September through December the executive and legislative staffs separately analyze agency requests and separately develop executive and legislative budget proposals. The Legislative Finance Committee, meeting throughout the fall, formalizes its budget recommendations in December, and the Governor is required to submit her proposed budget to the Legislature by January 5.

The legislature convenes its annual regular session on the third Tuesday in January when it makes public its budget recommendations and releases its budget-in-brief. The executive's proposed budget is introduced in summary in House Bill 2, the General Appropriation Act. While House Bill 2 is a comprehensive General Appropriation Act, other bills are introduced to independently address major areas of state funding. (For example, legislative proposals for education funding and transportation funding are generally contained in House Bills 3 and 4, respectively.)

The governor's proposed budget is referred to the House Appropriations and Finance Committee where members do a side-by-side comparison of the executive and legislative proposals. Eventually the House Appropriations and Finance Committee substitutes its recommendations into Committee Substitute for House Bills 2, 3 and 4, which is then voted upon on the House floor. The resulting document is forwarded to the Senate for consideration. Depending on the year (even or odd), the legislature has 30 or 60 days to meet and pass a proposed budget. Once passed by the legislature, the governor has 20 days to exercise her veto and line-item veto authority.

New Mexico, like much of the country, has started to show signs of economic improvement. Though the worst effects of the recession have abated, issues related to the recession (or impacted by) continue to play an important role in New Mexico politics. Among these most important to the state budget are tax and oil and gas revenues, public pension shortfalls, increasing Medicaid costs, education costs, and the disappearance of federal funds relied upon to shore up state budgets. Non-budget related issues that continue to occupy the political stage include education policy, drivers' licenses/immigration and ethics/public corruption legislation. As New Mexico entered the annual legislative session in January 2012, all these topics were under consideration.

In 2012 (an even numbered year), the New Mexico Legislature was limited to a 30-day regular "short" session, dedicated chiefly to budget and finance matters. The Constitution of New Mexico allows the governor to send messages asking

the legislature to expand the scope of the budget session and Governor Martinez did just that, expanding the purview of the session to include a number of non-budget matters. These included Governor Martinez's proposals relating to driver's licenses, education policy and public corruption and ethics reform.

## **6.1 Other Issues on Center Stage –Drivers' Licenses**

Governor Martinez's signature initiative has been legislation to ban the issuance of drivers' licenses to undocumented immigrants. A number of years ago New Mexico, like more than a dozen states, enacted legislation authorizing the issuance of drivers' licenses regardless of immigration status. In her first session as a new governor, Governor Martinez became a strong advocate of repeal of the authorizing legislation. Bills endorsed by the governor to repeal that authorization have failed in three legislative sessions in 2011 and 2012 largely as a result of opposition by immigrants' rights groups and the Roman Catholic Church. Democrats have supported the licenses; Republicans have favored repeal.

## **6.2 Ethics**

New Mexico government has faced a significant number of ethics scandals in recent years ranging from allegations of "pay to play" investment advisor fees to state office holders charged with embezzlement, fraud, drug abuse, and other felonies. The legislature has wrestled to craft appropriate and effective reforms. Governor Martinez entered the public corruption fray with a package of bills ranging from making it easier to remove convicted officials from office to extending prohibition periods for legislators who become lobbyists after leaving public office.

While non-budget matters may occupy the spotlight, the "meat and potatoes" of every legislative session are budget matters. There are a number of areas that straddle the budget-policy divide. The most visible of these are education, taxes and public employees' salaries and benefits.

## **6.3 Education – Important Policy Fights and a Large Amount of Money**

The largest expenditure in New Mexico's budget is education as financing for K-12 public schools and higher education constitutes more than 60% of the entire

state general fund budget. Education is more than money though and the legislature and the governor devote a significant amount of time to education policy. In fact, Governor Martinez has made education policy one of her primary concerns. In 2011 and 2012, the governor took on the state law that allows “social promotion” of students who do not meet academic standards. The governor supports legislation to end the practice of social promotion – particularly of third graders who cannot read proficiently. To date, her proposals have not passed though, in 2011, she succeeded in convincing the legislature to adopt a new A–F ranking system of all public schools in the state.

While the legislature has been willing to consider some of the governor’s education proposals, the standard bearer of those proposals, the Secretary of Education, has not met with a favorable response. The legislature has refused on successive occasions to confirm the governor’s appointment to the office, Secretary-Designate Hanna Skandera. The secretary-designate continues in office with minimal legislative support.

## **6.4 Taxes – Adding and Subtracting Revenues**

Taxes are an important piece of the revenue/budget agenda and are by necessity a perennial legislative issue. Governor Martinez addressed the 2012 legislative session proposing significant tax breaks for business – in fact proposing eliminating gross receipts taxes on half the state’s 80,000 businesses. Additional proposals to lower corporate tax rates, provide tax credits for hiring veterans and increasing gross receipts deductions for manufacturing and construction related services were presented to the legislature. A number of the proposals were ultimately received favorably.

## **6.5 Public Employee Salaries and Benefits**

In 2009, 2010 and 2011 the state legislature was forced to reduce overall general fund expenditures by 11%. State employees bore the brunt of cuts as vacant positions were abolished, salaries were reduced, positions were cut and most public employees went years without pay raises. At one point, the state asked public employees to assume a greater share of their pension set-aside, reducing the percentage of employer contribution. Budget drafters crafting budgets for FY 2013 were forced to reconcile previous years’ “retirement swap.” Prior to the legislative session both executive and legislative crafters acknowledged that economic conditions had improved sufficiently to meet previously established



markers that would require the state to resume its higher share of the pension contribution plan. Hence, there was a need to accommodate the “retirement swap.”

## 7 The Main Task – Crafting a Budget

Budget preparation for FY 2013 began in the Fall of 2012 with the submission of executive agency budget requests and the development of economic revenue forecasts. In December 2011, revenue forecasters released an economic forecast of \$5.69 billion in projected revenue for FY 2013. That number was 2.4% over projected revenue for FY 2012 and 4.7% above the FY 2012 operating budget. Forecasters assumed a slow but steady economic recovery predicting 3% growth in personal income and energy remaining steady at \$87.75 per barrel of crude petroleum and gas at \$5.60 per thousand cubic foot. Forecasters assumed a US domestic product growth of 1.8% and anticipated that the state would continue to be affected by cuts to federal spending. The consensus revenue estimates were confirmed in January 2012 though low energy forecasts continue to concern economists and policy leaders.

Prior to the legislative session, Governor Martinez released her executive proposals and Budget in Brief. In the executive proposed budget, Governor Martinez recommended an overall budget of \$5.61 billion dollars, a 3.6% increase over FY 2012. Governor Martinez recommended increased spending for public schools, Health and Human Services, Medicaid and the Children, Youth and Families Department, public safety and corrections agencies. She recommended flat FY 2012 funding levels for most other executive agencies.

In early January, the New Mexico Legislative Finance Committee released its proposed recommendations for FY 2013. The legislative budget called for \$5.68 billion in state general fund appropriations, a \$250 million dollars increase from FY 2012. In allocating “new” money the legislature did not restore previously cut services only recommending increases for a few high priority areas. Recommended increases in appropriations were targeted for public schools, the Children, Youth and Families Department, Medicaid and corrections and public safety agencies. In the area of education, the Legislative Finance Committee recommended \$2.5 billion for K-12 schools, an increase of 3.2% over FY 2012. The committee recommended an increase of 5.4% or \$755.5 million additional funds for higher education. The committee recommended \$900 million in new general fund spending for Medicaid, 3.9% over FY 2012. For corrections

and public safety agencies, the legislature recommended increases of 3.3% and 5.5% respectively.

## 8 The Session Begins

With similar budgets but dueling political agendas, the Legislature convened a 30-day session at noon on January 17, 2012. The governor's executive budget was introduced in the House of Representatives and referred to the House Appropriations and Finance Committee. For 30 days the legislature haggled over dollars and policy, failing to approve much of the governor's agenda though managing to produce an agreeable budget document. The executive's budget was eventually substituted and the legislature's version, a document that passed out of the legislature and into the governor's hands in mid-February with action by the governor due by early March. The legislature agreed to a retirement swap, failed to pass the governor's drivers' license legislation and refused to pass the governor's anti-social promotion bill.

## 9 The Final Result – The General Appropriations Act of 2012 and a Budget for FY 2013

The newly enacted General Appropriation Act establishes a balanced budget for FY 2013. The act (along with several smaller bills) provides for recurring appropriations of \$5.652 billion in FY 2013. This is 4% above FY 2012. The spending level is \$9 million less than net projected revenue. Resulting major appropriations/expenditures fall into four categories: public schools, higher education, Medicaid, and public safety and corrections.

### 9.1 Public Education – Always the Biggest

New Mexico's biggest single expenditure, year in and year out, is education. The general fund expenditures for K-12 constitutes about 44% of the entire state budget. Money in the fund is distributed by statutory formula to the state's eighty-nine school districts on the basis of number and characteristics of students. For FY 2013, the legislature approved expenditures of \$2.45

billion, an increase of 3.8%. Increased appropriations are targeted at growth and increased insurance costs as well as initiatives to address persistent concerns about sub-par reading and math scores, particularly in the younger (K-3) grades.

## 9.2 Higher Education – Also a Big Expense

New Mexico supports three research universities, three comprehensive universities, nine branch community colleges and eight independent community colleges and three public special schools. Higher education funding is up \$757.8 million since FY 2012. Increased appropriations are, in part, targeted at the implementation of a new higher education funding formula which ties some funding increases to performance outcomes and measures. A significant amount of funding, almost \$50 million, is contained in the higher education and public education funding categories to deal with the “retirement swap” for K-12 and higher education employees. The retirement swap reflects the temporary budget maneuver whereby education employees picked up more of the pension burden, shifting costs away from public employers during the depth of the economic recession. The “swap” shifts increased costs back to the state effective FY 2013.

## 9.3 Medicaid – Always Up

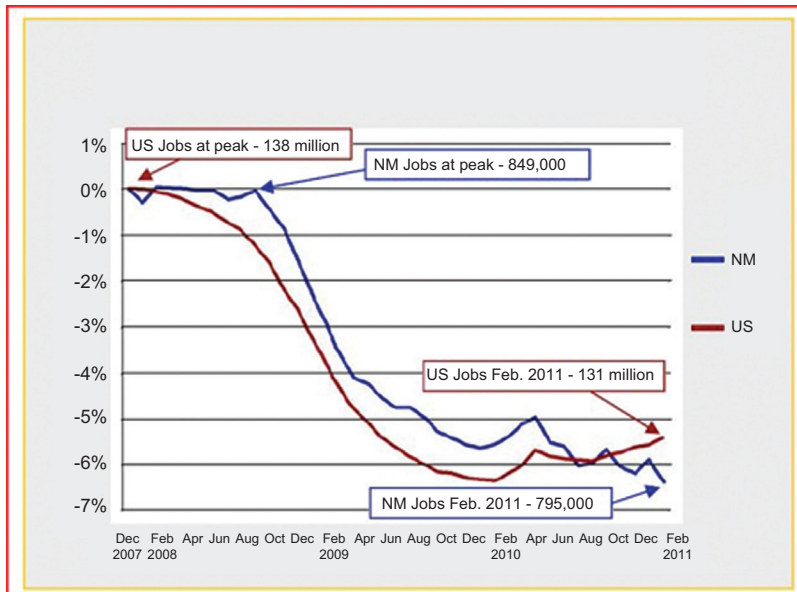
Medicaid, the state program that provides healthcare to the poor, has grown to the point it is roughly 20% of the state’s general fund budget. Economic conditions in recent years have driven enrollment in the program to record highs with the program now providing low-cost or no cost health insurance to half-a-million New Mexicans. The program is in a period of transition and changes mandated by federal healthcare reform are expected to add another 142,000 New Mexicans to the program. Maintaining solvency has been a full-time task for program managers as they have propped up the program with substantial federal stimulus funding in FY 2011, reduced benefits and provider reimbursement rates and still came up \$48 million short in FY 2012. The state’s Human Services Department, the manager of the program, approached the 2012 legislature with two hands out. On the one hand, the department was asking for \$48 million to cover current year deficiencies. With the other hand the department was asking for an additional \$50 million in “new money” for FY 2013. The 2012 legislature did not grant the

department’s entire wish list choosing to fund Medicaid at \$905 million, almost \$15 million less than the department’s FY 2013 request. Nonetheless, the appropriation means general fund expenditures in this area have jumped almost 50% from FY 2011 to FY 2013.

Though Medicaid occupies the main stage in the area of health care, the legislature agreed to fund a number of additional health-related areas. Appropriations for the Department of Health will reach almost \$300 million in FY 2013. New money is provided for rural primary health centers and to reduce the waiting list for people with developmental disabilities.

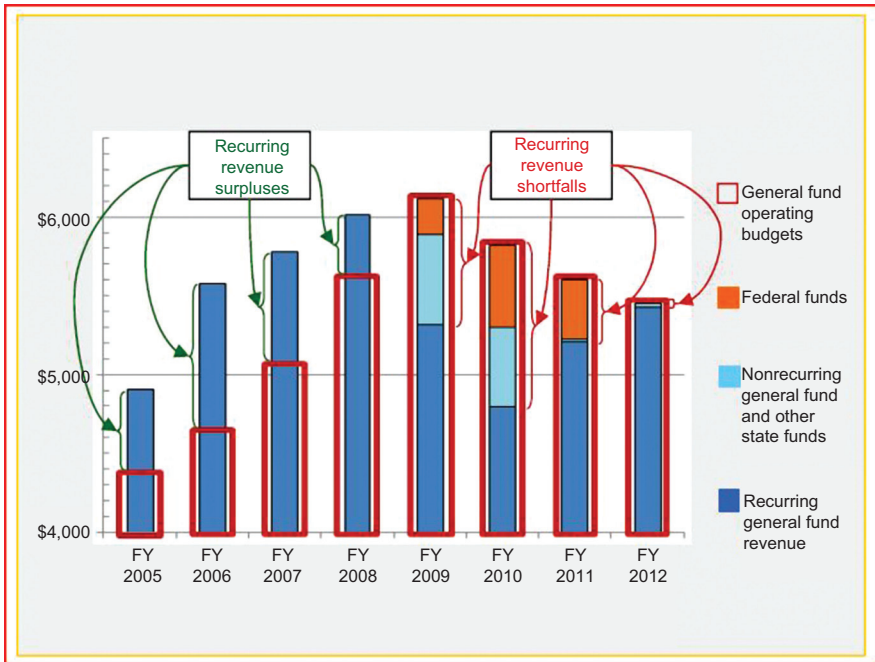
### 9.4 Public Safety, Corrections, and the Judiciary

The state’s Department of Public Safety was awarded an increased appropriation to recruit and train new officers and the Department of Corrections was also given additional money for increased staffing and training. Similarly, the judici-



**Figure 1:** Non-Farm Job Losses Since Beginning of US Recession (percentage). New Mexico job trends have largely paralleled, though lagged several months behind, national averages.

Source: New Mexico Legislative Finance Committee.



**Figure 2:** General Fund Operating Budgets and One-Time Funds Supplementing General Fund (in millions).

Figure 2 shows the transition from budget surplus to budget short fall, and the use of supplemental revenue sources, particularly federal funds, to maintain a balanced budgets in FY 2009, 2010 and 2011.

Source: New Mexico Legislative Finance Committee.

ary scored a 4% increase in funding to meet the needs of overburdened judges and busy judicial districts.

## 10 Conclusion

The dust has yet to settle on the 2012 legislative session and the ink is barely dry on the state's newly minted budget. Nonetheless, some observations are appropriate. New Mexico has weathered the economic storms of the last 4 years better than many states. It has steadily cut state expenditures and swept the corners of old accounts to maintain its viability in difficult times. State employees have borne much of the weight of budget cuts, though cuts to education and health care have been minimized. After 4 years of economic struggle, the state has a

balanced budget, revenues are on the increase, and economic indicators suggest a slow but steady economic recovery. The state continues to devote the majority of its resources to educating its children and providing medical care for its poor.

As New Mexico settles into its centennial celebrations one cannot help but wonder if President Taft would be pleased. New Mexico has a Republican governor, a Democratic legislature and a diverse populace. As it celebrates its 100th birthday, the state is financially healthy and contributing to the economic vitality of the country it worked very hard to join in 1912.

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