Balancing Mid- to Long-Term Revenues and Expenditures

October 19, 2023

Presentation to the Revenue Stabilization and Tax Policy Committee

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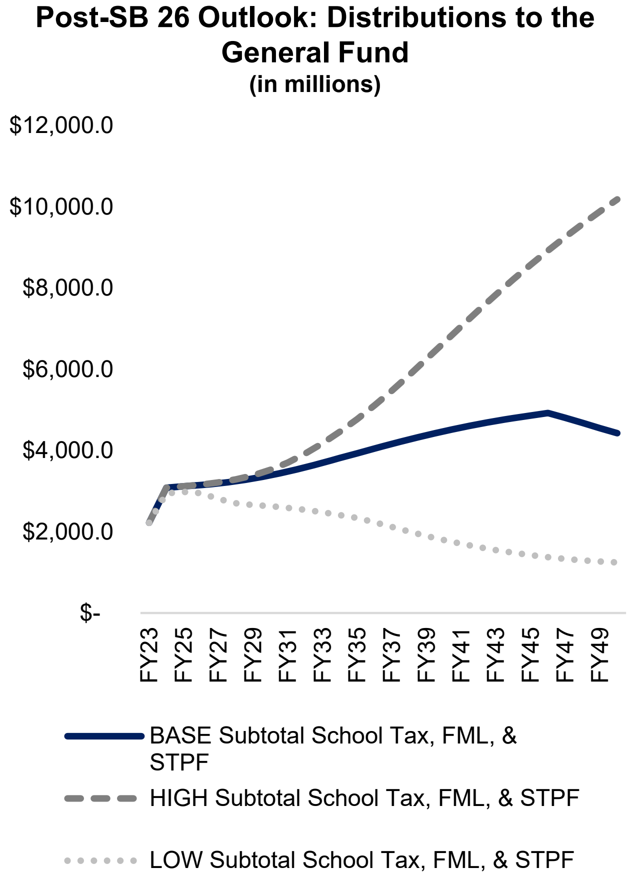
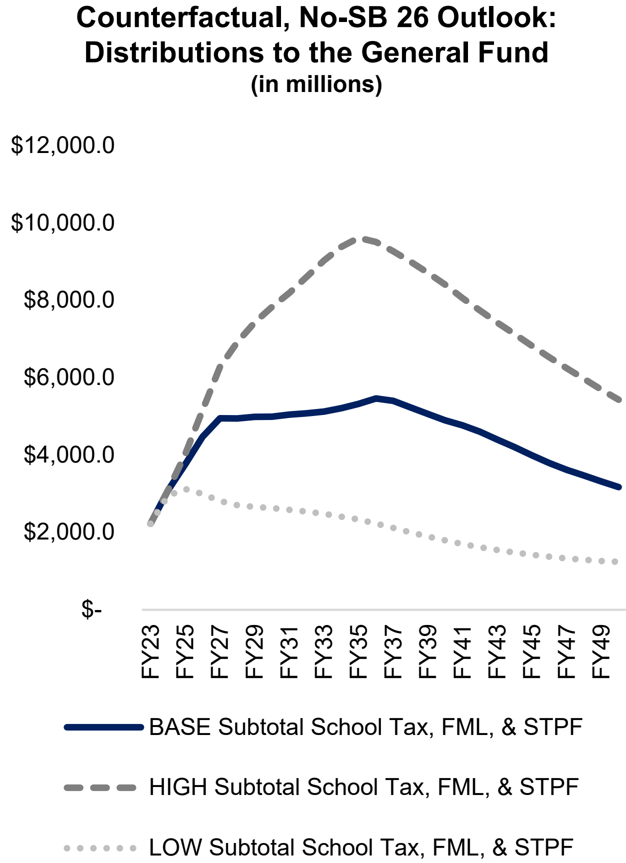
Long-term planning is a best fiscal practice for states, and New Mexico leads with the current approach.

- Organizations such as the Pew Charitable Trusts, State Fiscal Health project, and the Government Finance Officers Association, encourage states to engage in more long-term financial planning.
- Why engage in long term planning for an annual budget cycle?
  - Avoid budgeting by crises and surprises
  - Strategically implement services or tax changes
  - Avoid committing to unsustainable spending
  - Understand full scope of upcoming liabilities and competing budget priorities
  - Prompts key questions that are integral to solving fiscal problems
    - Is the budget balanced now and in the future?
    - What does changing our trajectory look like and require?

Long-term planning has already improved outyear prospects with the implementation of SB26, endowing programs, using cash for capital, and bolstering permanent funds with appropriations.



Source: 2023 CREG Long-Term Estimate



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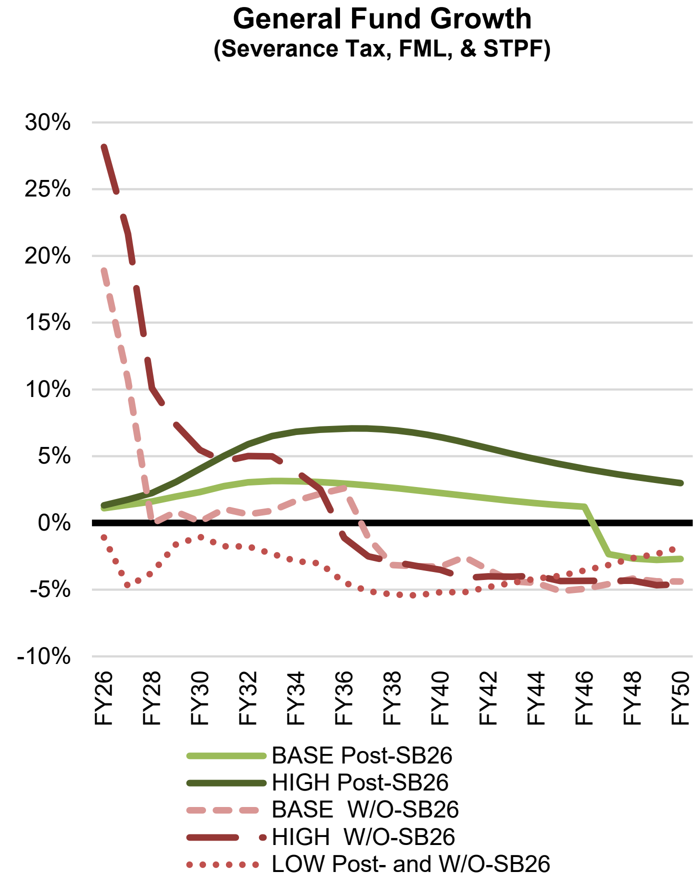
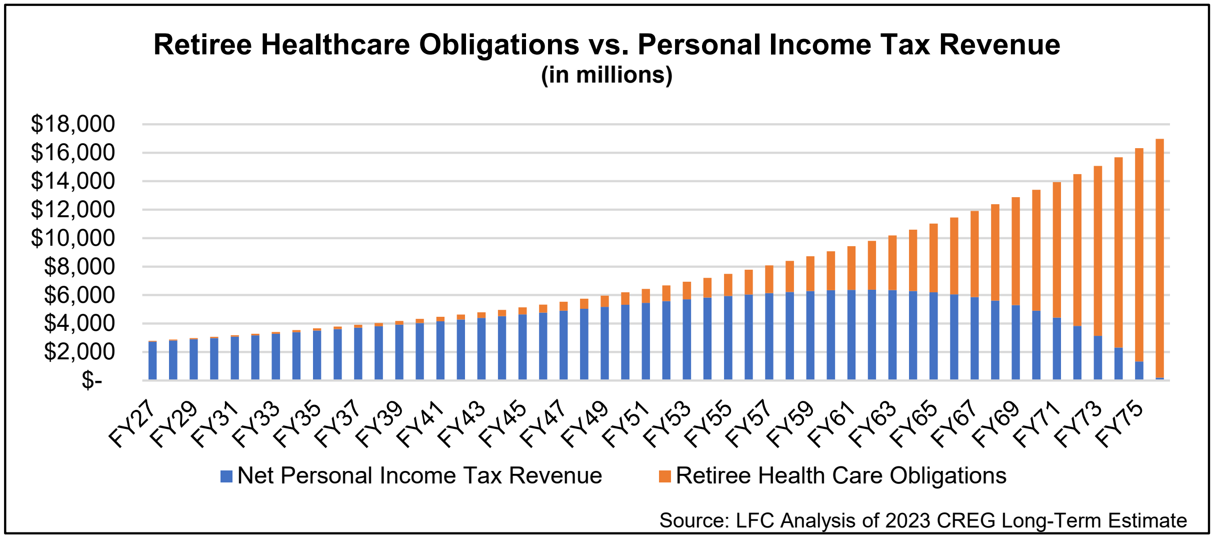
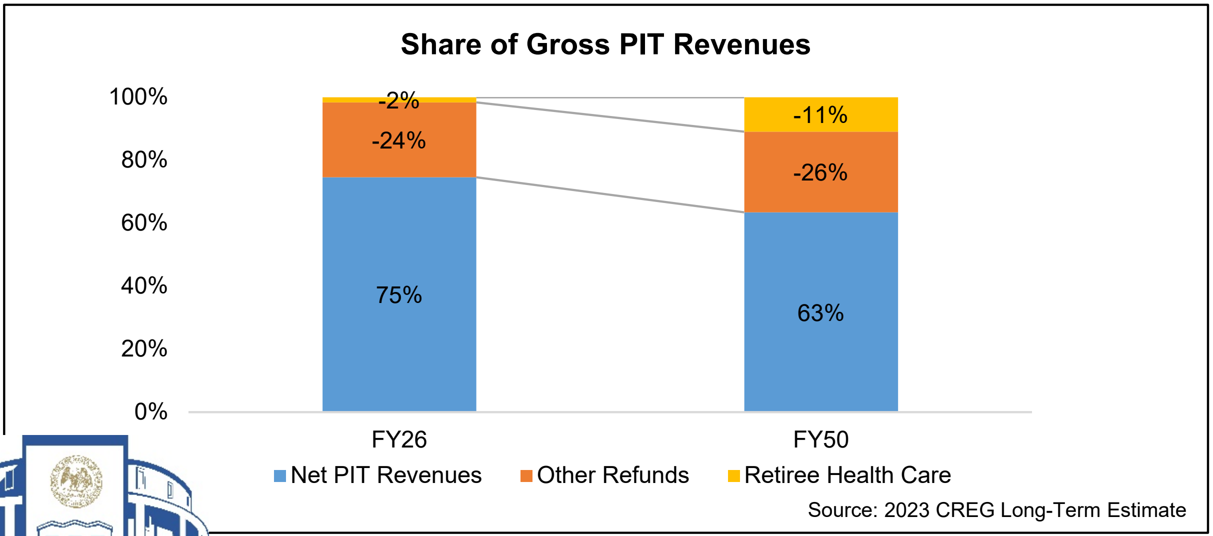


Source: 2023 CREG Long-Term Estimate

Other issues identified in the process include the erosion of personal income tax by retiree healthcare obligations.

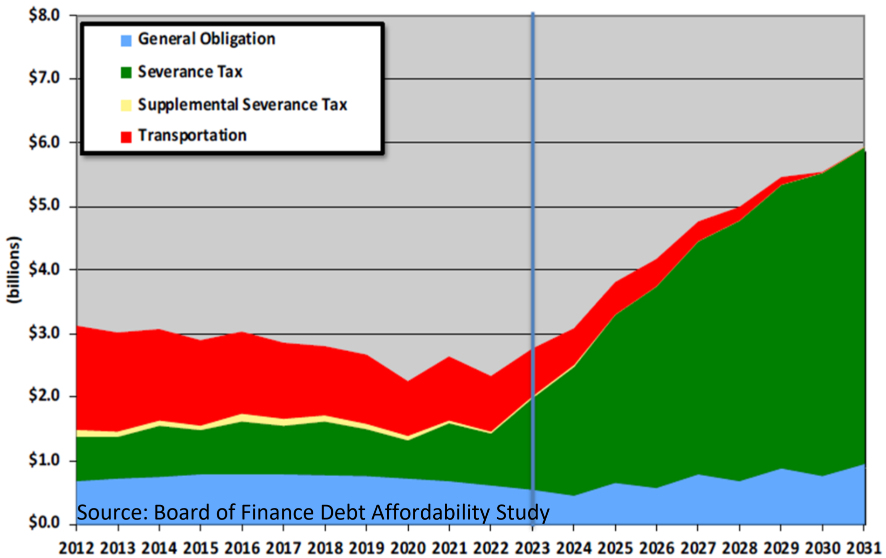




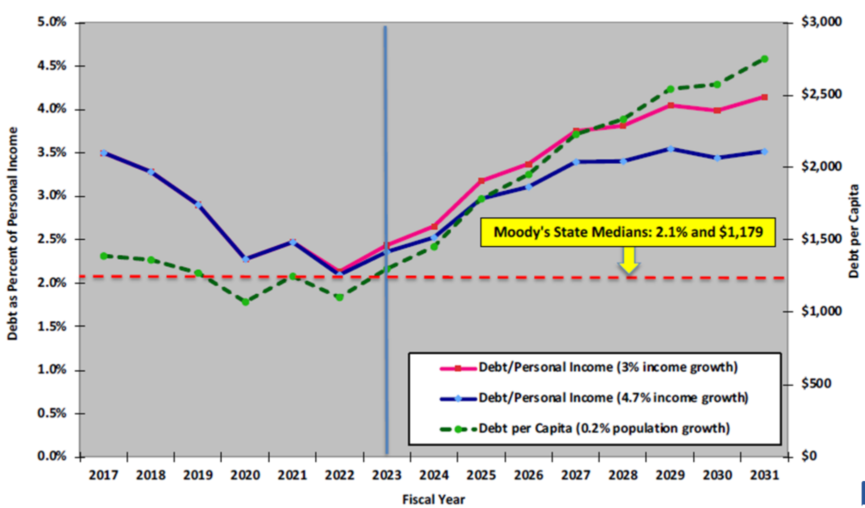
- PIT distributions to the retiree healthcare fund grow 12% year-over-year by statute. Other PIT revenues only grow by 2-4% year-over-year.
- By FY29, retiree healthcare obligations will be in the top 10 of all tax expenditures, and they will overtake PIT revenue by FY76.
- “Take-home” PIT revenues will decrease from 75% of collections to only 63% by FY50.

Furthermore, bonding capacity's reliance on oil and gas revenues presents short- to long-term risks on the general fund and for the bonding program.

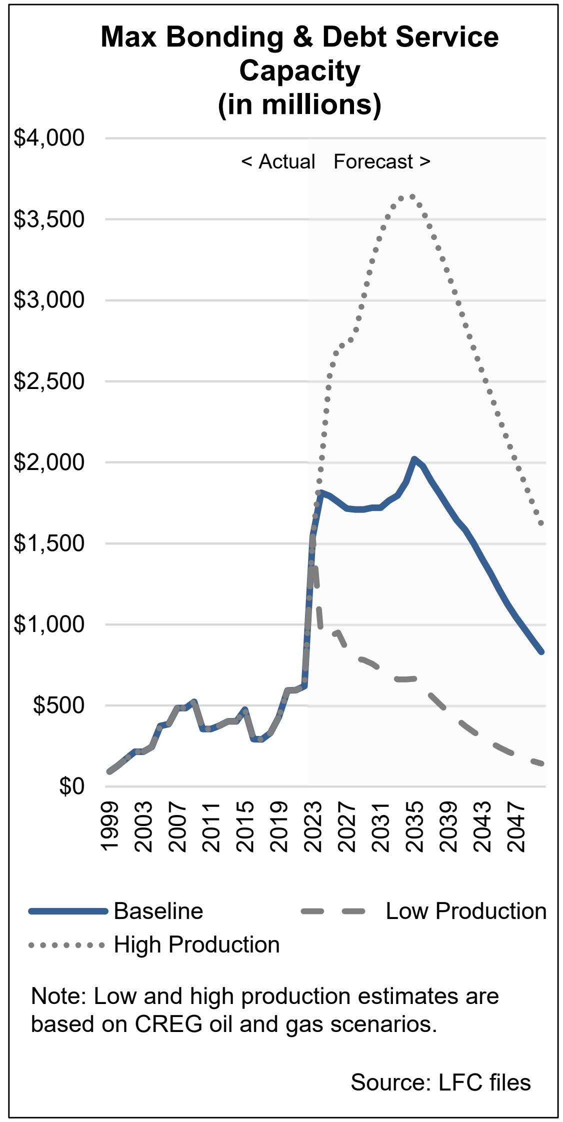
Projected Outstanding Tax-supported Long-term Bonds
(Including Projected New Issance)

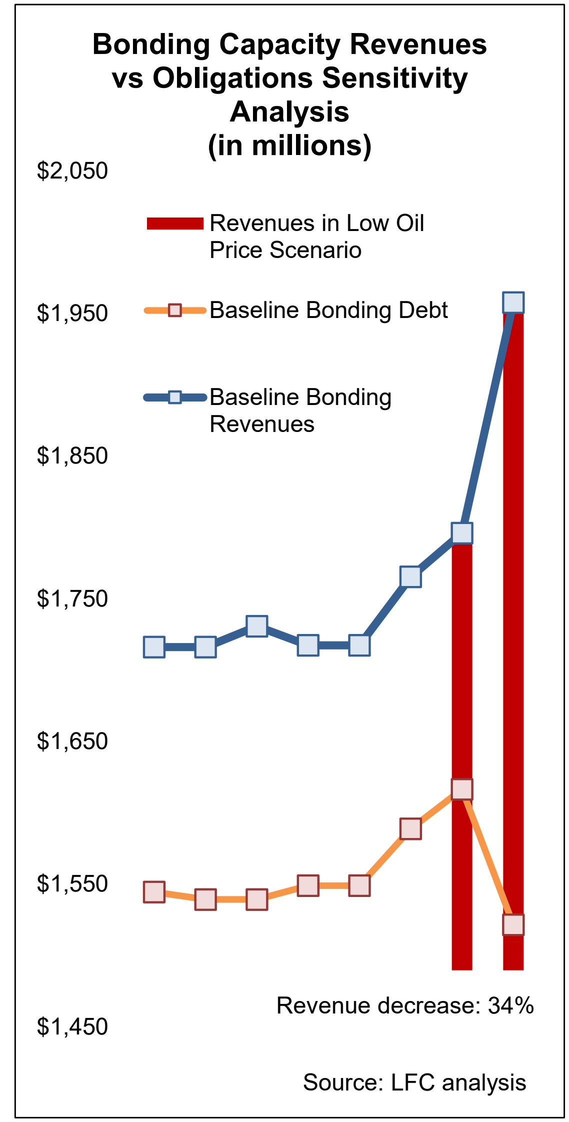


Historical and Projected Debt Ratios



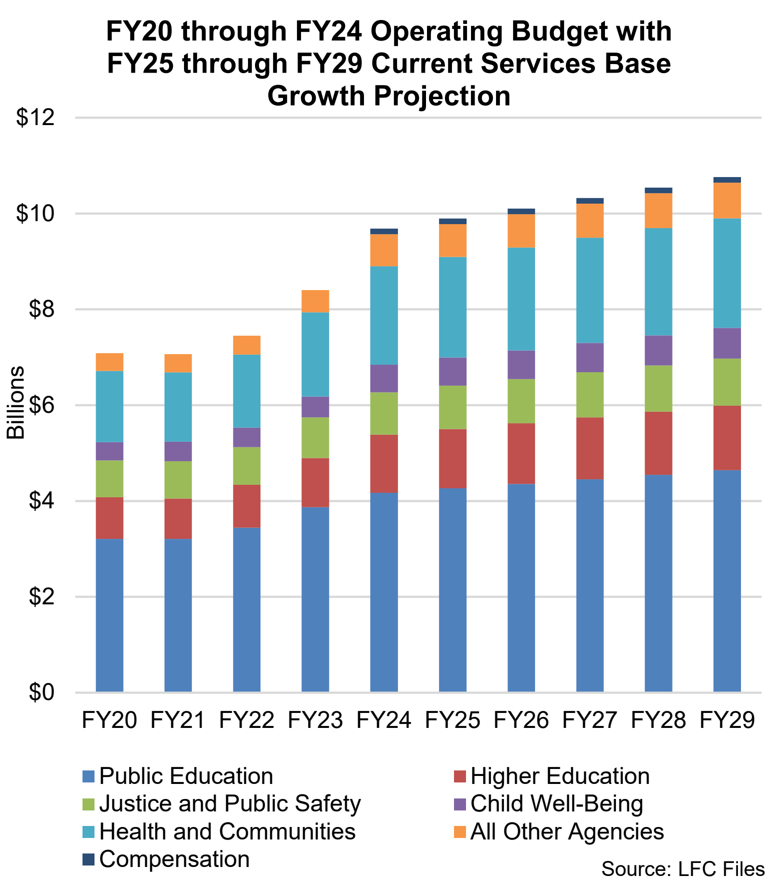
Source: Board of Finance Debt Affordability Study

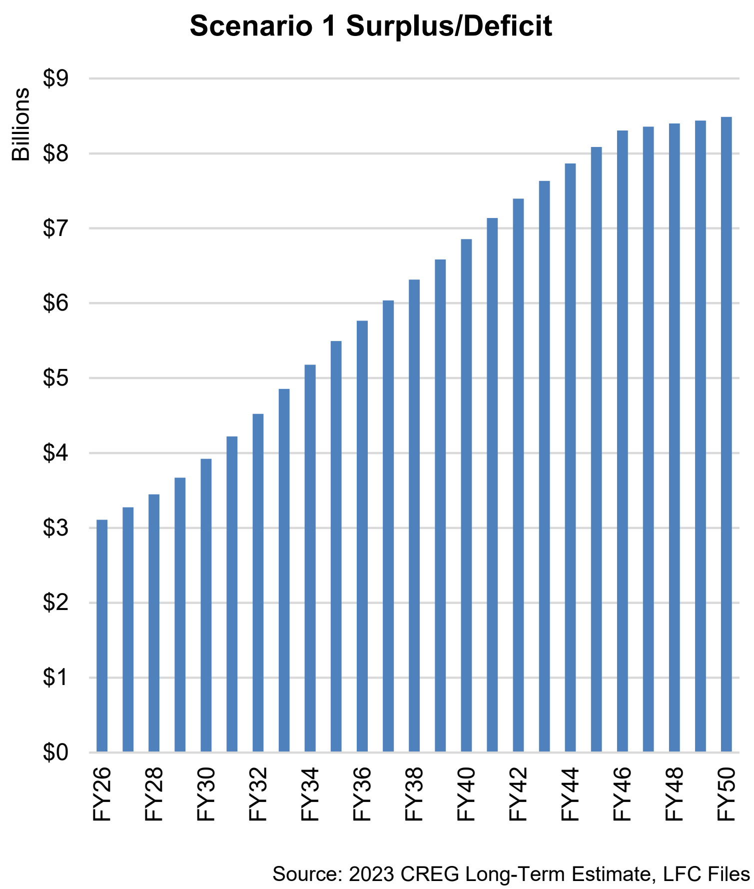




Budget Scenarios and the Revenue Outlook

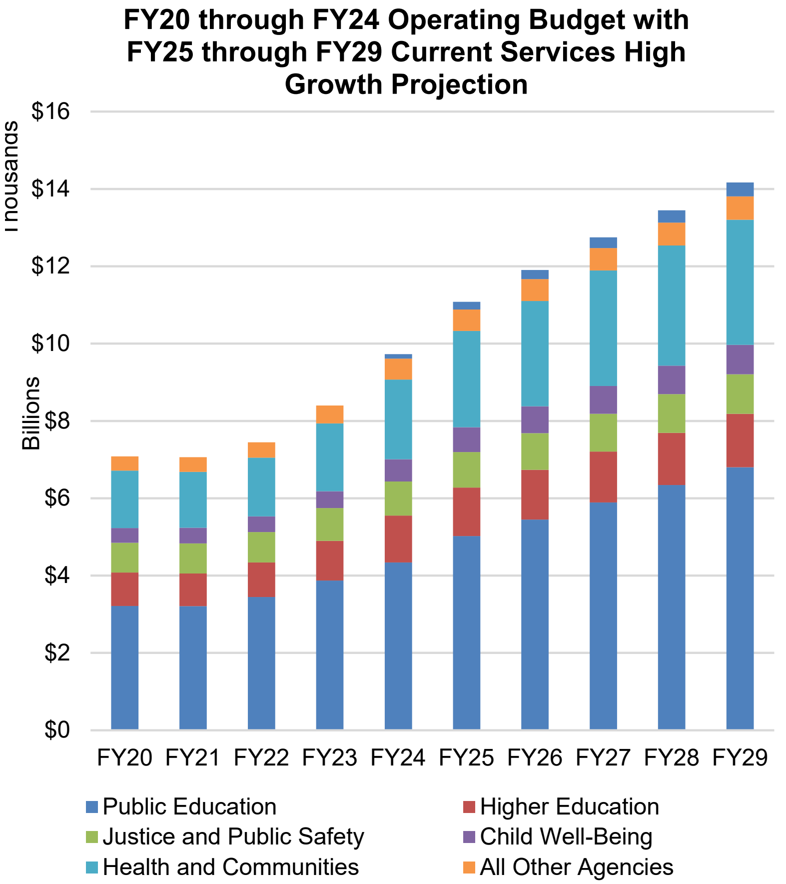
Scenario 1: Basic Workload Maintenance



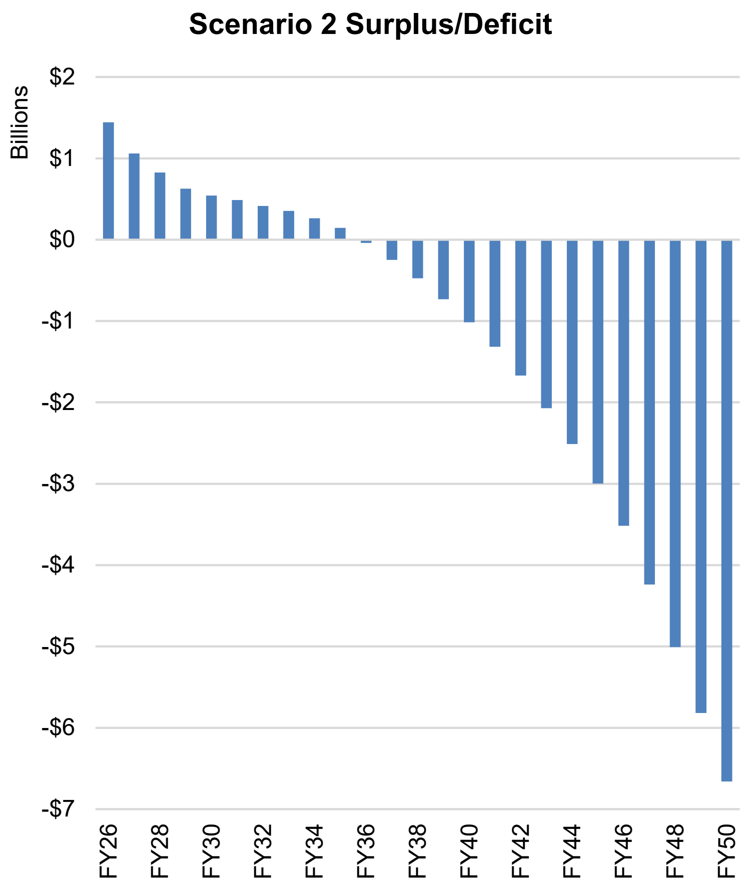


	Budget Growth
FY25	2.2%
FY26	2.1%
FY27	2.2%
FY28	2.1%
FY29	2.1%
FY30 and Beyond	2.0%

Scenario 2: Basic Workload Plus Liabilities, and Compensation



Source: LFC Files



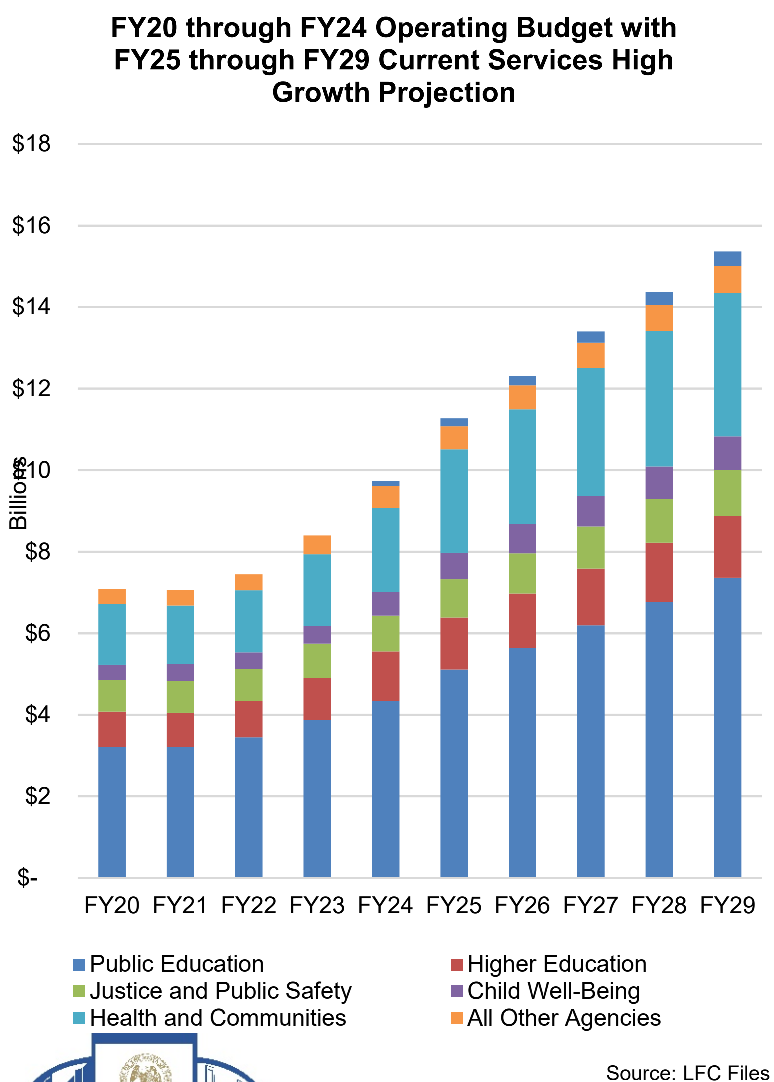
Source: 2023 CREG Long-Term Estimate, LFC Files

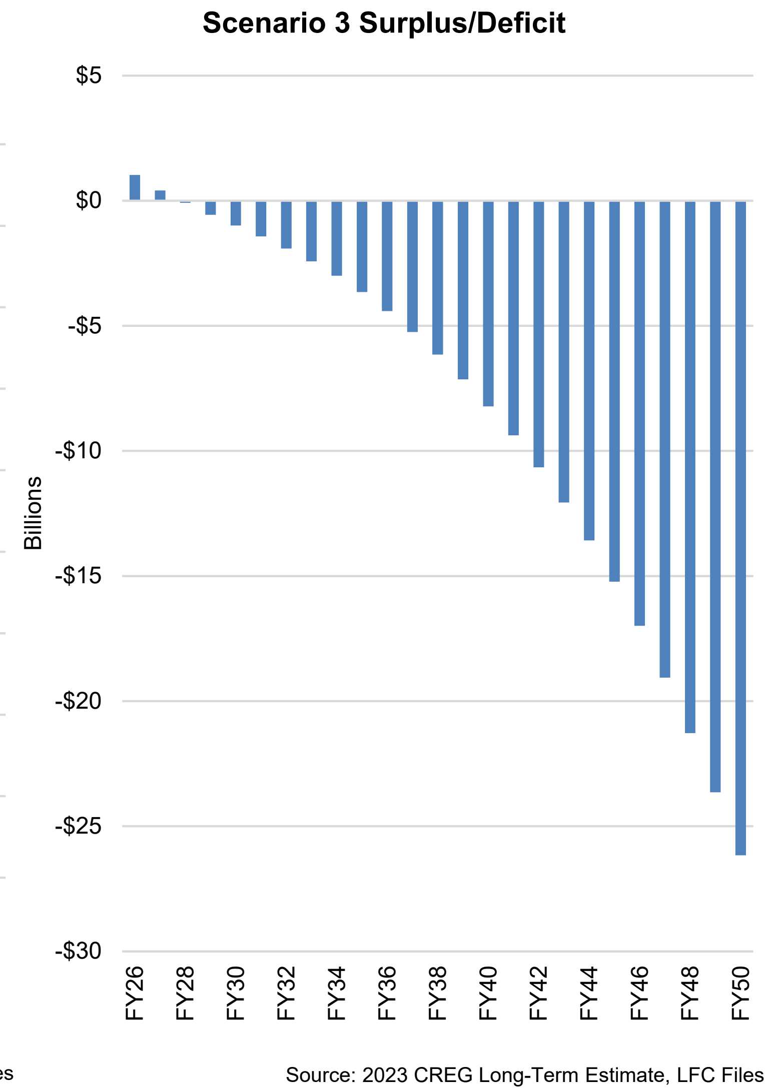
	Budget Growth
FY25	13.2%
FY26	6.9%
FY27	6.5%
FY28	5.0%
FY29	4.9%
FY30 and Beyond	4.0%

Example Out-Year Liabilities and Cost Estimates FY25 through FY29 (in million)	
Liability	**Cost Estimate**
State Agency Compensation	$143.7
Higher Education Compensation	$99.0
Public Schools Compensation	$349.2
Public Schools Special Initiatives	$100.0
K12 Plus	$106.0
HED Opportunity Growth	$4.4
HED loan For Service	$10.0
Childcare Assistance ARPA Backfill	$32.8
CYFD Continue WF Initiatives	$6.0
Replace TANF at CYFD 1 year	$15.8
Law Enforcement Workforce Fund	$18.0
Mat in Corrections	$6.7
AOC Pilots	$4.0
Court Fee Elimination	$8.3
DD Waiver Rate Increase	$36.0
Eliminate DD Waiver Wait List	$90.5
Aging Network	$26.0
BHSD Staffing CCBHC	$1.5
BHSD 988 Crisis Now	$3.0
SNAP Settlement	$4.5
Medicaid Forward	$200.0
Medicaid Rate Increase	$200.0

Compensation assumes 6 percent in FY25 and 4 percent in FY26 through FY29

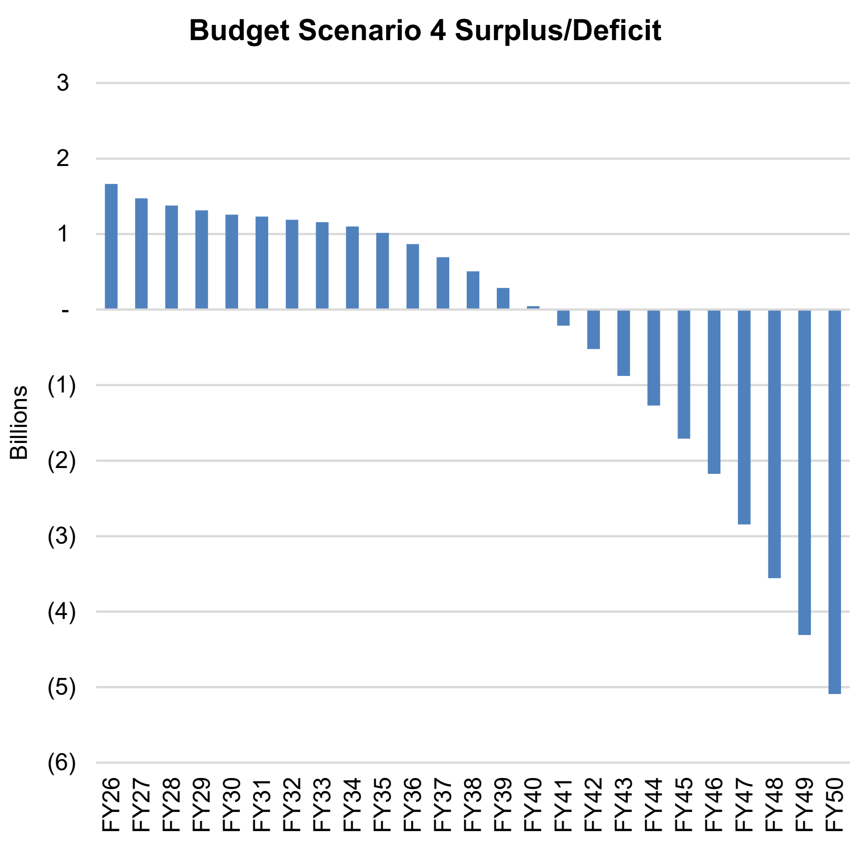
Scenario 3: Scenario 2 Plus Extra Growth





	Budget Growth
FY25	15.2%
FY26	8.7%
FY27	8.3%
FY28	6.7%
FY29	6.5%
FY30 and Beyond	6.0%

Alternatives: Spread Liabilities and Stabilize Spending Growth



Source: 2023 CREG Long-Term Estimate, LFC Files

- About one percent slower growth in recurring spending in the next three years translates to 5 more years of surplus.
- The smaller the spending growth is in the near term, the larger the sustainable spending growth is in the future.

	Budget Growth
FY25	12.0%
FY26	6.0%
FY27	5.0%
FY28	4.0%
FY29	4.0%
FY30 and Beyond	4.0%

How can the state improve the long-term revenue outlook?

- Foster economic growth to beat current expectations. Investments today need to result in transformational impacts on revenues tomorrow.
- Resist spending all recurring revenues on recurring uses, now and in the future.
- Invest short-term, peak production revenues for future use. E.g. endowments and trust funds.
- Extend five-year average protections on oil and gas related-revenues to delay declines.
- Use short-term, peak production revenues for nonrecurring uses.

QUESTIONS?

For More Information:
https://www.nmlegis.gov/LFC
Publications on:

- Budgets
- Revenues
- Performance Report Cards
- Program Evaluations and more!

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Appendix: Investment Earnings and Contributions

Early Childhood Trust Fund Forecast - December 2022								
(in millions)								
Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Beginning Balance	$300.0	$300.0	$314.1	$2,082.8	$5,378.2	$7,830.5	$9,248.6	$9,939.1
Gains & Losses	$6.1	$34.1	($45.5)	$83.3	$215.1	$313.2	$369.9	$397.6
Excess Federal Mineral Leasing	$0.0	$0.0	$1,501.5	$1,917.1	$1,113.5	$612.9	$220.9	$ -
Excess OGAS School Tax*	$0.0	$0.0	$342.7	$1,340.1	$1,253.2	$746.9	$473.9	$231.0
Distribution to ECE Program Fund	$0.0	($20.0)	($30.0)	($45.0)	($129.6)	($254.9)	($374.3)	($450.3)
Ending Balance	$306.1	$314.1	$2,082.8	$5,378.2	$7,830.5	$9,248.6	$9,939.1	$10,117.3
*Excess OGAS School Tax distributed to Early Childhood Trust Fund if general fund reserves are at least 25% throughout forecast period, and distributions occur for prior fiscal year in January of the following calendar year.								
Note: Investment return assumed at 4% and distributions occur on July 1, based on previous calendar year-ending balance.								
		FY21	FY22	FY23	FY24	FY25	FY26	FY27
Distribution to ECE Program Fund		$0.00	$20.00	$30.00	$45.05	$129.58	$254.86	$374.29
Source: December 2022 Consensus Revenue Forecast								

SB 26: 5-year contributions to the STPF

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25	FY26	FY27		
		($587,600)	($1,204,000)	($1,681,700)	Recurring	General Fund
		$587,600	$1,204,000	$1,681,700	Recurring	Severance Tax Permanent Fund
No fiscal impact – the bill does not affect the current distributions to the early childhood trust fund.					Recurring	Early Childhood Trust Fund
		Positive – Increased distributions from STPF, see fiscal implications			Recurring	General Fund – Interest Earnings from Severance Tax Permanent Fund

Parenthesis ( ) indicate revenue decreases
*Amounts reflect most recent analysis of this legislation.

Source: 2022 Session FIR