NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Post-Session, Economic, & Revenue Update

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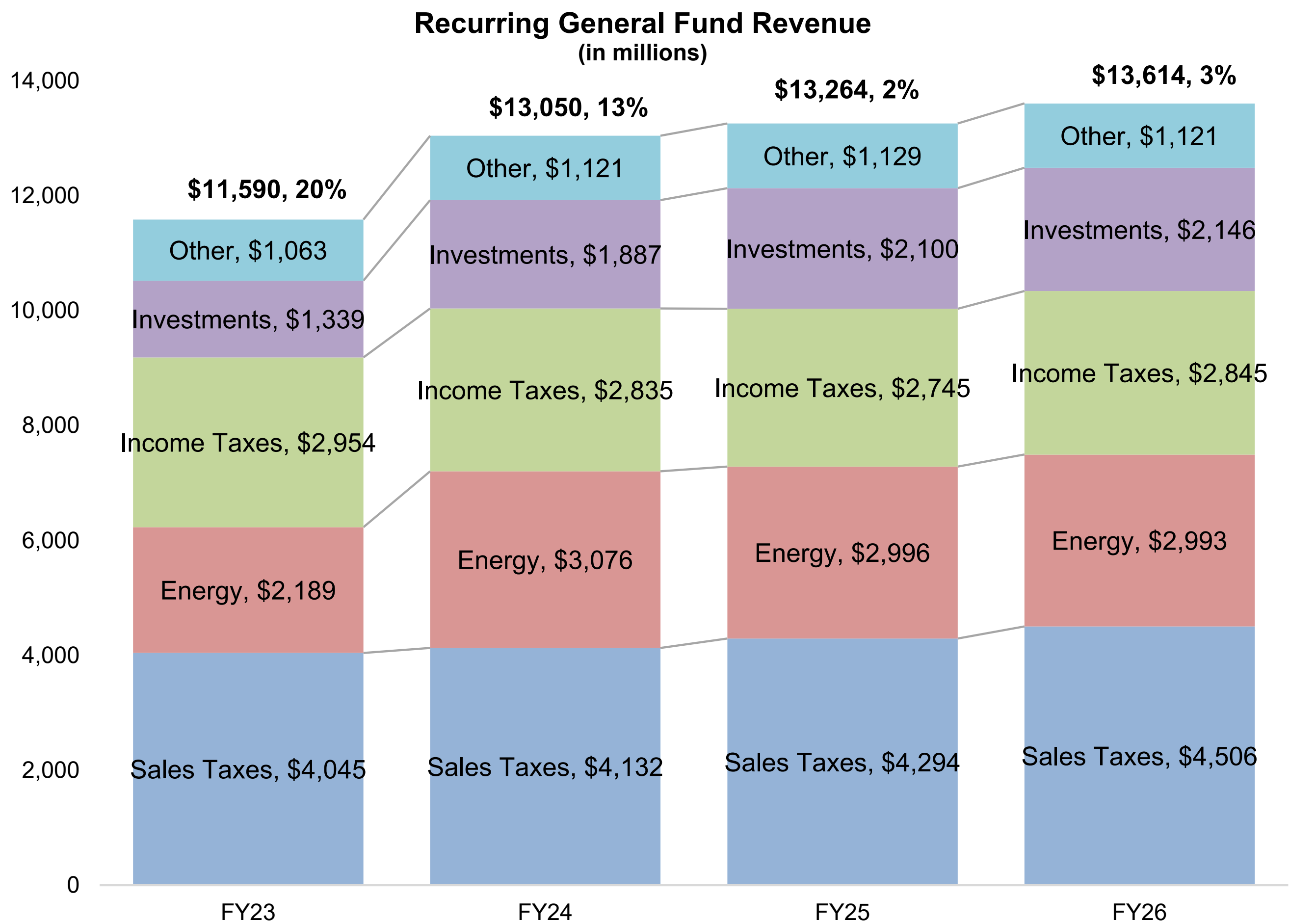
Oil production and wage growth led to record-high revenue forecasts, but significantly slowed.

- Oil and gas revenues accounted for 38% of projected general fund increases in FY23 and 71% in FY24
- FY24 ending reserve balance of $3.1 billion, or 33 percent



Source: December 2024 CREG Estimate

Lawmakers increased recurring budgets by 6 percent to $10.8 billion. The 2025 session also included over $3.8 billion of nonrecurring appropriations.

FY26 General Fund Recurring Appropriation Growth
(in millions)

	Amount	Y-o-Y Growth
Legislative	$7.4	9.5%
Judicial	$16.5	3.7%
General Control	($1.1)	-0.5%
Commerce, Industry	$5.9	5.8%
Agriculture, Energy and Natural Resources	$6.6	5.3%
Medicaid	$68.9	3.5%
Other Health, Hospitals and Human Services	($28.4)	1.4%
Public Safety	$21.0	3.8%
Other Education	$3.7	4.0%
Higher Education	$39.3	2.9%
Public School Support	$337.2	7.8%
Recurring Compensation (excl. public education)	$141.2	-
Total Recurring	**$618.3**	**6.0%**

Legislation passed during the 2025 regular session reduced recurring general fund revenue by $107 million in FY27, $108 million in FY28, and $120 million in FY29, pre-veto. However, HB14 was vetoed.

Appropriation Account Detail: 2025 Regular and Special Legislative Sessions
(in millions of dollars)

			FY25		FY26		FY27		FY28		FY29	
			Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring
REVENUE												
2025 Regular Session:												
	Bill No.											
VETO	~~HB 14~~	~~Earned Income Tax Credit~~					~~$ (112.1)~~		~~$ (113.9)~~		~~$ (125.7)~~	
ch. 130	HB 218	Tax Changes			$ 0.2	$ 0.0	$ 0.2		$ 0.2		$ 0.2	
ch. 43	HB 357	Mi Via Waiver Pgr. Provider Gross Receipts			$ 13.1		$ 13.6		$ 14.0		$ 14.5	
ch. 136	SB 9	Pipeline Safety Act Violations			$ 0.1		$ 0.1		$ 0.1		$ 0.1	
ch. 140	SB 47	Santa Cruz de la Canada Land Grant			$ (0.1)		$ (0.1)		$ (0.1)		$ (0.1)	
ch. 114	SB 92	Horse Racing and Jockey Insurance Fund				$ (3.2)		$ (3.2)				
ch. 127	SB 168	Travel Insurance Act			$ 0.3		$ 0.3		$ 0.3		$ 0.4	
ch. 24	SB 383	Flood Recovery Bonds & GRT					$ 0.2		$ 0.2		$ 0.2	
ch. 83	SB 481	State Fairgrounds District Act					$ (9.0)		$ (9.0)		$ (9.0)	
TOTAL REVENUE			**$ -**	**$ -**	**$ 13.5**	**$ (3.2)**	**$ 5.3**	**$ (3.2)**	**$ 5.7**	**$ -**	**$ 6.2**	**$ -**

The tax package passed during the 2024 legislative session reduced recurring revenue by $125.7 million by FY29.

House Bill 14 tax changes:

- $76 million for earned income tax credit expansion
- $8.8 million for a new foster parent and guardian tax credit
- $41 million for a new health care GRT deduction
- $8 million for tribal alcohol harms alleviation through a 20 percent alcohol tax increase

Proposed Income Eligibility Limits, Current WFTC and EITC vs HB14 Proposed

	Current	HB14 EITC
No children, unmarried	$17,640	$35,000
1 child, unmarried	$46,560	$64,500
2 children, unmarried	$52,918	$73,250
3 or more children, unmarried	$56,838	$77,000
No children, married	$24,210	$40,000
1 child, married	$53,120	$69,500
2 children, married	$59,478	$78,250
3 or more children, married	$63,398	$82,400

Type	Current	New	Percent Increase
Beer	$0.41 per gallon	$0.49 per gallon	20 percent
Wine	$0.45 per liter	$0.54 per liter	20 percent
Spirits	$1.6 per liter	$1.92 per liter	20 percent
Cider	$0.41 per gallon	$0.49 per gallon	20 percent
Fortified wine	$1.5 per liter	$1.80 per liter	20 percent
Other	Various	Various	No change

Earned Income Tax Credit (EITC) expansion included new incomes and raised benefits for working people affected.

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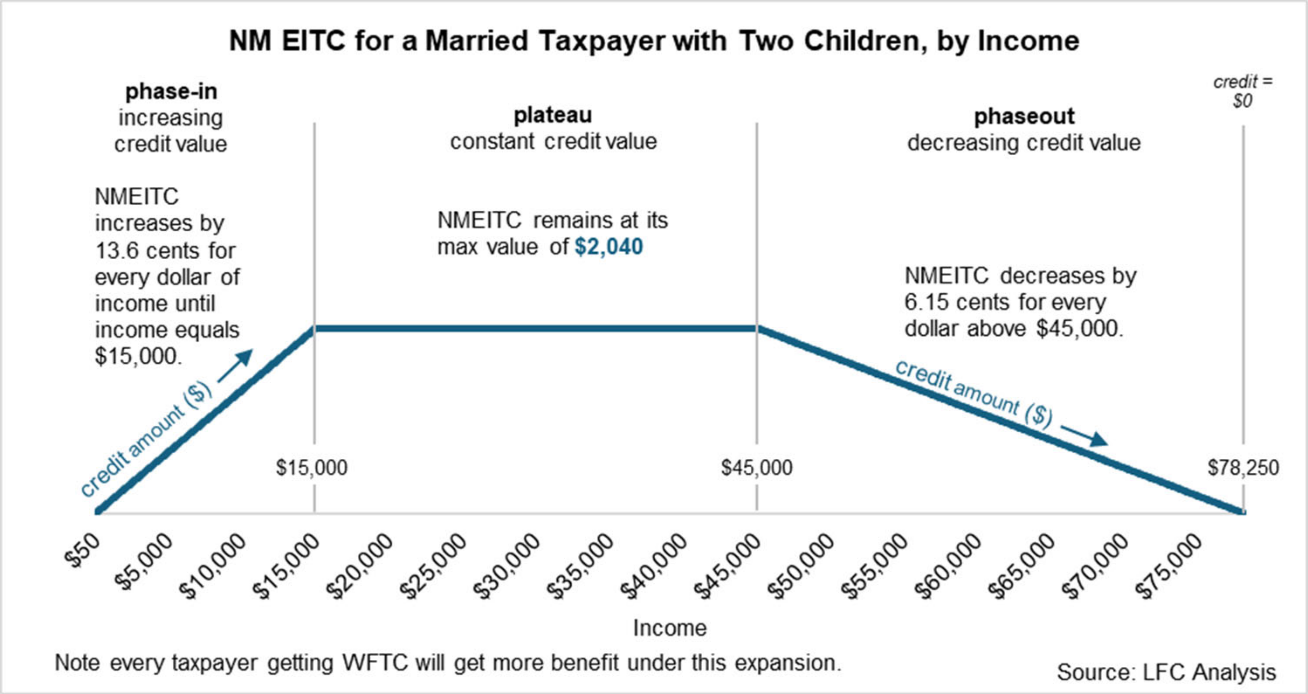
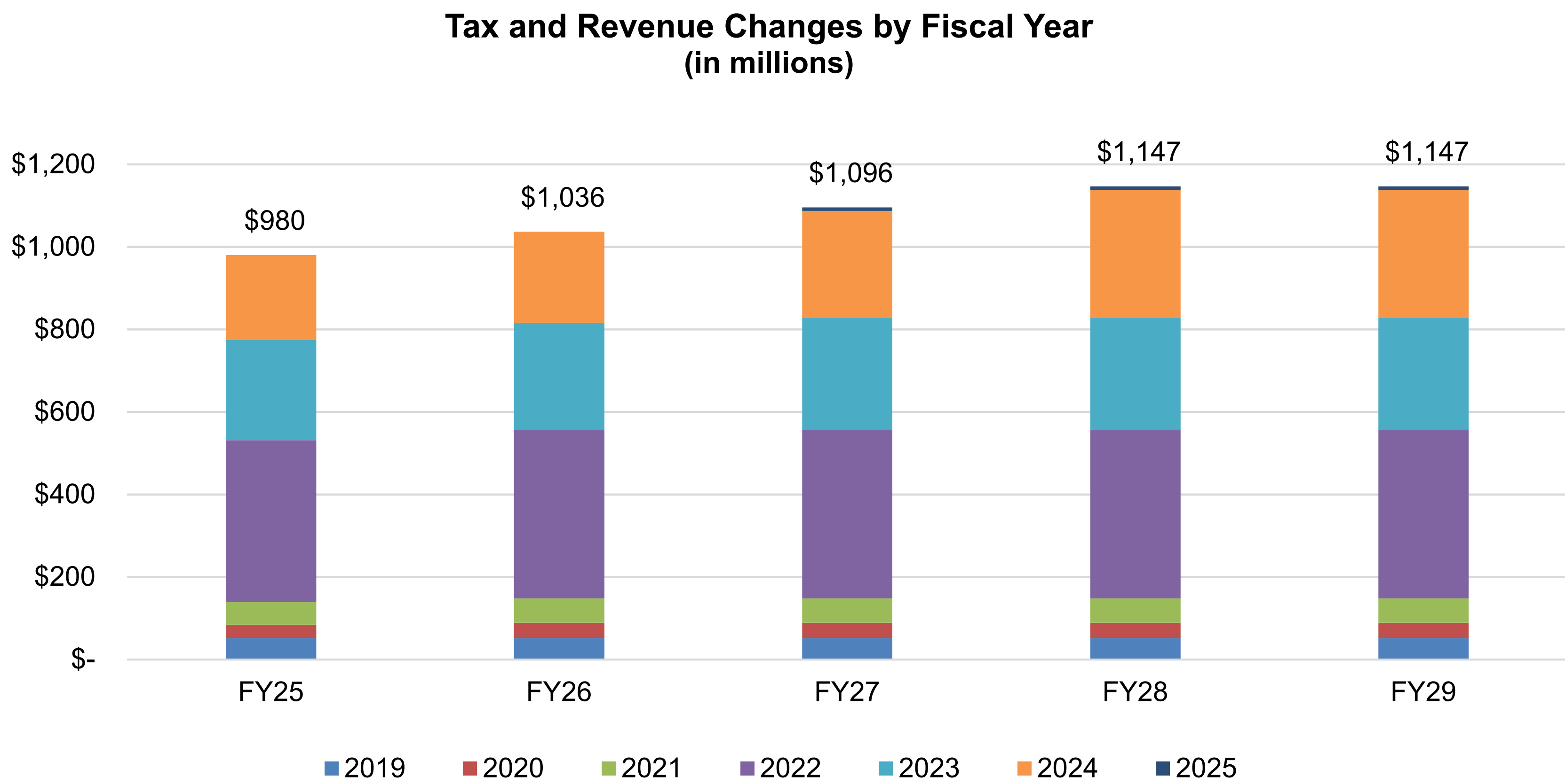


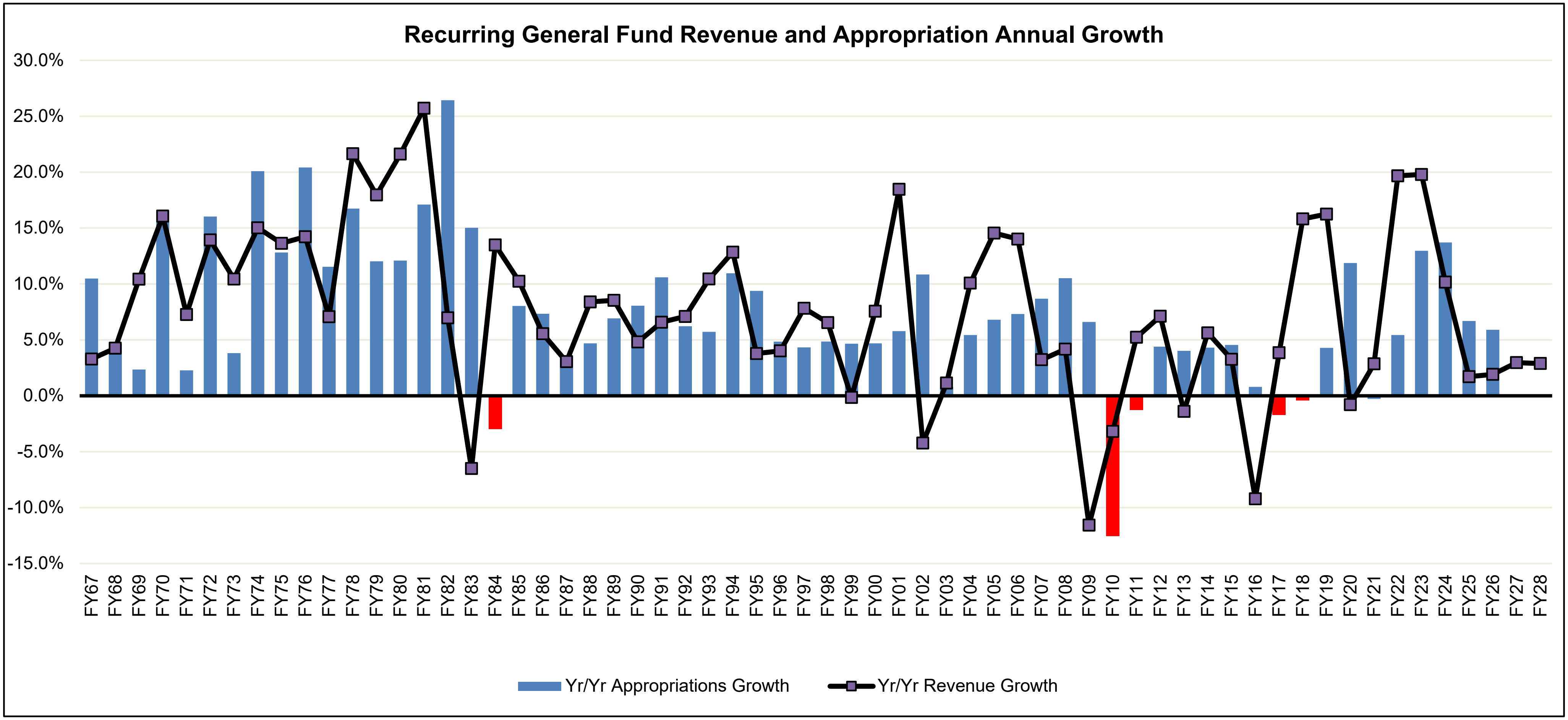
Tax changes passed in the last seven legislative sessions will reduce recurring revenues by over $1 billion by FY26.



Note: Does not include OGAS revenue distribution changes

Source: LFC Files

Significant volatility in revenues hampers consistent investments, challenging the state's ability to plan and execute stable budgeting.



STATE FINANCIAL OUTLOOK

Indicators

Labor Market

- Unemployment Rate
- Job Growth
- Labor Force Participation
- Employment-to-Population Ratio
- Job Openings, Hires, Quits and Layoffs
- Ratio of Job Vacancies to Unemployment
- Initial Unemployment Insurance Claims

Consumer Spending/Construction and Housing

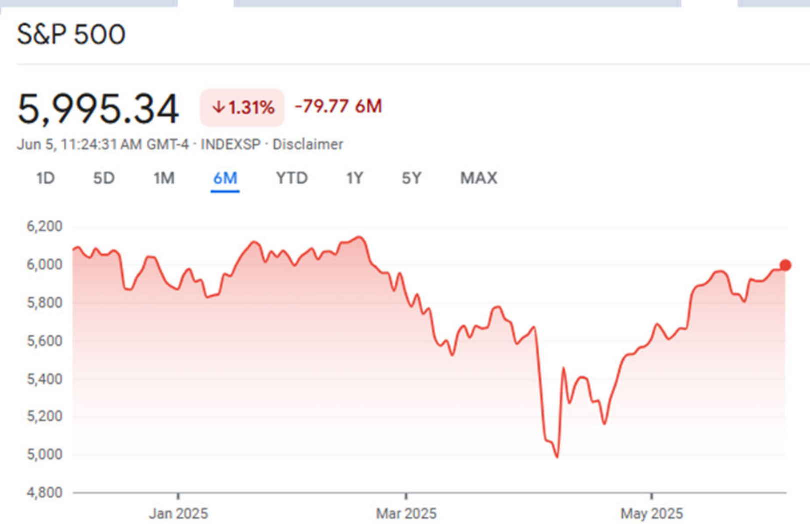
- Advance Retail and Food Services Sales
- Quarterly Selected Services Revenue
- New Single-Family Houses Sold
- Housing Starts
- Retail Vacancy Rates
- Homeownership Rate
- Construction Spending

Business Inventories, Profits and Formations

- Business Applications
- Retailer Quarterly Profits
- Manufacturing Quarterly Profits
- Business Inventories
- Wholesale Inventories
- Advance Wholesale Inventories
- Advance Retail Inventories

Oil and Gas

- Price of Oil
- Price of Natural Gas
- Number of Wells Drilled
- OPEC Actions
- Decreased Travel (lower demand)
- Global Conflict



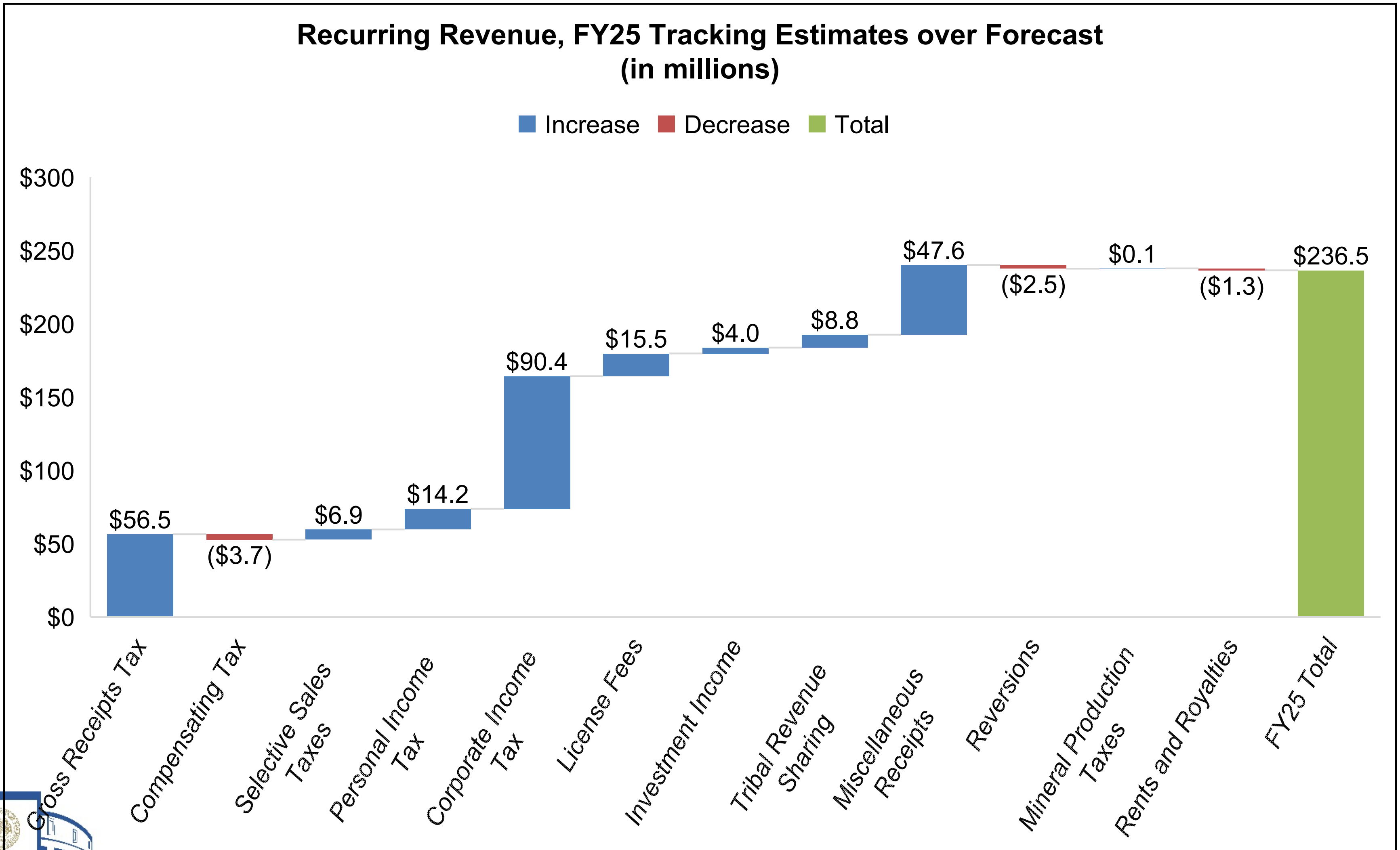
What do changes in production and prices mean for New Mexico revenues?

Based on December 2024 estimate for direct oil and gas revenues (production taxes and federal royalties),

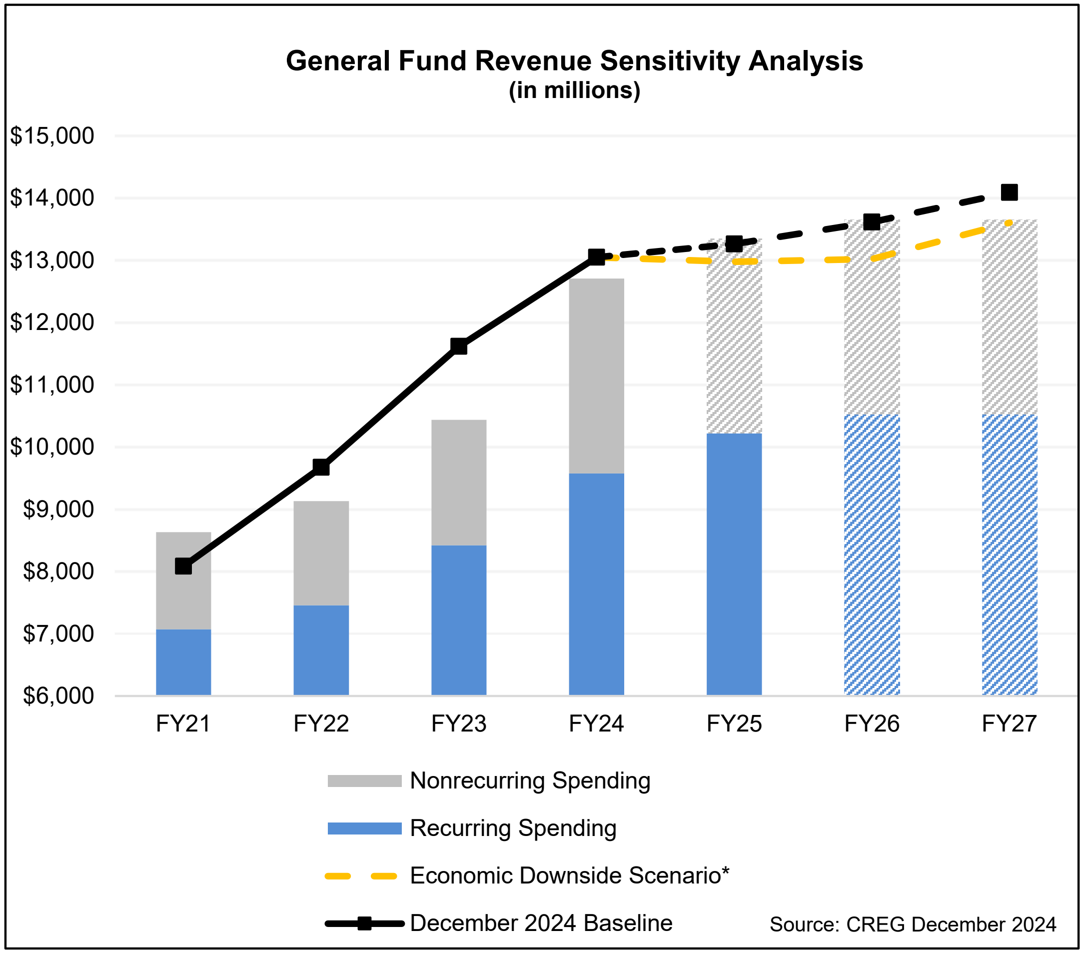
- A $1 change in the annual average NM price of oil has about a $50.4 million impact on revenues.
- A 10 cent change in the annual average NM price of natural gas has about a $36.7 million impact.
- Each additional million barrels of oil generates about $4.8 million in severance taxes and federal royalties.
- Each additional 10 billion cubic feet of natural gas generates about $3.3 million in severance taxes and federal royalties.

Note: general fund impacts include effects on the tax stabilization reserve

Revenues are currently tracking $236.5 million above the consensus estimate.



Moderate Recession Risk



- The CREG economic downside scenario presents a 2.2% revenue loss in FY25, a 4.4% revenue loss in FY26, and 3.4% revenue loss in FY27.

S3						
	FY25		FY26		FY27	
GRT	$	(162)	$	(338)	$	(267)
PIT	$	(56)	$	(111)	$	(77)
CIT	$	(45)	$	(115)	$	(122)
Severance to GF	$	(24)	$	(29)	$	(19)
Severance to TSR or ECE	$	(289)	$	(277)	$	(187)
Severance to STPF	$	-	$	(281)	$	(175)
FML to GF	$	-	$	-	$	-
FML to ECE	$	(334)	$	(480)	$	(277)
FML to STPF	$	-	$	(272)	$	(293)
TOTAL	$	(910)	$	(1,903)	$	(1,417)
Total GF	*$*	*(287)*	*$*	*(593)*	*$*	*(485)*
Total TSR/ECE	*$*	*(623)*	*$*	*(1,310)*	*$*	*(932)*

Federal changes could result in significant state budget impacts.

Source: Tax Policy Center

	State*	Medicaid cuts to total taxes	SNAP cuts to total taxes	Total	Increase in income tax rate only	Increase in sales tax rate only
1	New Mexico	5.8%	0.9%	6.7%	1.8%	1.2%

Table 1: Changes in 10-Year Deficits Allowed Under the FY 2025 House Budget Reconciliation Instructions

Billions of dollars

Committee	Increase or decrease (-) in deficits, 2025-2034
Decreases in Mandatory Spending	**-2,002**
Agriculture	-230
Education and Workforce	-330
Energy and Commerce	-880
Financial Services	-1
Natural Resources	-1
Oversight and Government Reform	-50
Transportation and Infrastructure	-10
Unspecified committee	-500
Increases in Mandatory Spending	**300**
Armed Services	100
Homeland Security	90
Judiciary	110
Decrease in Tax Revenues: Ways and Means	**4,500**
Total allowed increase in the primary deficit	**2,798**

Notes: The targets for each committee are bounds; positive amounts are "maximum deficit increases" and negative amounts are "minimum deficit reductions."
Source: House Budget Committee.

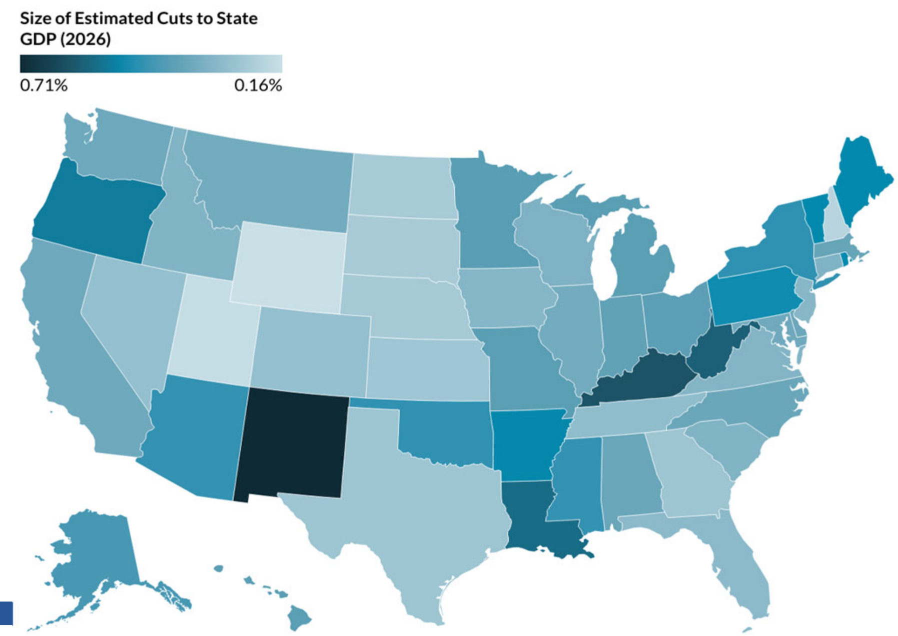
FIGURE 1

Framing Potential Federal Budget Cuts Across States

For estimated cuts in Medicaid and SNAP

Click on the buttons below to see what the cuts represent for various state indicators:

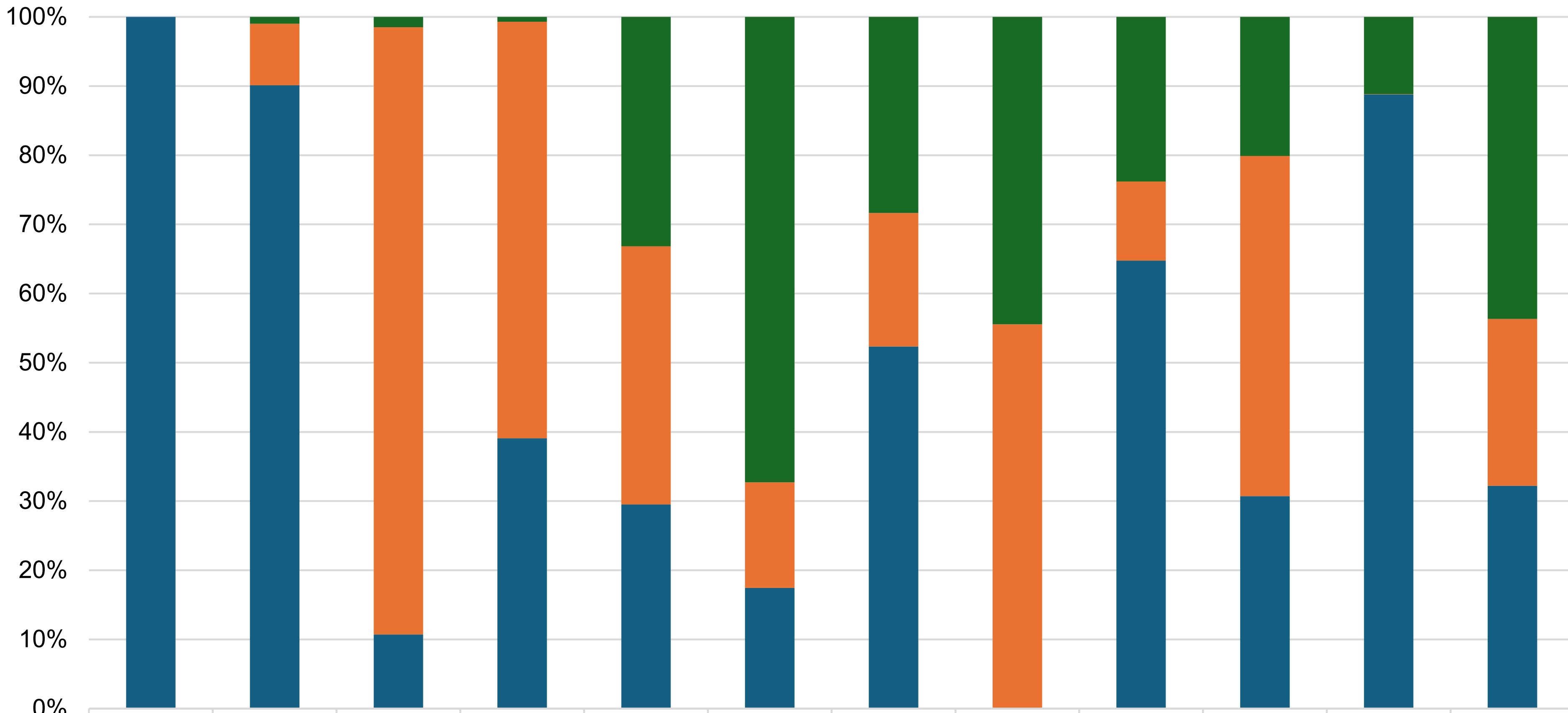
GDP Expenditures Taxes Income Taxes Sales Taxes



Notes: *All 50 states and the District of Columbia. Authors' calculations. See methodology appendix for more information.

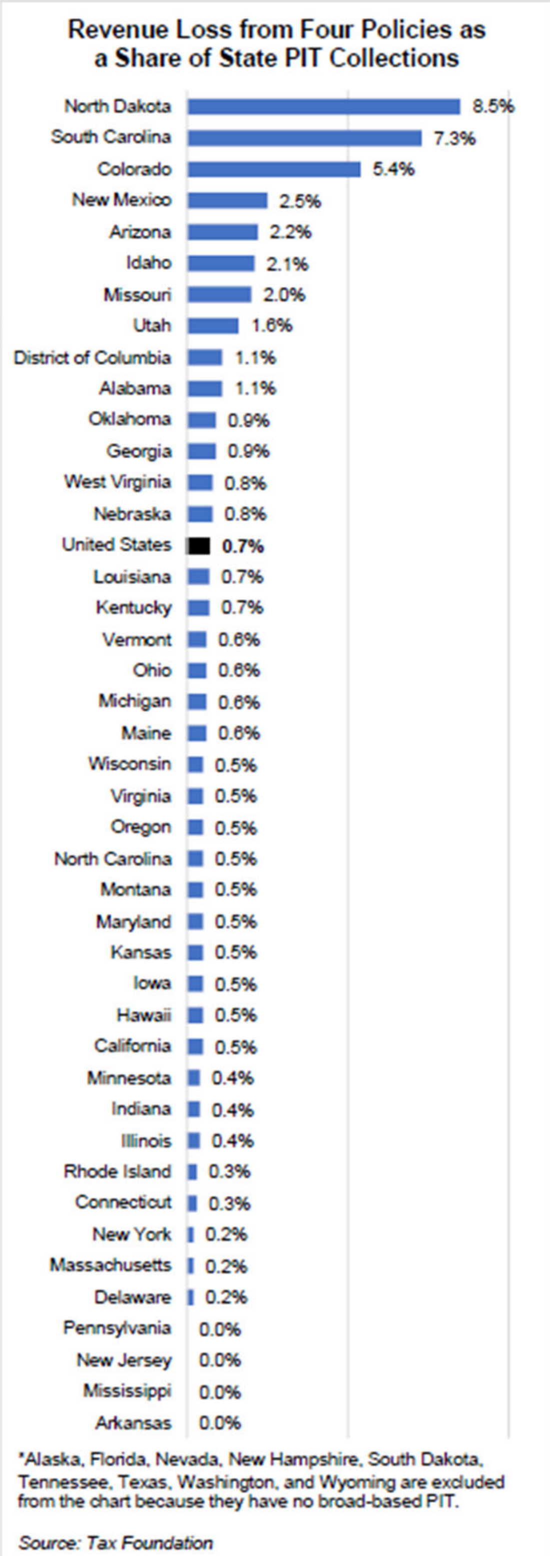
Current Budget Makeup

2025 HB 2 Expenditures by Revenue Type
(as of 3/5/25, in millions)



	Leg.	Judicial	General Control	Com. and Industry	Ag, Energy, and NR	HHS	Public Safety	Transp.	Other Ed.	Higher Ed.	Public Schools	TOTAL
Federal Funds	$-	$5,108	$29,463	$1,941	$146,885	$11,820,509	$308,450	$579,514	$34,564	$907,952	$579,500	$14,413,884
Other	$-	$45,149	$1,726,503	$162,741	$165,282	$2,682,952	$210,179	$724,140	$16,604	$2,221,919	$1,500	$7,956,968
General Fund	$6,035	$458,419	$210,630	$105,643	$130,823	$3,066,525	$569,609	$-	$94,025	$1,387,569	$4,606,475	$10,629,717

General Fund Other Federal Funds



Federal tax changes on the table could have significant state impacts.

o **Enhanced standard deduction**: An additional year of inflation adjustment for the standard deduction, beginning in calendar year 2026. In addition, the bill would provide a temporary enhancement to the standard deduction.

o **Limited itemized deductions**

o **Increased SALT deduction cap**: Permanent new SALT deduction cap of $40 thousand with phaseouts for higher earners.

o **Deduction for tip income**: Temporary deduction for qualified tip income.

o **Deduction for overtime pay**: Temporary deduction for the bonus amount of eligible overtime pay.

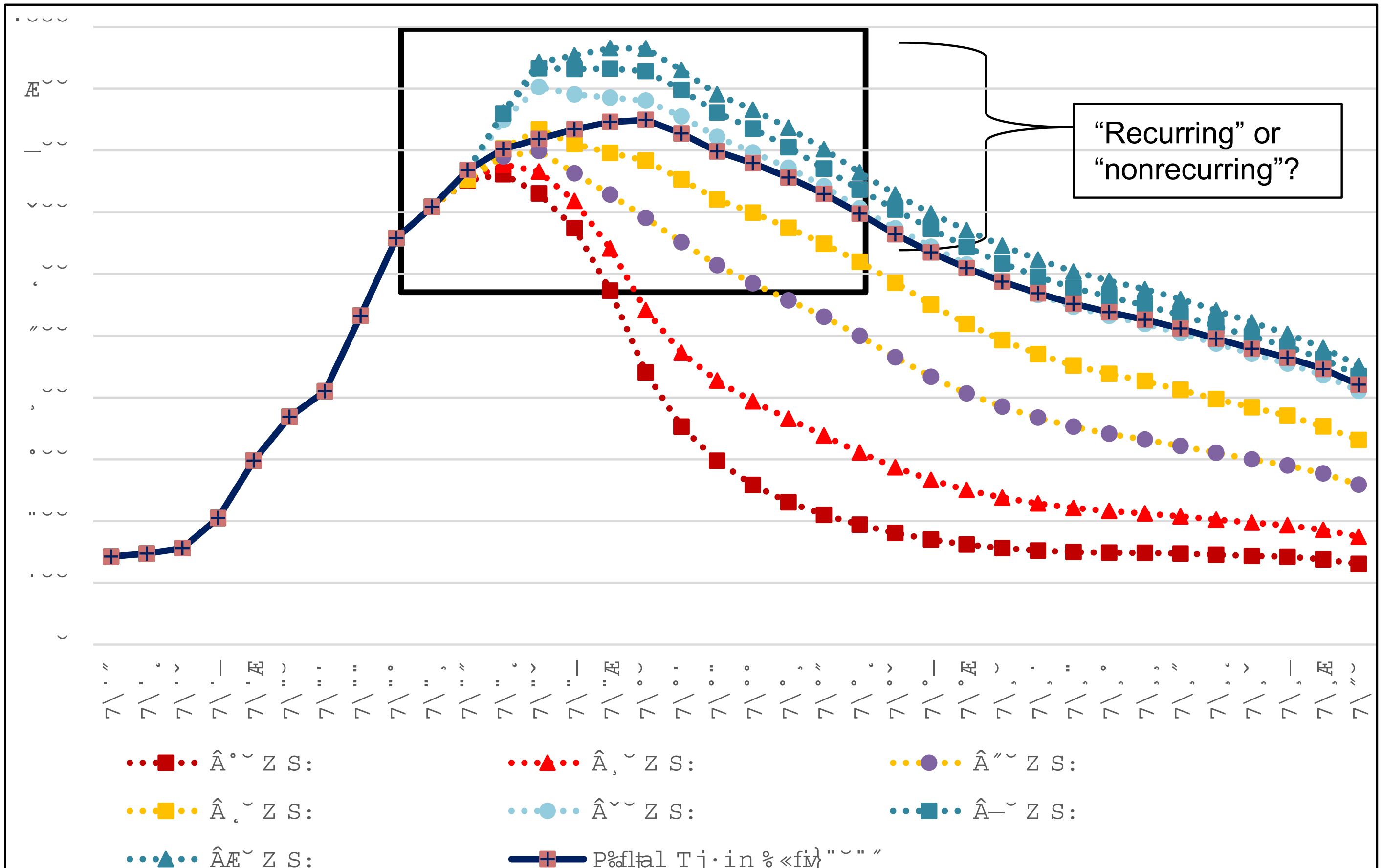
o **Deduction for seniors**: Provide a new temporary bonus deduction for all individuals who have attained the age of 65.

o **Charitable deduction for non-itemizers**: Temporary deduction for charitable contributions that is available to non-itemizers.

o **Deduction for auto loan interest**: Temporary deduction for qualified passenger vehicle loan interest.

While energy analytics firms expect NM oil production to continue growing for the next few years, production is currently expected to peak in the 2030s.

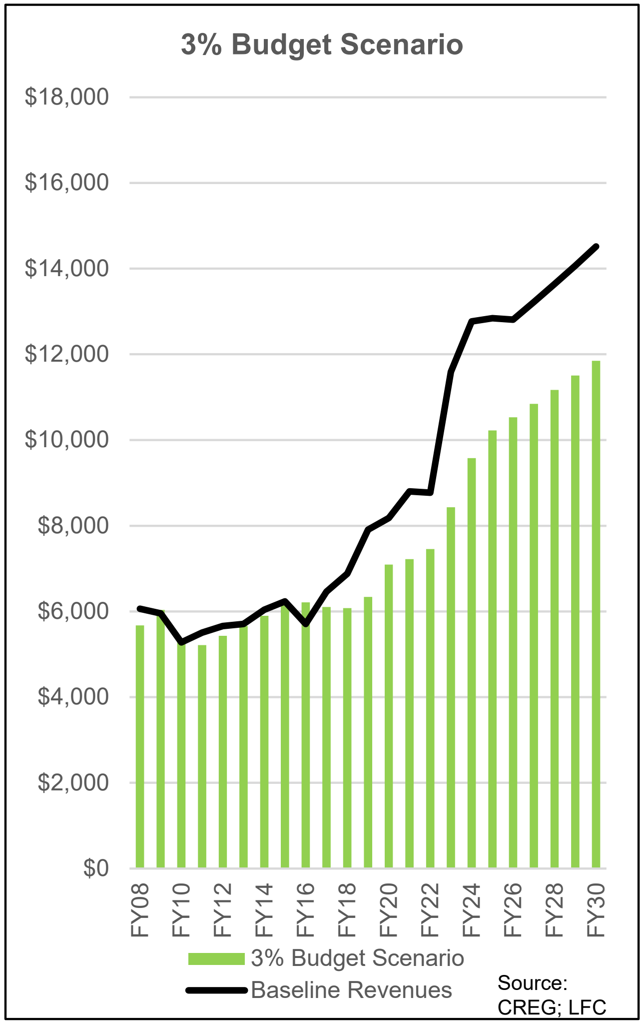
Rystad Energy Analysis by SIC – New Mexico Long-Term Oil Production Outlook

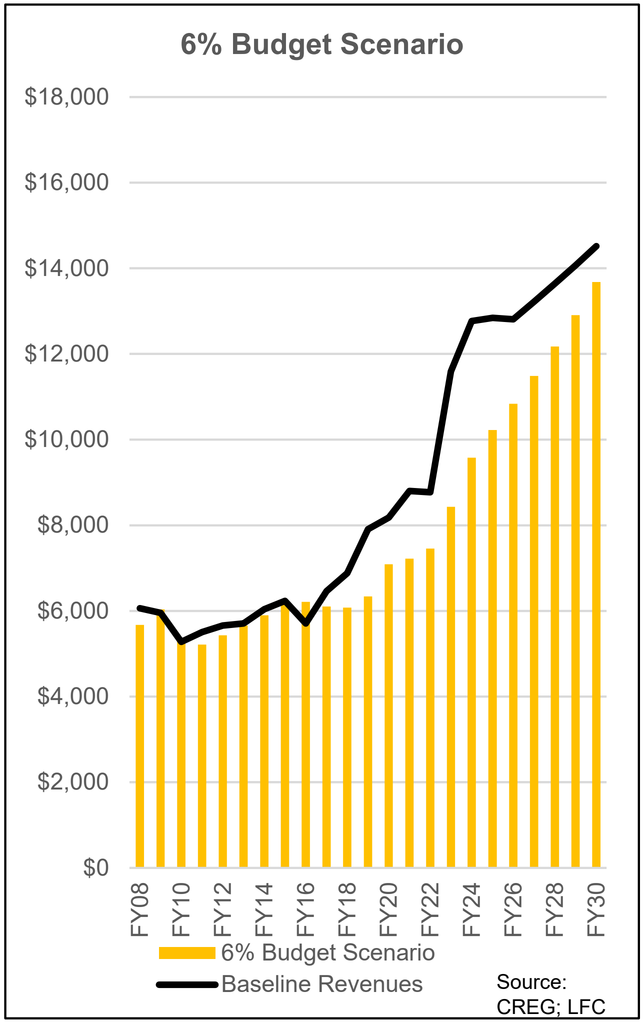


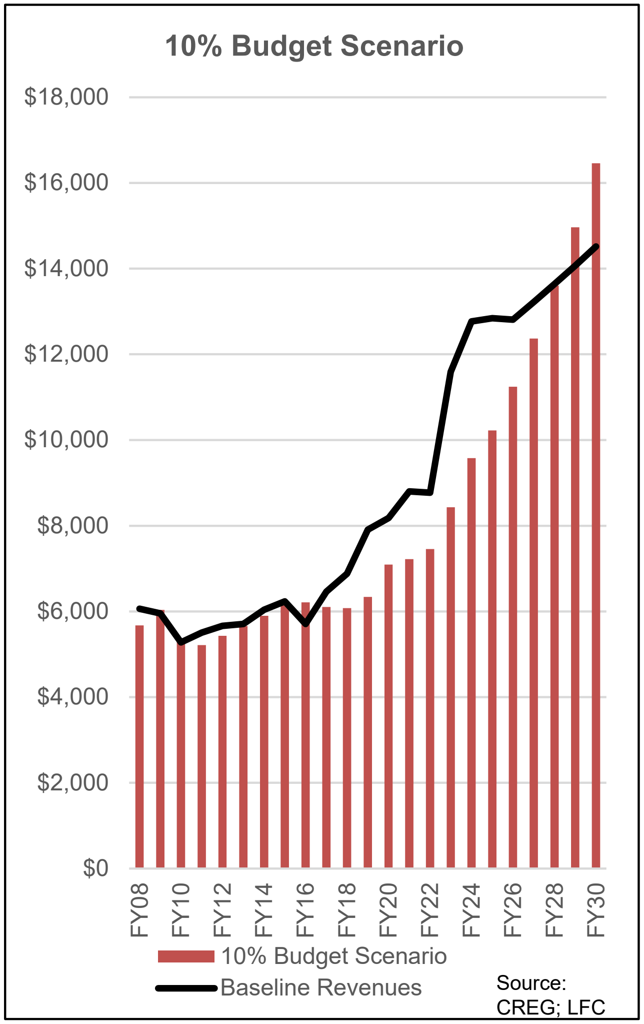
Source: NM State Investment Office; Rystad Energy UCube, Rystad Energy E&P Energy Transition Risk Dashboard December 2024

- The state will face tough choices in deciding how to treat general fund revenue growth from oil and gas revenues moving forward, particularly when growing recurring budgets
- Focus on diversifying and stabilizing state revenues
- Some analysts are predicting the Permian peak as early as this year

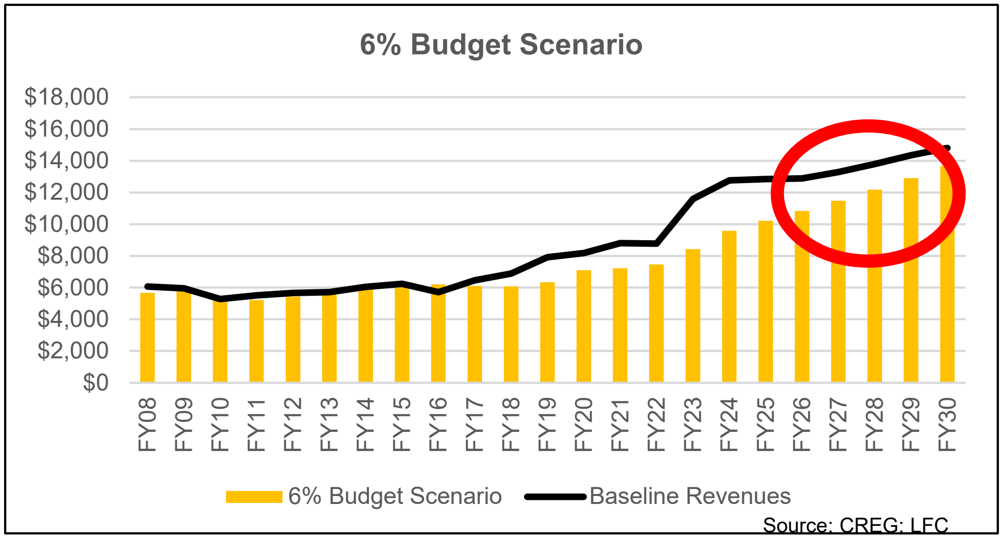
The state's budget needs are expected to grow, so balancing near-term and long-term needs is constant.

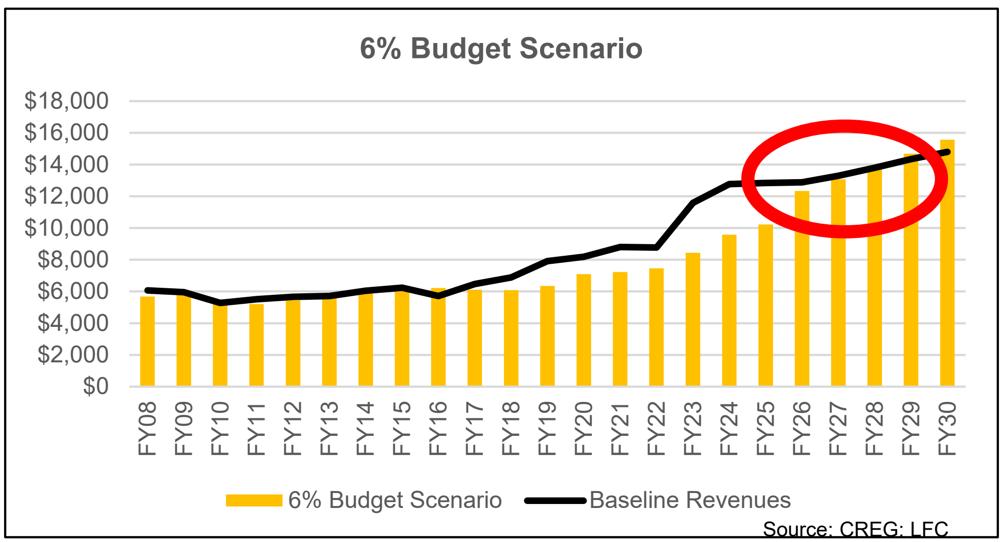






Budgetary Outlooks: with $1.5 billion of backfill in FY26 and no revenue impact





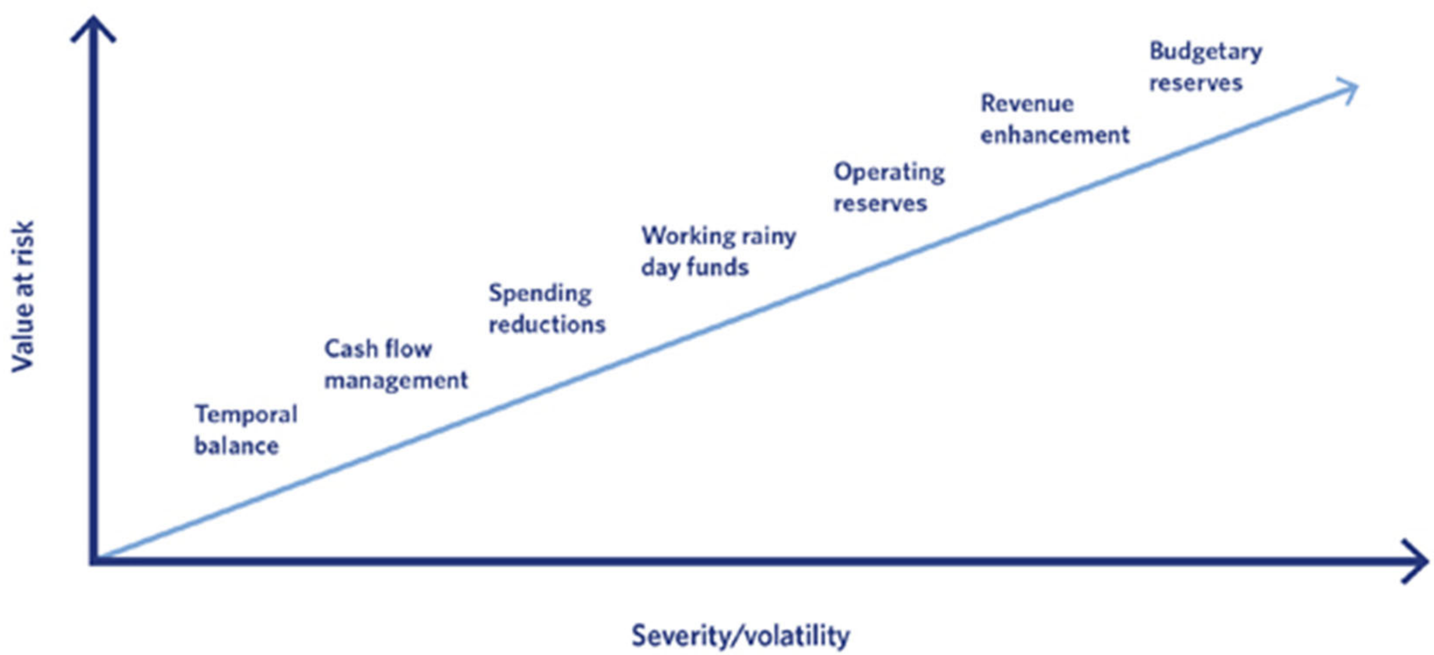
BEST PRACTICE PLAYBOOK

Best Practices: Do's and Do Not's

DO	DON'T
Tie Budget Growth with Long-Term forecasts	Obligate Future Revenues (Earmarks, Delayed Tax Cut Implementation, Delayed Spending)
Restrict Reserves for Shortfalls	Automatic Cost-Shift to Non-General Funds
Evaluate Program Performance to Identify Lowest and Highest Benefit	Fund Recurring Expenses with Debt
Study and Regularly Report on Deferred Costs	Fund recurring Needs with Asset Sales and Up-Front Revenues
	Source: Volcker Alliance

Best Practices: Downturn Playbook

Cataloging and ordering options help policymakers plan for different scenarios



Source: Utah's Office of the Legislative Fiscal Analyst

Best Practices: Downturn Playbook

New Mexico’s Fiscal Toolkit:

- Some form of federal fiscal relief – don’t count on it
- Swap agency revenues and sweep agency cash balances.
- Cancel stalled or out-year appropriations. Often called claw-backs or also appropriation sweeps.
- Agency Specific Savings (funded vacant positions and half empty but open prisons as examples)
- Reserves
- Eliminate Earmarks and Tax Expenditures using performance and evidence-based information to prioritize and protect high priority investments
- Budget Cuts and Revenue Raisers – furloughs and layoffs as a last resort

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QUESTIONS?