



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

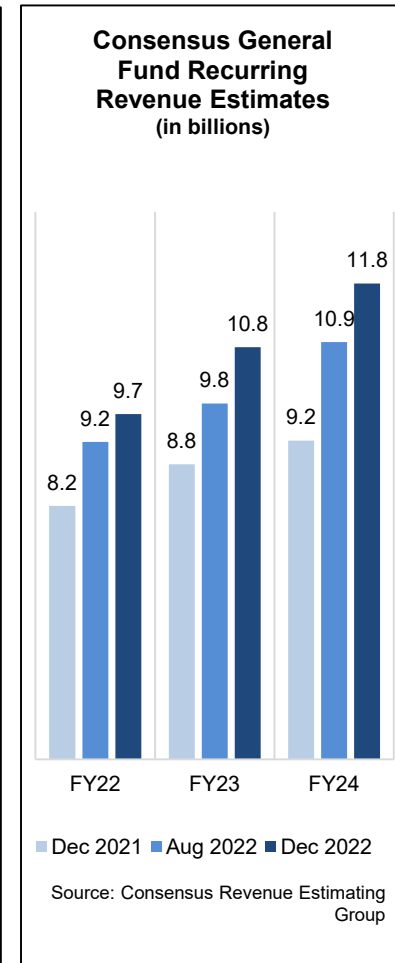
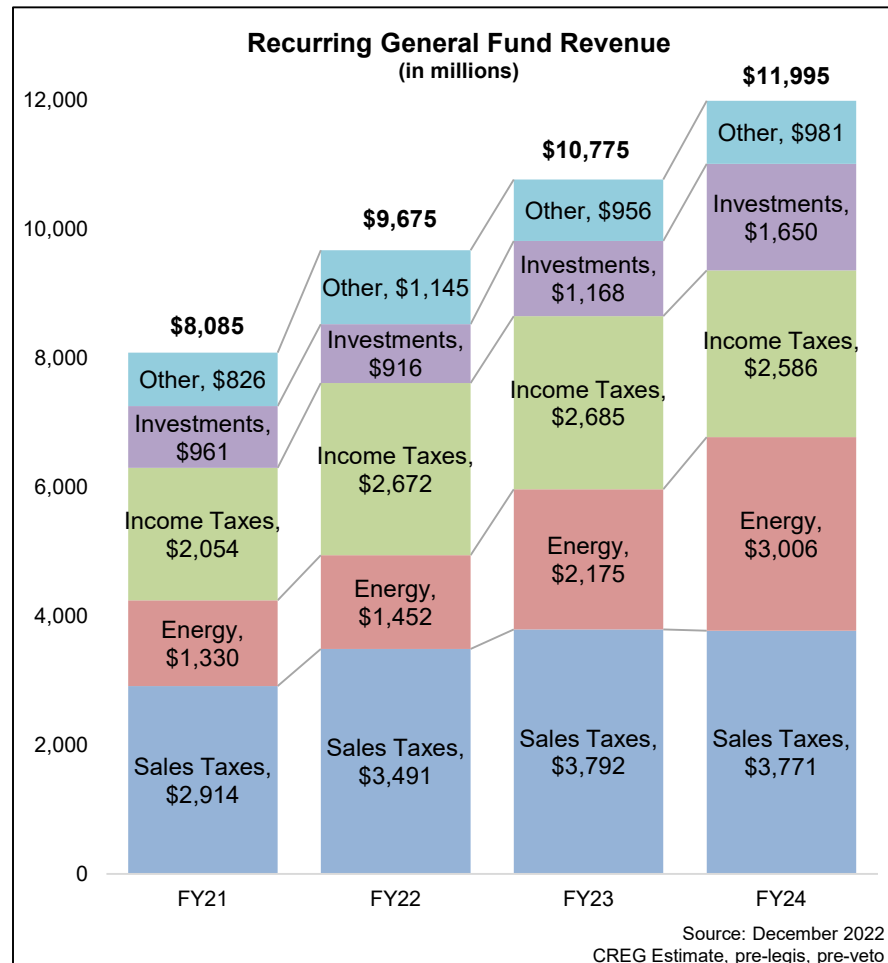
Post-Session Fiscal Report

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Presented to the
Revenue Stabilization and Tax Policy Committee
June 8, 2023

Continued recovery, soaring oil prices, and wage increases led to a record-high revenue forecast in December 2022.

- “New Money” – FY24 recurring revenue less FY23 recurring appropriations – projected at \$3.6 billion, or 42.7% growth
- FY22 ending reserve balance of \$3.7 billion, or 49.3 percent



Lawmakers increased recurring budgets by 13.5 percent to \$9.57 billion. The 2023 session also included over \$3.3 billion of nonrecurring appropriations.

2024 GAA - General Fund Recurring Appropriations (in millions)		
	Amount	Y-o-Y Growth
Legislative	\$33.1	4.2%
Judicial	\$386	6.2%
General Control	\$213	20.7%
Commerce, Industry	\$89.3	11.0%
Agriculture, Energy and Natural Resources	\$107.1	9.1%
Medicaid	\$1,454.5	7.9%
Other Health, Hospitals and Human Services	\$1,253.4	38.7%
Public Safety	\$520.0	2.5%
Other Education	\$48.5	-18.7%
Higher Education	\$1,212.5	18.3%
Public School Support	\$4,126.2	8.2%
Recurring Compensation (excl. public education)	\$125.1	
Total Recurring	\$9,568.7	13.5%

- \$302 million for public schools, including reallocating \$250 million unused funding for new extended learning requirements
- \$132 million, or 67%, for early childhood from school permanent fund for Pre-K and another increase of \$120 million mostly for childcare from EC trust fund
- Over \$200 million for Medicaid, including funding for over \$300 M (state/federal) for provider rate increases.
- Big investments in staffing and evidence-based child welfare interventions at Child Protective Services



Special non-recurring appropriations from the general fund total almost \$1.4 billion. Cash financed capital outlay projects total almost \$1.1 billion for 1,497 projects.

- Large investments in law enforcement, housing, broadband, economic development, rural hospitals, STEM research, financial aid/endowments
- Additional nearly \$300 million for roads.
- GF Transfers to other permanent funds or to other funds for future revenue, including an additional \$475 million to the severance tax permanent fund.
- \$143 million for higher education institutions and special schools, including \$27.3 million in supplemental funding to complete existing projects
- \$105 million to school districts for career technical education, pre-kindergarten facilities, maintenance and school security (non-GF)
- \$100 million for tribal infrastructure projects sponsored by the governor
- \$68 million to replace the forensic unit at the New Mexico Behavioral Health Institute in Las Vegas
- \$30 million for aquifer recovery on the Lower Rio Grande and to promote settlement of Texas v. New Mexico



FY24 Budget Increases Related to Climate Change, Energy, and Natural Resources
Recurring and Nonrecurring Funds

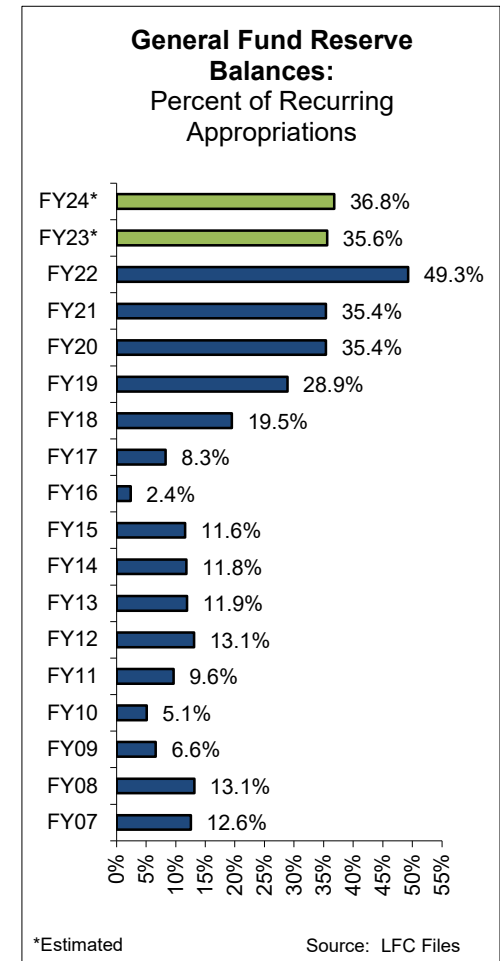
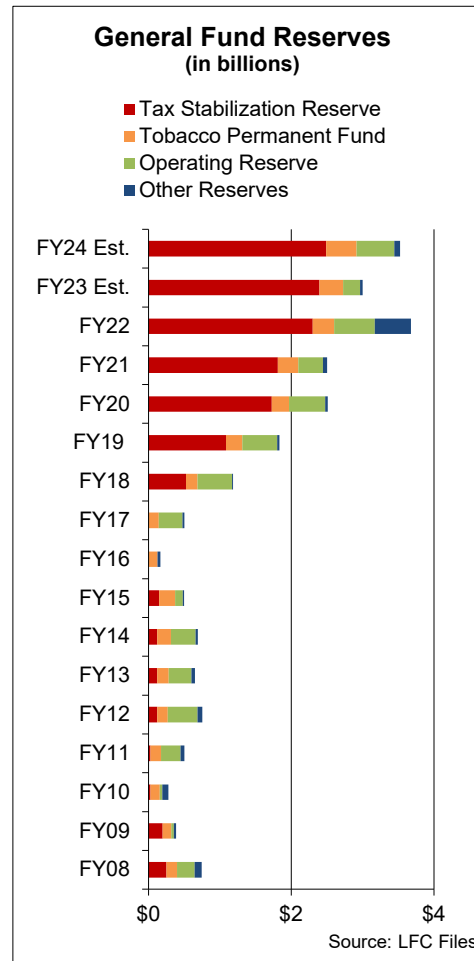
Program / Purpose / Initiative	Budget Increases in 2023 Regular Session	Recurring or Non-Recurring
dollar amount, in thousands		
Office of the State Engineer		
Lower Rio Grande water supply augmentation and interstate compact litigation (Section 5)	\$ 35,000.0	NR
Lower Rio Grande aquifers (Capital Outlay)	\$ 30,000.0	NR
Middle Rio Grande river channel improvements (Section 5)	\$ 10,000.0	NR
Middle Rio Grande - river maintenance, habitat restoration, flood control (Capital Outlay)	\$ 10,000.0	NR
50-year water plan implementation (Section 5)	\$ 500.0	NR
Pecos Settlement Agreement	\$ 2,000.0	NR
Strategic Water Reserve	\$ 7,500.0	NR
Ute Dam Repairs	\$ 1,000.0	NR
Surface water and groundwater measurement statewide (Capital Outlay)	\$ 2,000.0	NR
Dam maintenance projects	\$ 10,000.0	NR
Acequia and Community Ditch Infrastructure Fund	\$ 2,000.0	NR
50-year water plan implementation (Interstate Stream Commission Staff)	\$ 150.0	R
Targeted pay raises and vacancy rate reduction	\$ 735.0	R
Lower Rio Grande groundwater depletion reduction program	\$ 450.0	R
Cannabis Permit Staff	\$ 150.0	R
Deputy Secretary (Chief of Staff)	\$ 150.0	R
Capital Project Management Unit Staff	\$ 300.0	R
Dam Safety Bureau Staff	\$ 150.0	R
Subtotal	\$ 112,085.0	
Department of Environment		
Surface water discharge permitting program	\$ 680.0	NR
Water reuse	\$ 2,900.0	NR
ENMWUA State Cost Share	\$ 15,000.0	NR
River stewardship program	\$ 1,500.0	NR
Rural infrastructure revolving loan program (water projects)	\$ 10,000.0	NR
Regionalization of small water systems	\$ 1,000.0	NR
Emergency drinking water fund	\$ 10,000.0	NR
Superfund Match	\$ 839.7	NR
Climate Change and Infrastructure	\$ 4,000.0	NR
Ozone attainment	\$ 2,000.0	NR
Radioactive materials management	\$ 600.0	NR
Financial Services Bureau Business Operations	\$ 150.0	NR
Office of Strategic Initiatives Business Operations Improvement	\$ 1,350.0	NR
Contract Engineers - Project Management (Water Protection Division)	\$ 750.0	R
Contract Engineers (Resource Protection Division)	\$ 100.0	R
Vacancy Rate Reduction	\$ 764.3	R
Hemp and Cannabis permitting, monitoring and enforcement	\$ 491.3	R
Subtotal	\$ 52,125.3	
Energy, Minerals and Natural Resources Department		
Black Fire Restoration	\$ 2,000.0	NR
Energy Conservation and Management (Federal match)	\$ 1,813.4	NR
Hot Shot Crews (Equipment and Land Acquisition)	\$ 7,500.0	NR
Sustainable Building Tax Credit Staff	\$ 244.2	R
Hot Shot Crews (Staff)	\$ 1,123.6	R
Inter-agency fire management team	\$ 518.8	R
Law Enforcement Park Rangers (State Parks Division)	\$ 700.0	R
Vacancy Rate Reduction and Revenue Offset	\$ 150.0	R
Subtotal	\$ 14,050.0	
Other Major Nonrecurring (Department)		
Conservation Legacy Permanent Fund (Department of Finance and Administration)	\$ 50,000.0	NR
Land of Enchantment Legacy Fund (Department of Finance Administration)	\$ 50,000.0	NR
Trail and Outdoor Infrastructure Grants (Economic Development Department)	\$ 10,000.0	NR
Outdoor Equity Grants (Economic Development Department)	\$ 1,000.0	NR
Reforestation Center (New Mexico State University)	\$ 10,000.0	NR
Geothermal Resources Center for Excellence (New Mexico Institute of Mining and Technology)	\$ 400.0	NR
Water Trust Fund recapitalization (Department of Finance and Administration)	\$ 100,000.0	NR
Subtotal	\$ 221,400.0	
Grand Total	\$ 399,660.3	
Recurring Total	\$ 6,927.2	
Nonrecurring Total	\$ 392,733.1	

More details on legislative actions can be found in the LFC Post-Session Report. For example, investments made for climate, energy, and natural resources are broken out in the report and shown below.

At the end of the session, general fund reserve balances were projected to end FY23 at \$3 billion and to end FY24 at \$3.53 billion.

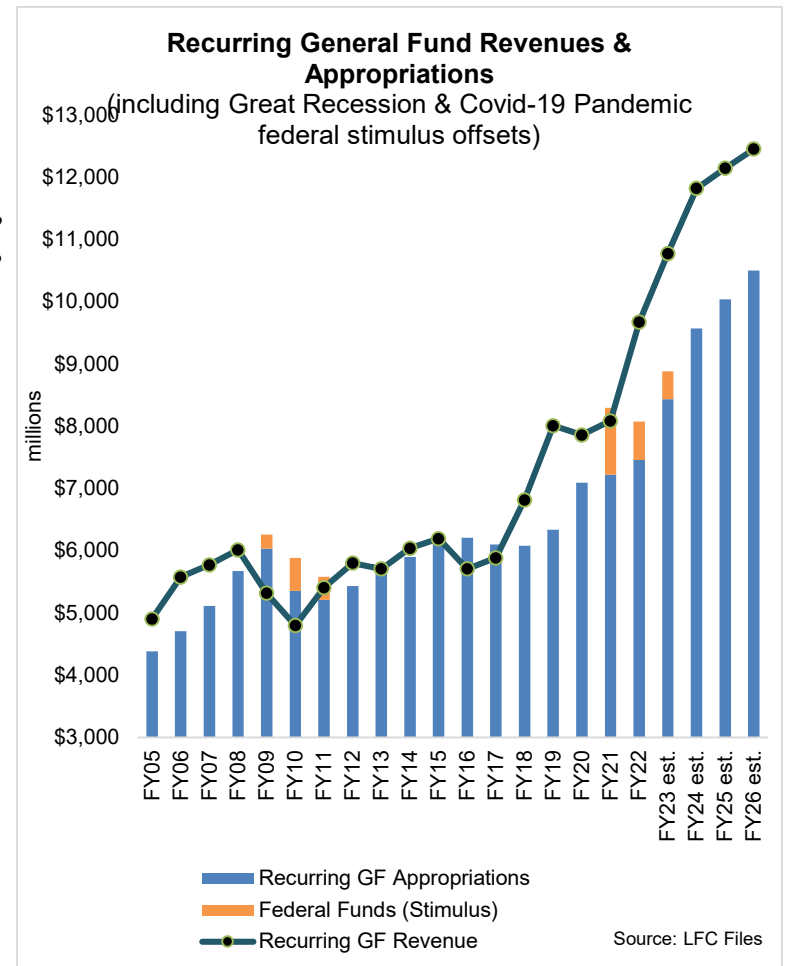
General Fund Reserve Balance Projections (in millions)		
Reserve Fund	FY23	FY24
Operating Reserve	\$237.5	\$529.8
Appropriation Contingency Fund	\$26.2	\$68.2
State Support Reserve	\$10.4	\$10.4
Tobacco Settlement Permanent Fund	\$333.0	\$425.5
Tax Stabilization Reserve	\$2,395.5	\$2,491.3
Total Balances	\$3,002.5	\$3,525.2

Source: LFC Post-Session Report, April 2023



The state's budget needs are expected to grow.

- Base expectations in LFC's general fund appropriation outlook projects recurring budget growth of 13.8 percent in FY24 and 4.6 percent in FY25 and FY26, pre-adjustment.
 - Assumes public education spending will increase 4.5 percent, other state agency budgets will grow 3.5 percent to 4 percent, and Medicaid expenditures will grow 6 percent.
- The adjustment scenario shows an additional \$409.4 million of recurring budget needs in FY25. Adjustments include replacing federal funds and covering unfunded budget obligations based on 2023 legislation.
 - Junior Bills (\$50.0)
 - Public Education Reform Fund Backfilling (\$66.5)
 - K-12 Plus (\$106.0)
 - RMD - Health Benefits Fund (\$10.0)
 - Replace TANF at CYFD (\$15.8)
 - Eliminate DD Waitlist (\$40.0)
 - Risk Management - Public Liability Increases (\$14.0)
 - State Employee Comp. Study Implementation (\$40.0)
 - Health Ins. Premium Surtax - GF Backfill of Fund Use (\$34.3)
 - Childcare Assistance - ARPA Backfill (\$32.8)



2023 LEGISLATION AFFECTING REVENUES



Legislation passed during the 2023 regular session reduced recurring general fund revenue by \$175.6 million in FY24, \$828.7 million in FY25, and \$1.46 billion in FY26. An additional nonrecurring revenue loss of \$666.9 million is estimated in FY23.

Appropriation Account Detail: 2023 Regular Legislative Session

(in millions of dollars)

	FY23		FY24		FY25		FY26	
	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring
REVENUE								
<u>2023 Regular Session:</u>								
<u>Bill No.</u>								
<i>Ch. 52</i> HB 78 Aviation Fund GRT Distribution			\$ (3.0)		\$ (3.0)		\$ (3.0)	
<i>Ch. 157</i> HB 353 South Campus TIDD			\$ (5.5)		\$ (5.5)		\$ (5.5)	
<i>Ch. 192</i> HB 462 Nuisance Penalties and Procedures	\$ 0.6		\$ 2.9		\$ 2.9		\$ 2.9	
<i>Ch. 211</i> HB 547 Omnibus Tax Package		\$ (666.6)	\$ (422.1)	\$ (6.7)	\$ (726.6)		\$ (978.7)	
Governor Veto ²			\$ 280.2		\$ 519.7		\$ 755.3	
<i>Ch. 22</i> SB 26 Excess Oil & Gas Funds to Severance Tax Fund					\$ (587.6)		\$ (1,204.0)	
<i>Ch. 85</i> SB 147 Tax Changes		\$ (0.3)	\$ (2.5)	\$ (0.3)	\$ (2.7)		\$ (3.1)	
<i>Ch. 112</i> SB 251 Metro Development Act Changes					\$ (1.0)		\$ (1.0)	
<i>Ch. 122</i> SB 336 Use of Racetrack Funds for Insurance	\$ (0.8)		\$ (3.1)		\$ (3.1)		\$ (3.0)	
<i>Ch. 181</i> SB 491 Health Premium Tax for Law Enforcement			\$ (22.5)		\$ (21.8)		\$ (22.2)	
TOTAL REVENUE	\$ (0.2)	\$ (666.9)	\$ (175.6)	\$ (6.9)	\$ (828.7)	\$ -	\$ (1,462.3)	\$ -



The tax package passed during the 2023 legislative session reduced recurring revenue by \$1.1 billion by FY27, but the governor line-item vetoes reduced it to \$237 million.

The governor vetoed most of the items in HB 547. After the vetoes, the tax package contains only four tax changes:

- an expansion of the child tax credit,
- a one-time income tax rebates,
- a healthcare practitioner GRT deduction for copays and deductibles, and
- an expansion of the film tax credit suite.

Estimated Revenue					Fund Affected
FY23	FY24	FY25	FY26	FY27	
	(\$102,600)	(\$106,600)	(\$108,900)	(\$111,100)	Child Income Tax Credit – General Fund
(\$666,600)	(\$6,670)				2021 Income Tax Rebates – General Fund
	Negative but minimal	(\$61,500)	(\$75,900)	(\$87,300)	Film Tax Credits – General Fund
	(\$39,300)	(\$38,850)	(\$38,600)	(\$38,500)	Healthcare Practitioner Copayment or Deductible GRT – General Fund
	(\$10,800)	(\$12,300)	(\$13,900)	(\$15,500)	Healthcare Practitioner Copayment or Deductible GRT – Local Governments
(\$666,600)	(\$148,570)	(\$206,950)	(\$223,400)	(\$236,900)	Total General Fund
\$0	(\$10,800)	(\$12,300)	(\$13,900)	(\$15,500)	Total Local Government Revenue and Funds for Local Governments



The tax package passed during the 2023 legislative session reduced recurring revenue by \$1.1 billion by FY27, but the governor line-item vetoes reduced it to \$237 million.

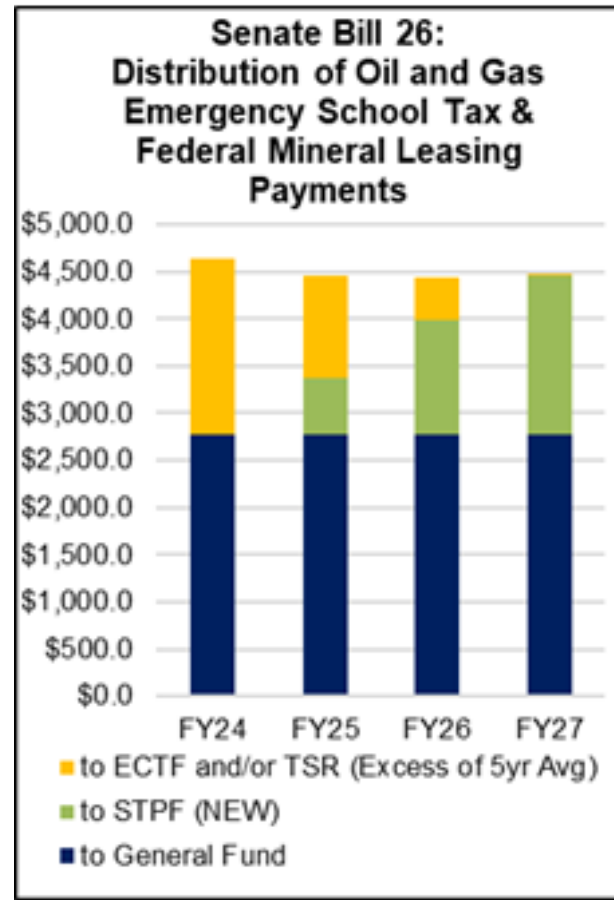
Prior to the governor's vetoes, House Bill 547 cut up to an estimated \$1.138 billion in recurring revenues and \$673 million in nonrecurring revenues in a series of tax changes, including:

- \$500 million for GRT rate cuts by FY27
- \$678 million for one-time income tax rebates
- \$150 million for income tax rate and bracket restructure
- \$7 million in revenue gains to create a flat corporate income tax
- \$35 million in revenue gains to limit the capital gains deduction
- \$128 million expanding the child tax credit and the low-income comprehensive tax rebate
- \$67 million for targeted expenditures for healthcare and childcare
- \$25 million for targeted expenditures for environmental initiatives
- \$76 million for film industry incentives
- \$174 million to redistribute motor vehicle excise taxes to road funds
- \$26 million to raise liquor tax rates and redistribute receipts to alcohol harms alleviation fund



SB26, cash-financing capital, and direct appropriations all channel current excess GF revenue to the severance tax permanent fund, increasing long-term revenue stability.

- SB26 diversion of OGAS revenue to STPF could surpass \$1.6 billion in FY27.
- Using cash to finance capital in FY24 will bolster STPF by \$90+ million per year for 10 years.
- \$475 transfer from General Fund to STPF in HB2.



The Legislature passed other measures in the 2023 regular session that reduce general fund revenues.

In addition to the tax changes and revenue stabilizing legislation, the Legislature passed multiple other bills that affect general fund revenues.

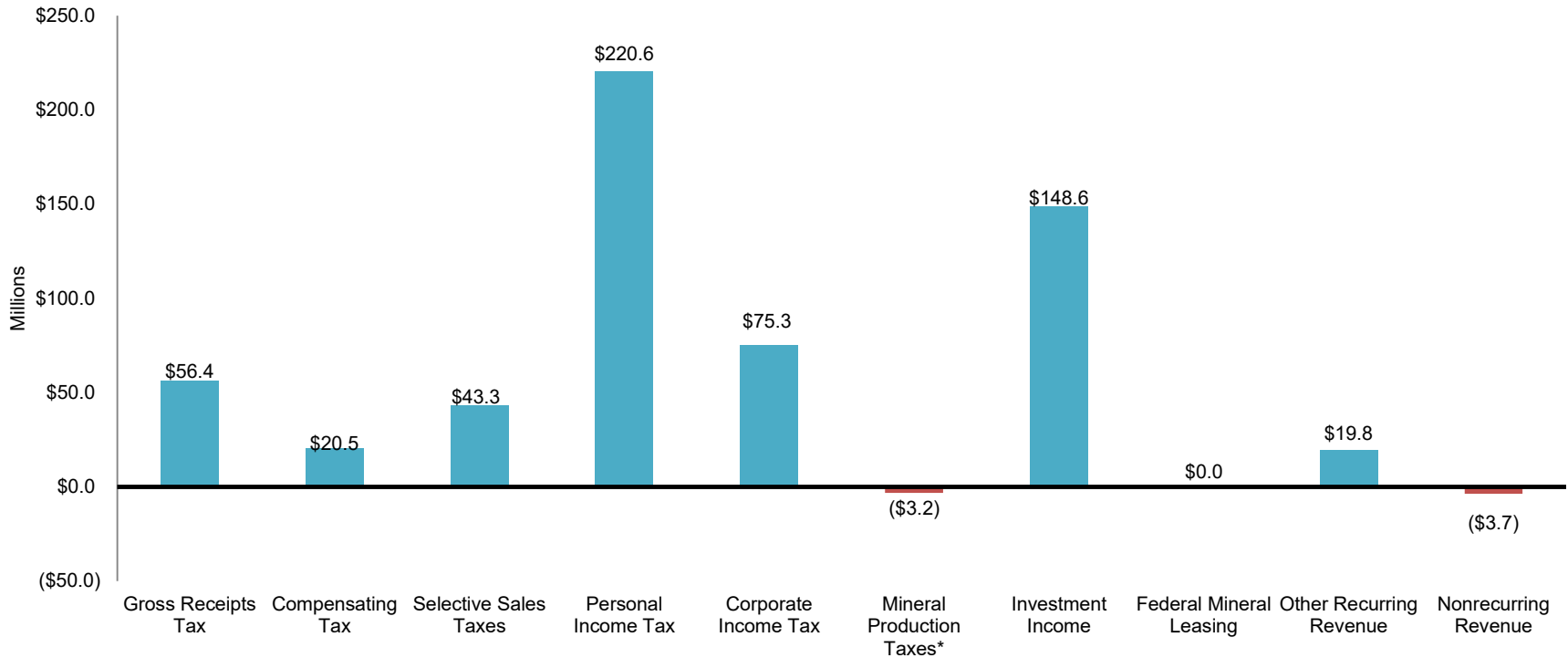
- Chapter 157 (House Bill 353) authorized the issuance of \$267 million in Tax Increment Development District (TIDD) revenue bonds over 28 years to provide public infrastructure in the 337-acre South Campus district in Albuquerque. This includes authorizing tax distributions of 56.23 percent of the increment attributed to the state gross receipts tax within the TIDD, expected to total \$154.2 million by 2050.
- Chapter 181 (Senate Bill 491) earmarks 10 percent of health insurance premium tax revenue for the law enforcement protection fund, estimated to reduce the general fund by over \$20 million a year and benefit the law enforcement protection fund.
- Other legislation that affects revenues includes earmarking \$3 million of GRT revenues for the aviation fund, updating nuisance penalties and procedures, changing the Metro Development Act, making administrative and technical changes to the tax code, and allowing racetrack revenue to be used or insurance. In total, these pieces of legislation reduce general fund revenues by an estimated \$5.7 million in FY24.

STATE FINANCIAL OUTLOOK



Revenues are currently tracking about \$581 million above the consensus estimate...

FY23 General Fund Revenue Tracking vs. December 2022 Forecast



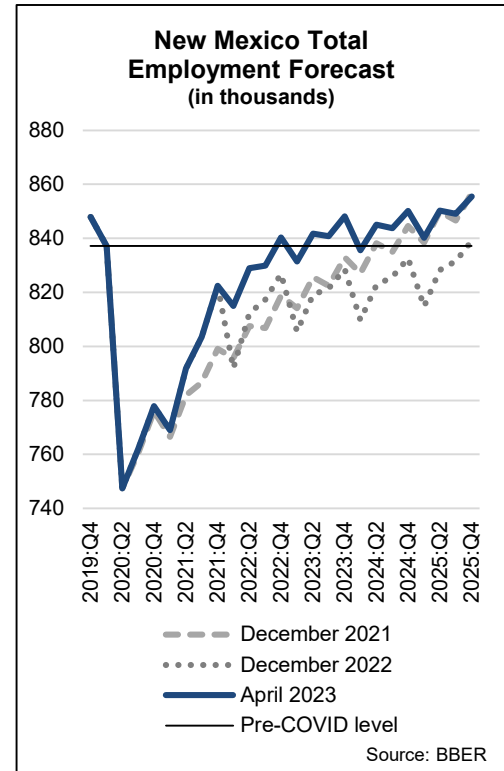
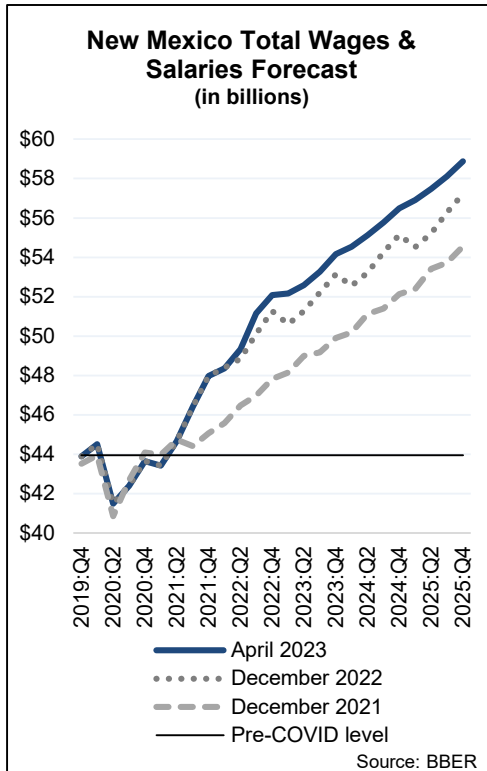
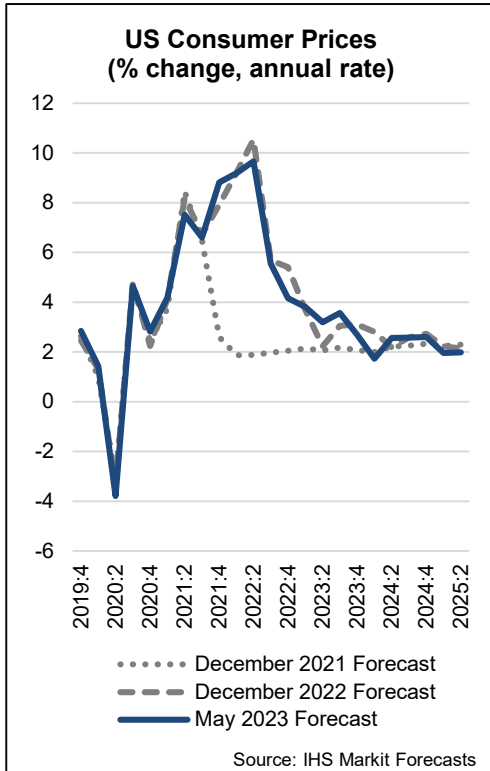
* Includes excess Oil and Gas Emergency School Tax revenues going to tax stabilization reserve

Note: forecast adjusted for 2021 legislation

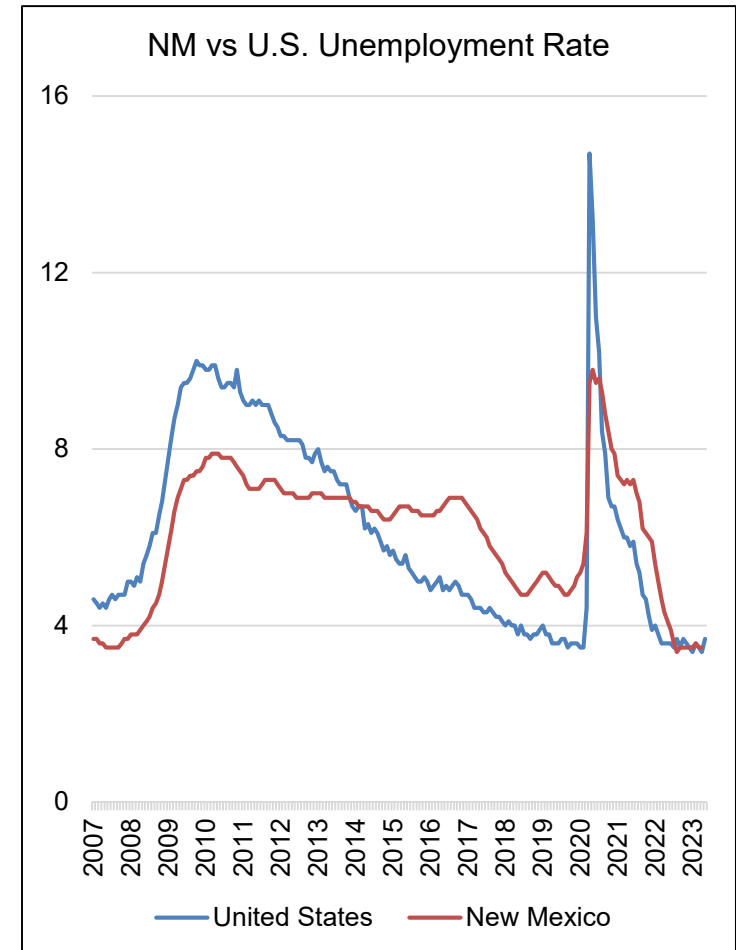
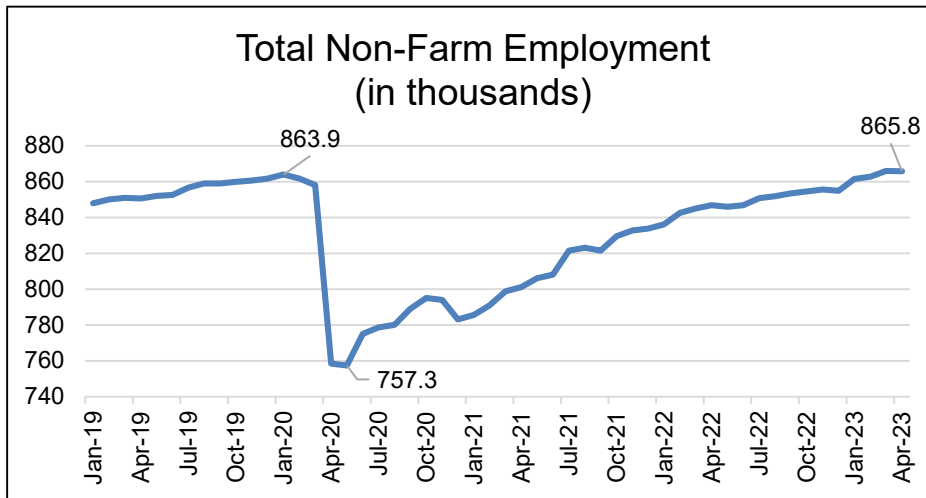


Source: DFA General Fund Report, LFC Files

...largely due to growth in wages, oil prices and production, inflation, and employment resulting in higher-than-expected PIT receipts.



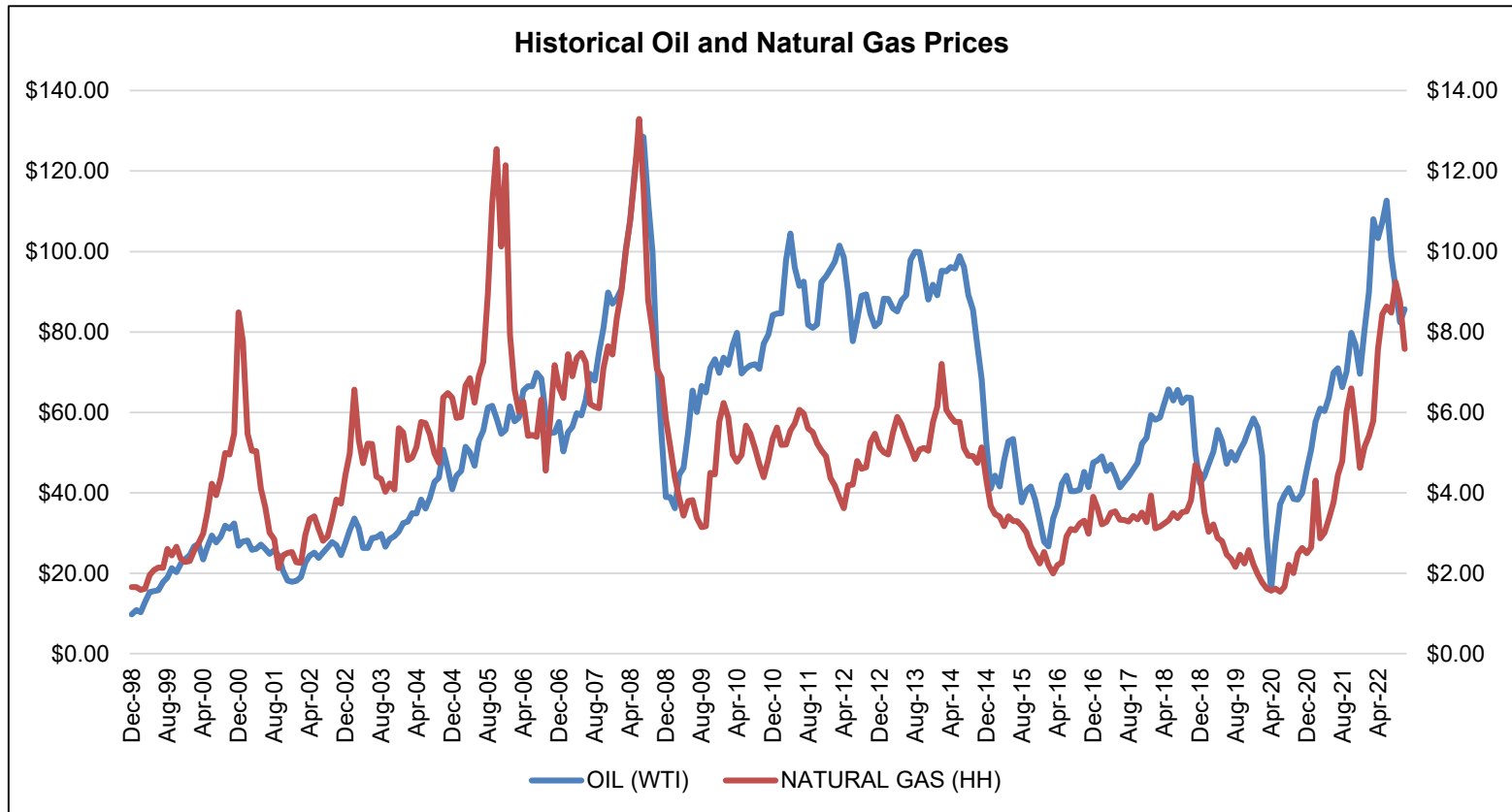
Employment has recovered at only 1.1 thousand jobs below pre-pandemic levels.



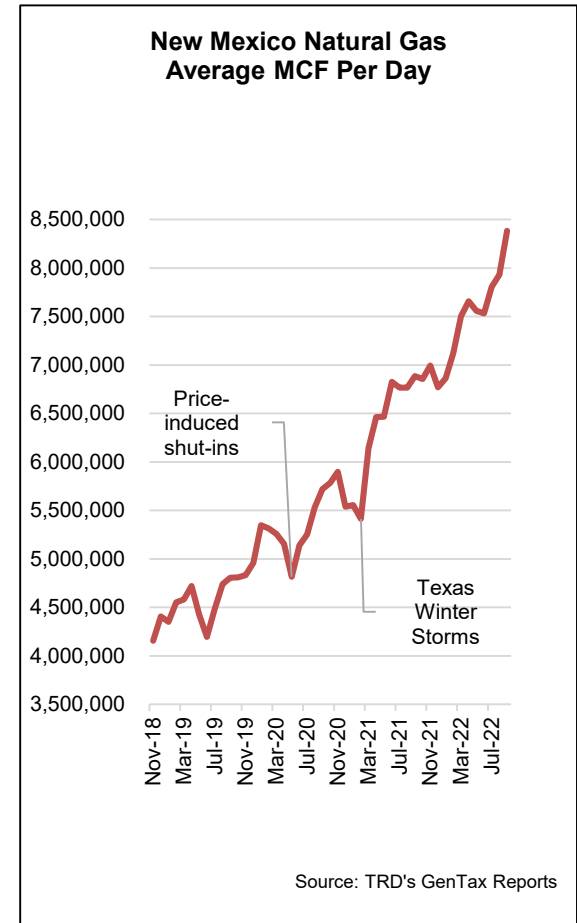
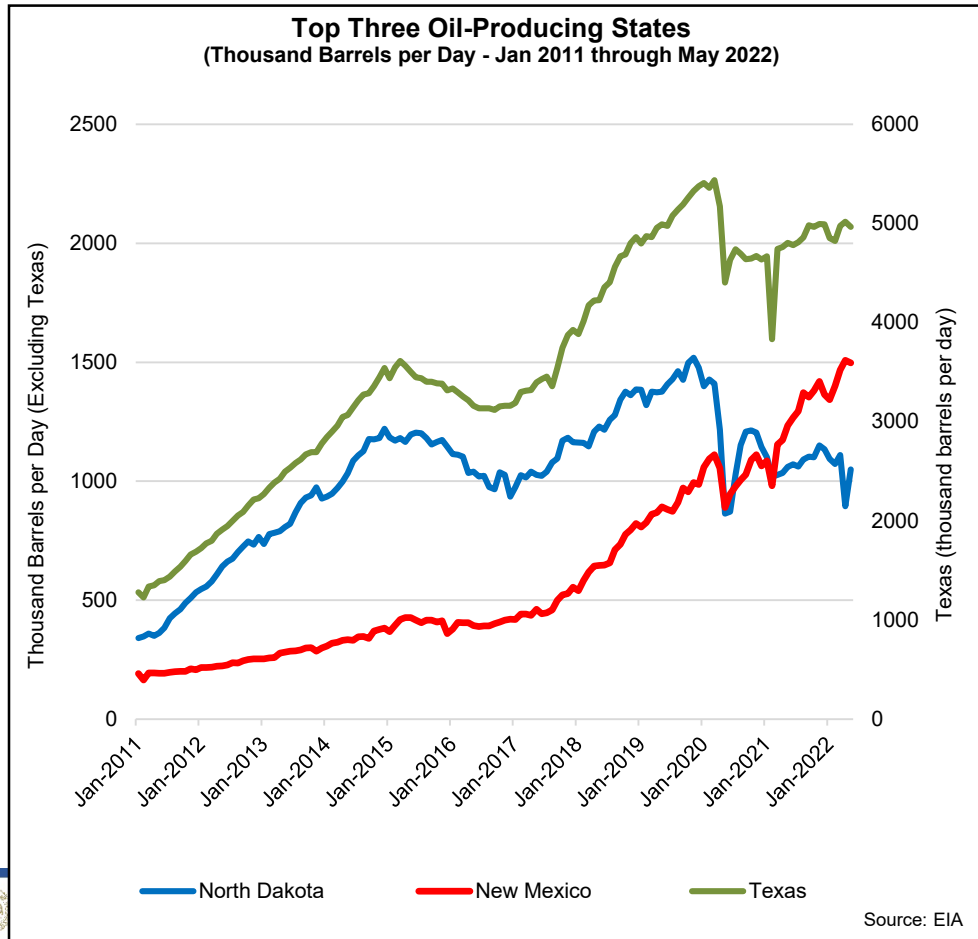
- As of April 2023, the state had regained all of the jobs lost in the pandemic. There are nearly 2,000 more jobs than before the pandemic.
- New Mexico's unemployment rate in April 2023 was 3.5 percent, the lowest it has been since before the 2008 recession and about equal to the national rate (3.4 percent)



Oil and natural gas prices are tracking at near-record levels due to national and global market conditions...



...leading to an acceleration in New Mexico's oil and natural gas production.



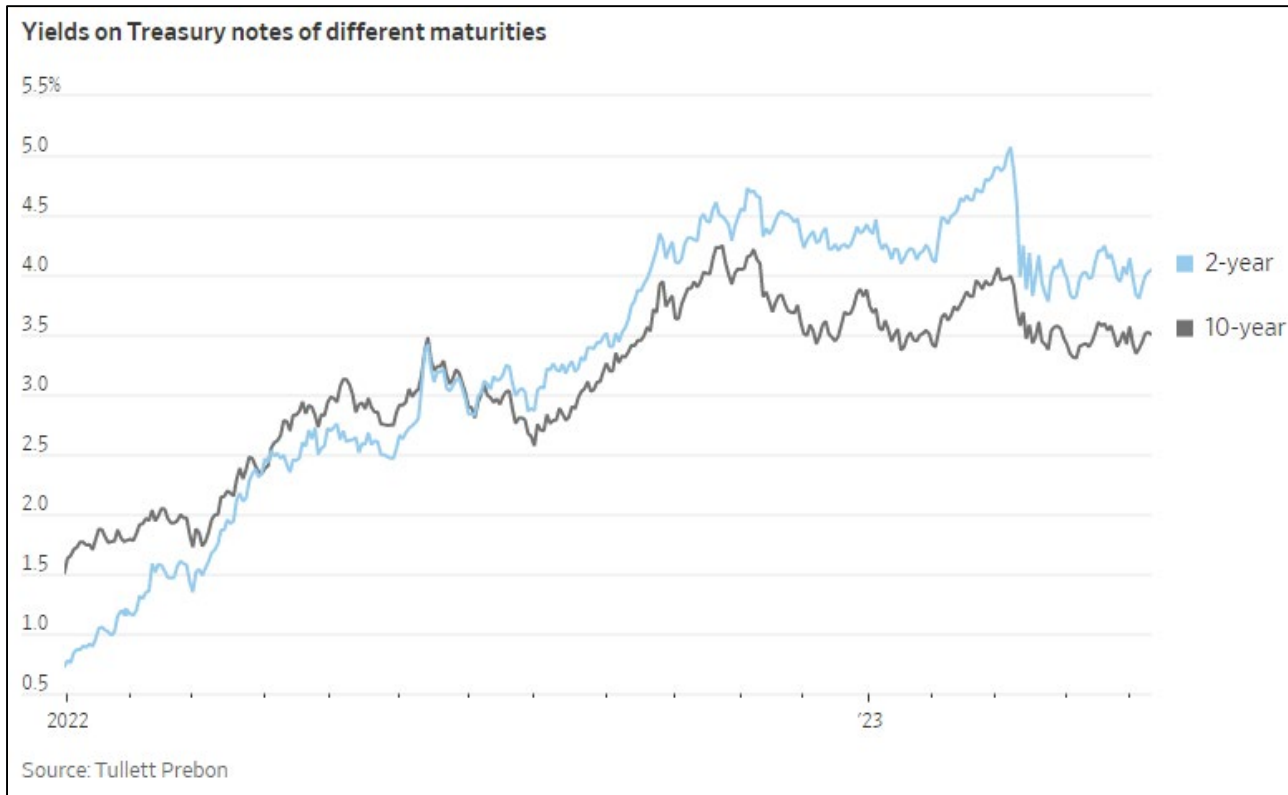
What do changes in production and prices mean for New Mexico revenues?

- Based on December 2022 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 \$48.4 million impact on revenues.
 - A 10 cent change in the annual average NM price of natural gas has about a \$19.7 million impact.
 - Each additional million barrels of oil generates about \$6.6 million in severance taxes and federal royalties.
 - Each additional 10 billion cubic feet of natural gas generates about \$4.8 million in severance taxes and federal royalties.



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

But a recession could be on the horizon.



The world could be tipped into recession by several factors including:

- War
- Federal debt default
- Persistent inflation
- Federal reserve raising rates too high
- Bank failures



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

OUTLOOK FOR TAX AND REVENUE ISSUES



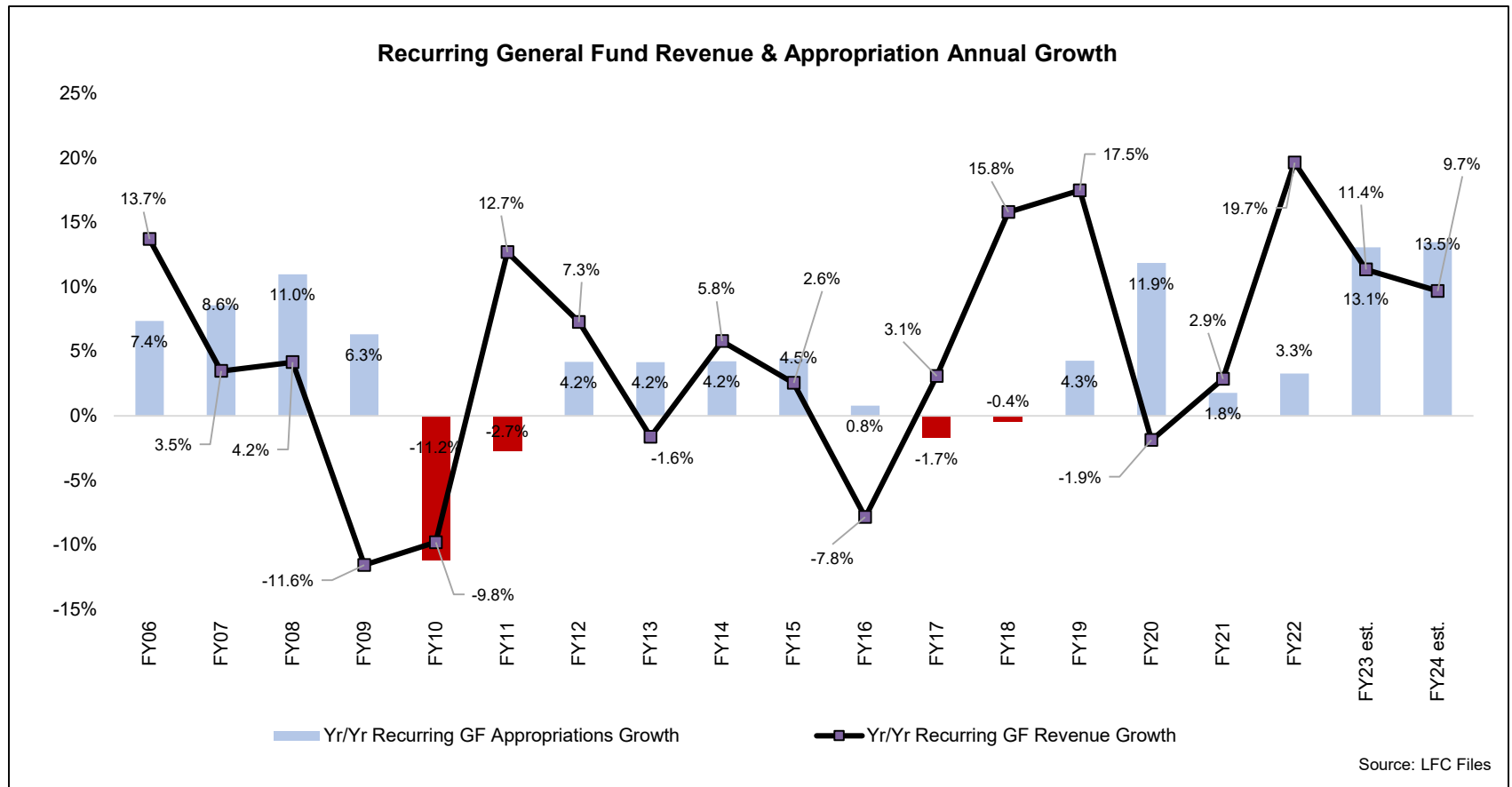
Outstanding Tax Policy Issues

Considering the governor's vetoes of the tax package, many state tax issues remain. The state remains dependent on volatile revenues, the tax base has been narrowed in recent decades, and old tax structures require modernization.

Issues for study and consideration include:

- Additional tax stabilization mechanisms.
- A comprehensive review eliminating, capping, or adding sunsets to existing tax expenditures to broaden the tax base and reduce tax rates.
- Taxation of remote work and NM's barriers to entry.
- Expanding the income range and rates of personal income tax brackets to be more gradual and include more taxpayers.
- The role of taxation in wind, solar, and hydrogen-based energy production for both state competitiveness and contributions to the tax base.

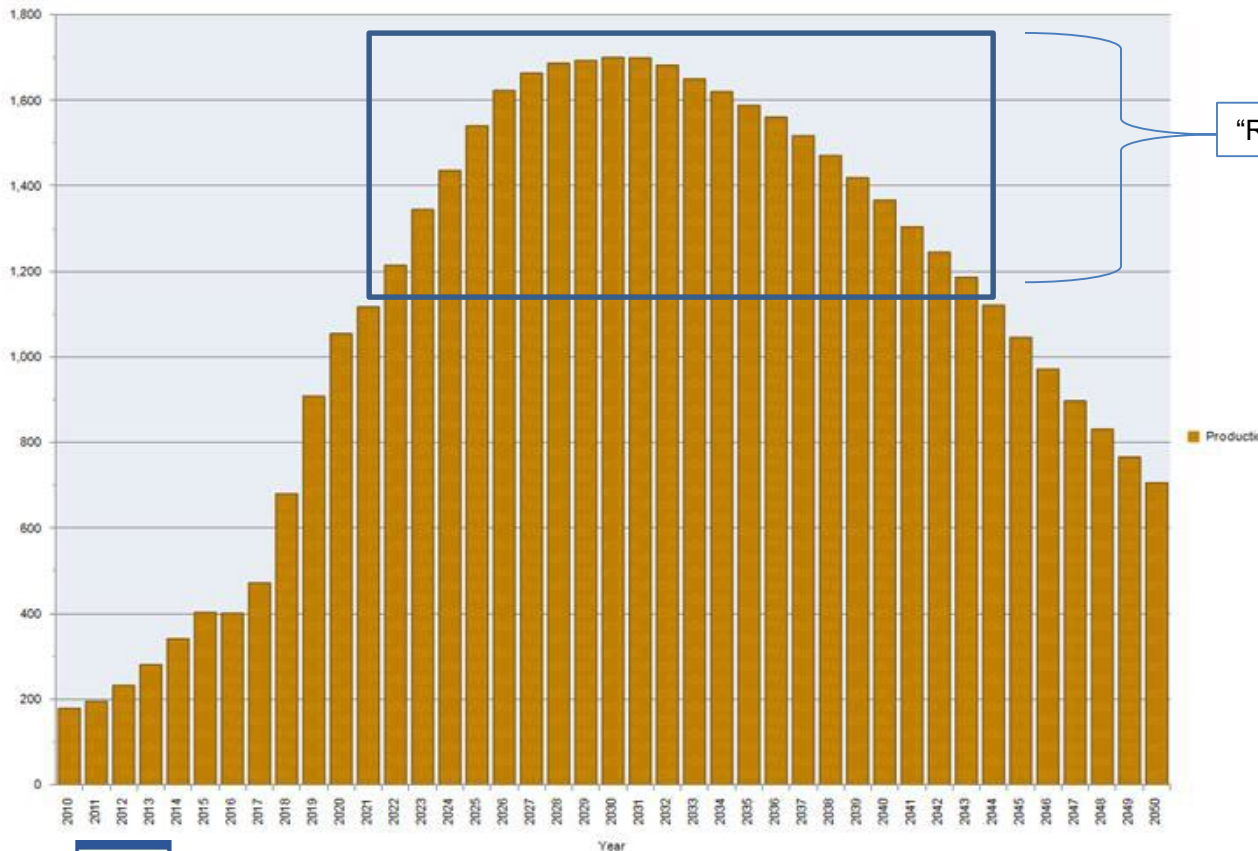
Significant volatility in revenues impedes on the state's ability to plan and execute stable budgeting.



(post-session, post-veto)

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 – New Mexico Long-Term Oil Production Outlook



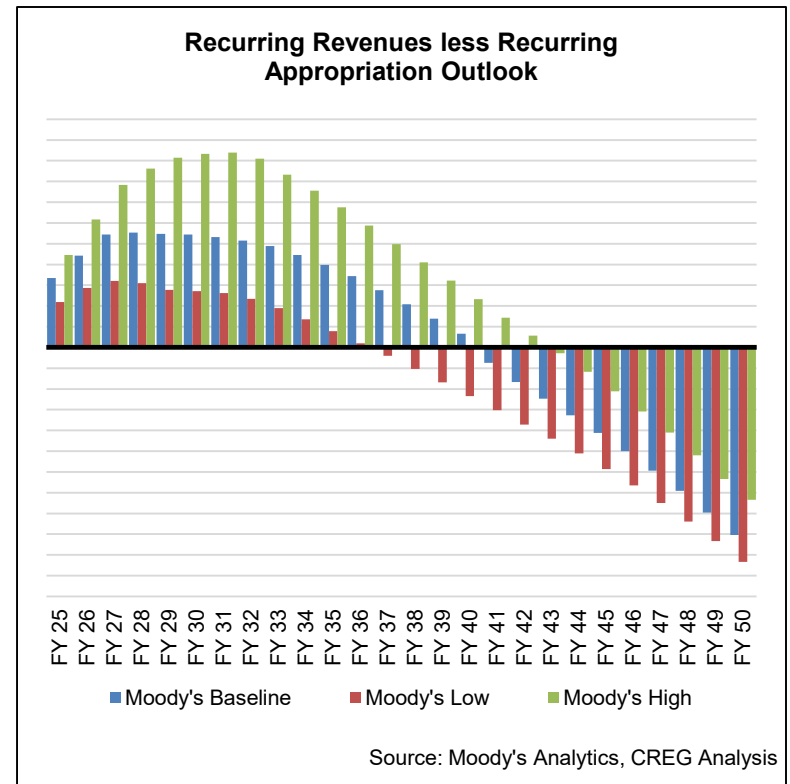
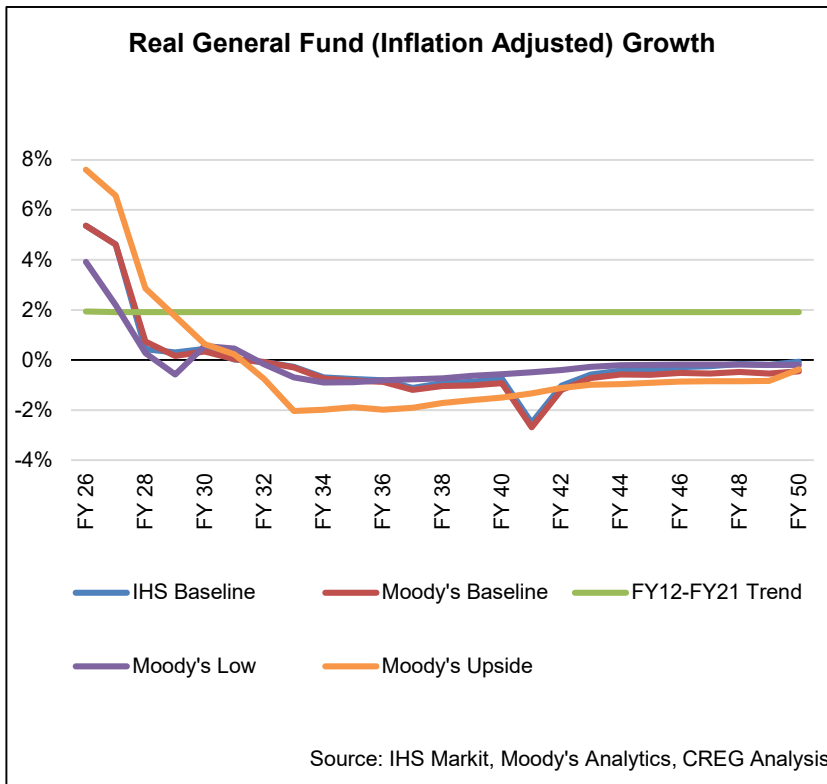
“Recurring” or “nonrecurring”?

- 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

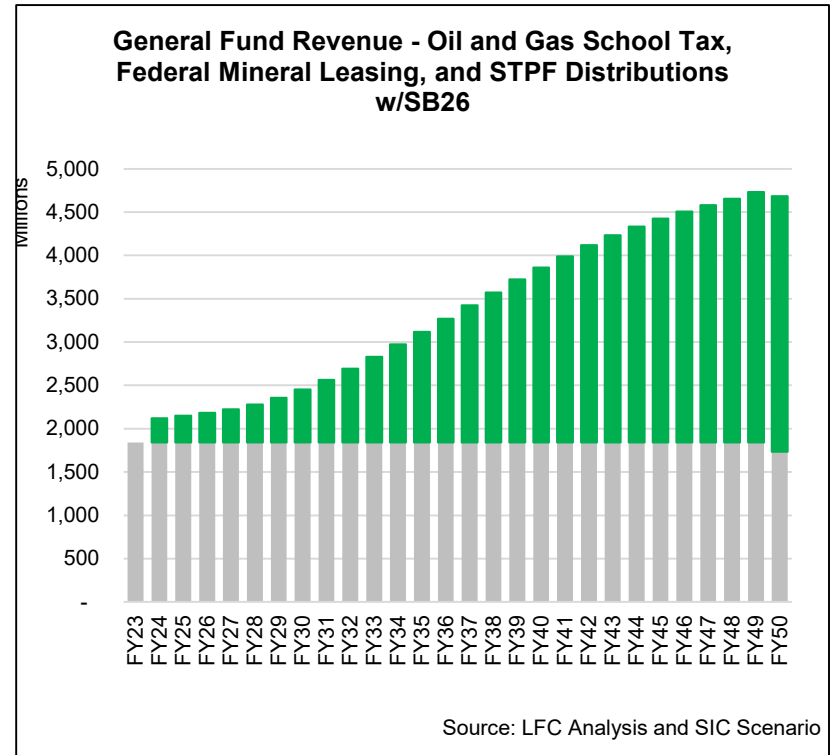
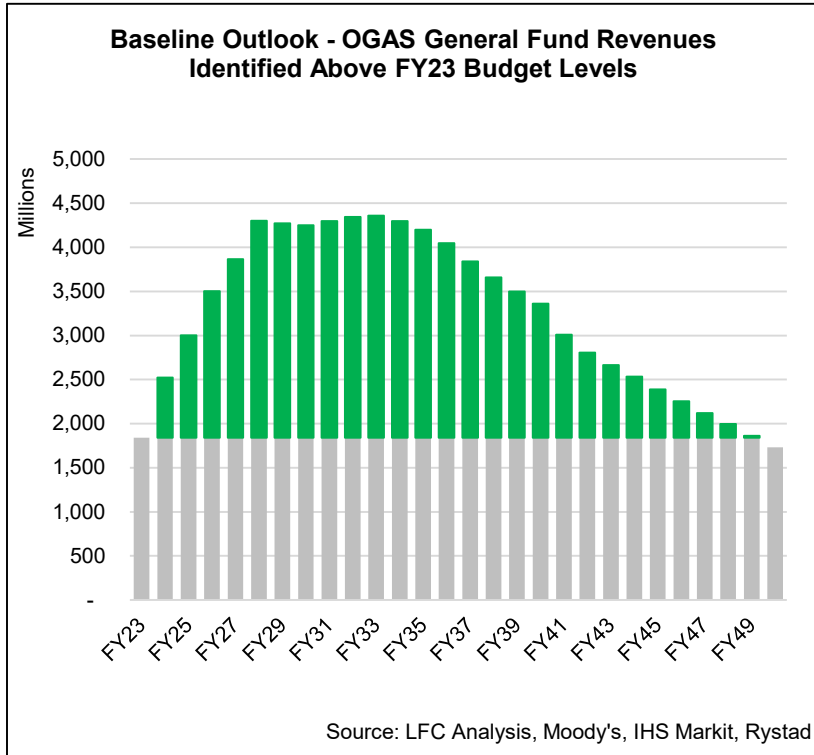


Source: Rystad Energy, iCode Profiles, version 2021-02-08

Current revenue boom from oil and gas is expected to turn into a drag on revenues in the future.



Distributions to the severance tax permanent fund are intended to reverse the impact of declining oil and gas revenues.



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QUESTIONS?

