



State of New Mexico

Susana Martinez
Governor

MEMORANDUM

TO: All State Agencies
FROM: Governor Susana Martinez
DATE: August 9, 2016
RE: Fiscal Year 2017 Spending Reduction

Approximately one-third of New Mexico's state government revenue is dependent upon oil and gas production. Over the last two years, we have experienced the largest crash in oil and gas prices in our lifetime, which has led to thousands of lost jobs in the energy sector and a sharp downturn in personal income tax, gross receipts tax, and corporate income tax collections. For example, in Fiscal Year 16, gross receipts tax revenue plummeted in the three heaviest oil and gas producing counties (Eddy, Lea, and San Juan Counties) by over \$150 million, while the rest of the state showed revenue growth.

As I warned earlier this year, persistently low global energy prices, and the resulting drop in drilling activity, present a real risk to the finances of state government. Thanks to responsible budgeting, spending, and reserve policies over the past five years, the situation we face today is not as dire as it could be, but very serious nonetheless. In addition, we continue to see steady and sustained job growth in a number of other sectors of New Mexico's economy, which points to increased diversification at a time when we need it the most.

In the weeks ahead, it is critical that we manage through this challenging fiscal environment in a way that protects those areas of our economy that are strong and growing. We cannot ask hard-working New Mexicans and job creators to shoulder the burden of the downturn in the global energy market. A key first step in this process is to ensure that government lives within its means, which requires state agencies to tighten their belts.

I am directing all executive agencies under the purview of the governor to immediately prepare for and begin reducing general fund spending in Fiscal Year 2017 by at least 5%. This will, of course, likely involve changes to hiring practices, organizational structure, approval of overtime, in-state and out-of-state travel, and a number of other

aspects of agency management. Consistent with this directive, I have directed executive agencies under the purview of the governor to not spend more than 45% of their general fund budget during the first half of Fiscal Year 2017. I recognize that limited exceptions to this policy may be necessary, especially as it relates to preserving public health and safety.

The Department of Finance and Administration has been directed to oversee compliance with this process. Any and all efforts to achieve savings now through the end of this fiscal year will have a significant positive impact on our budgetary situation.

The state's budget funds all of state government—not just those agencies under the governor's purview. For those agencies under legislative control, judicial control, or elected separately from the governor, I strongly recommend that identical spending reductions and restraints be put in place immediately. Every agency in state government should, and will, have a role to play in helping state government weather this period of downturn in the oil and gas sector.

Sincerely,

A handwritten signature in black ink, appearing to read "Susana Martinez". The signature is fluid and cursive, with the first letter "S" being particularly large and stylized.

Susana Martinez
Governor