

# Enhancing Fiscal Stability Amid Revenue Growth and Uncertainty

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# What We Know:

1. New Mexico state revenues reached an all-time high in FY19 due to an ongoing oil and gas boom and are forecasted to continue to reach new highs in the coming fiscal years
2. Based on recent history, we know that the oil and gas market is prone to large swings driven by global supply and demand levels and geopolitical events, which are hard to predict and don't always correlate with normal economic cycles
3. The magnitude of the swings are significant and can lead to drastic budget measures if not properly managed

# Tools for Managing Revenue Volatility

Short-Term	Medium-Term	Long-Term
<ul style="list-style-type: none"><li>➤ Build Adequate General Fund Reserves at Appropriate Levels</li><li>➤ Establish GF Reserve Policy in Legislation</li><li>➤ Maintain Expenditure Growth near Long-Term Revenue Growth Levels</li></ul>	<ul style="list-style-type: none"><li>➤ Set Aside Oil &amp; Gas Revenue Windfalls</li><li>➤ Build on Tax Stabilization Reserve Tool</li><li>➤ Create New Permanent Fund with Oil &amp; Gas Windfalls once GF Reserve Target is Achieved</li></ul>	<ul style="list-style-type: none"><li>➤ Strengthen and Diversify Tax Revenues through Tax Policy Initiatives</li><li>➤ Grow Economy in order to grow GRT and Income Tax Revenue Base</li><li>➤ Diversify Economy to be less reliant on any one Sector (i.e. Federal, O&amp;G)</li></ul>

# General Fund Reserve Analysis (\$ Billions)

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FY20 Budget	\$ 7.086	
FY21 Budget assuming New Money:	\$ 7.993	
<b>FY21 GF Reserve Amounts</b>		
25% Reserves	\$ 1.998	
30% Reserves	\$ 2.398	
40% Reserves	\$ 3.197	
Lowest Case Stress Test Scenario:	\$ 1.205	15%
Lowest Case ST Scenario for 2 years	\$ 2.410	30%
3 months of operating expenses	\$ 1.998	25%
Ending FY19	\$ 1.707	
Ending FY20	\$ 2.269	

# Tax Stabilization Tools

- Tax Stabilization Reserve (TSR) legislation went into effect FY19
- Automatic trigger sends oil and gas emergency tax revenue into TSR Fund for any amount exceeding 5-year average -- allowing a portion of revenue peaks to be taken off the table for expenditure
- Funds may only be appropriated if (1) the governor declares it necessary because of a shortfall and the House and Senate approve it with a simple majority vote, or (2) two-thirds of both the House and Senate vote for it
- In FY19, \$196 million was transferred to the TSR fund and in FY20, the estimate is \$224 million

# Build on Tax Stabilization Reserve Concept

- Tax Stabilization Reserve healthy concept for New Mexico
- TSR Tool can be improved upon by:
  - Incorporating additional oil and gas revenues into set aside (i.e. Federal Mineral Leasing revenues)
  - Creating a new permanent fund with additional revenue set asides, once General Fund Reserve targets are met
  - Creating a new Early Childhood Education Permanent Fund can establish a dedicated revenue stream over time for this critical investment in NM children
  - Growing the ECEPF to \$1 billion over next three years, for example, could potentially generate \$50 million per year for early childhood purposes

# Strengthen and Diversify Revenues

- **Tax Policy** – Ongoing efforts to modernize tax system, fortify tax base, and improve collections through tax policy initiatives
- **Grow the Economic Pie** - Current economic development initiatives should work to grow and diversify revenues and economy through development of strategic economic sectors and the creation of high paying jobs

