



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

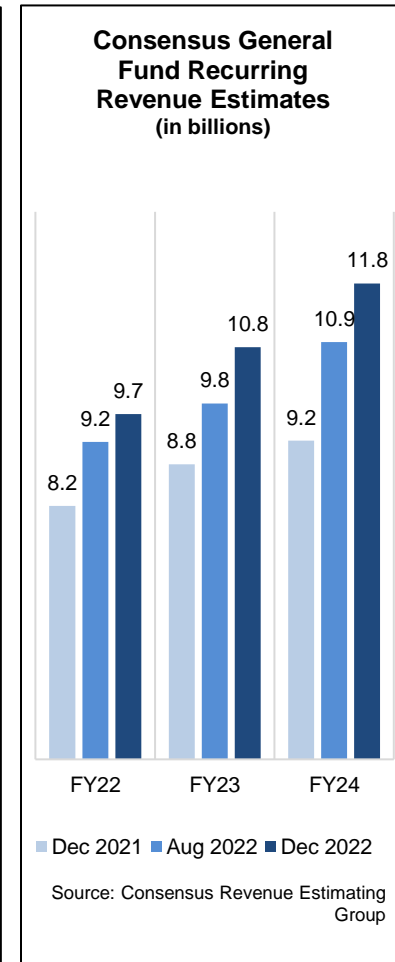
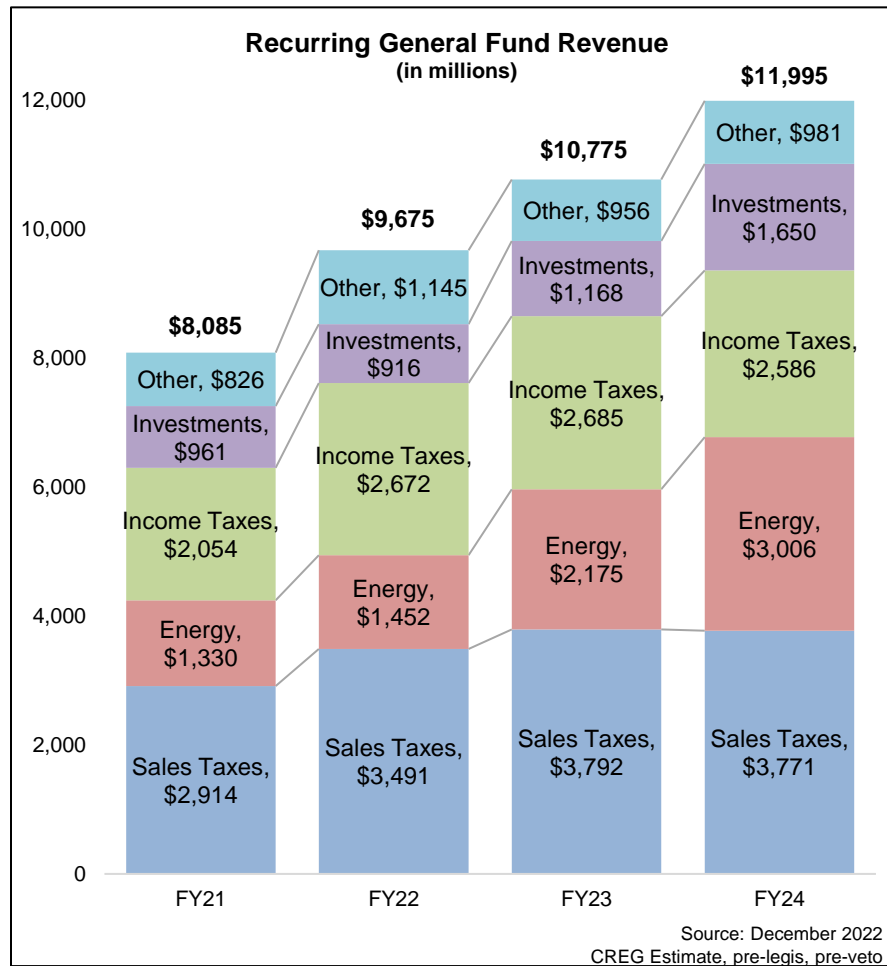
Post-Session Fiscal Report

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Presented to the
Water and Natural Resources Committee
June 13, 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 13.9 percent to \$9.57 billion.

2024 GAA & Feed Bill - General Fund Recurring Appropriations (in millions)		
	Amount	Y-o-Y Growth
Legislative	\$33.1	31.9%
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	21%
Other Health, Hospitals and Human Services	\$1,253.4	19.7%
Public Safety	\$520.0	2.5%
Other Education	\$48.5	-18.7%
Higher Education	\$1,212.5	18.2%
Public School Support	\$4,126.2	8.2%
Recurring Compensation (excl. public education)	\$125.1	
Total Recurring	\$9,568.7	13.9%

- \$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.

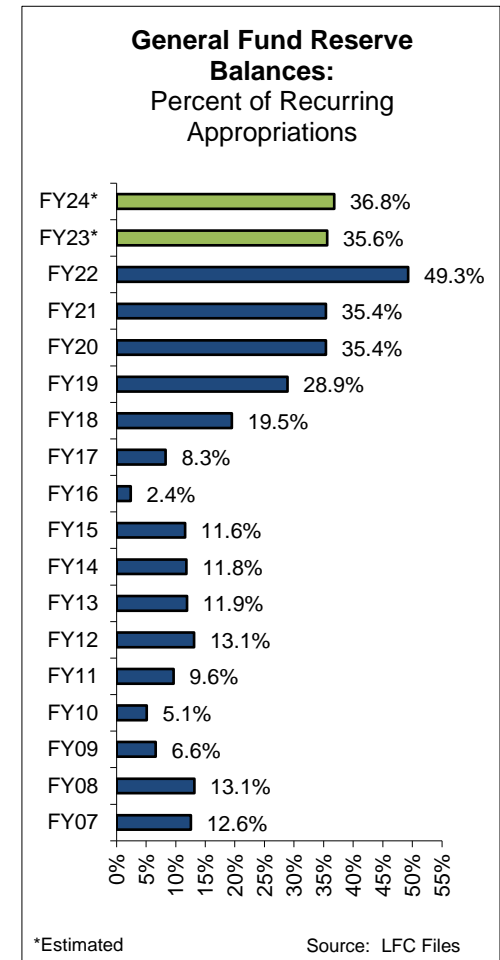
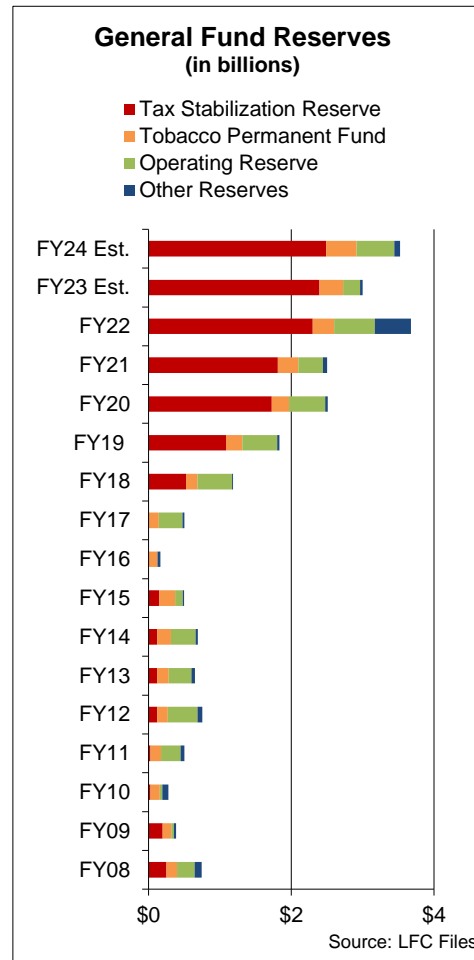
- Large investments in law enforcement, housing, broadband, economic development, rural hospitals, STEM research, financial aid/endowments
- Additional nearly \$300 million for roads.
- GF Transfers to other permanent funds or to other funds for future revenue, including an additional \$475 million to 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



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.

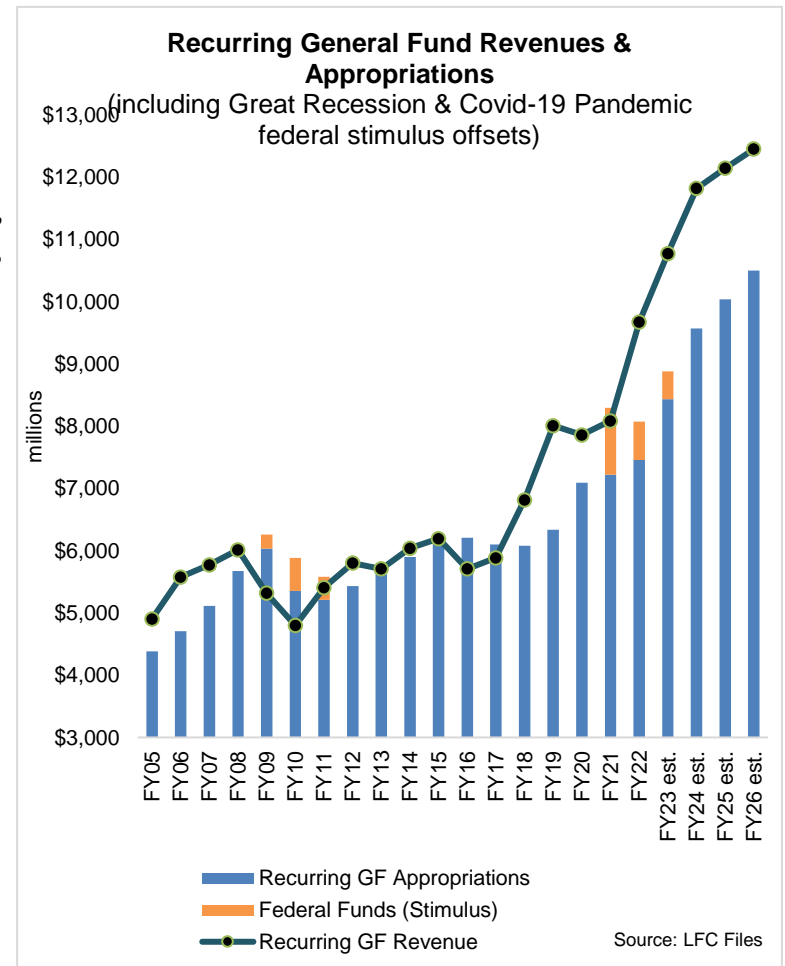
General Fund Reserve Balance Projections (in millions)		
Reserve Fund	FY23	FY24
Operating Reserve	\$237.5	\$529.8
Appropriation Contingency Fund	\$26.2	\$68.2
State Support Reserve	\$10.4	\$10.4
Tobacco Settlement Permanent Fund	\$333.0	\$425.5
Tax Stabilization Reserve	\$2,395.5	\$2,491.3
Total Balances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



NATURAL RESOURCES POST-SESSION REVIEW



Non-recurring appropriations related to climate change, energy, and natural resources totaled \$393 million.

- \$100 million for conservation funds, including \$50 million to invest and spin off recurring revenue and \$50 million for distribution
- \$100 million for recapitalization of the water trust fund
- \$35 million for water supply augmentation and interstate compact litigation in the Lower Rio Grande
- \$30 million for aquifer recovery on the Lower Rio Grande and to promote settlement of Texas v. New Mexico
- \$10 million for dam maintenance projects
- \$10 million for the emergency drinking water fund
- \$10 million for the reforestation center at NMSU
- \$10 million for trail and outdoor infrastructure grants

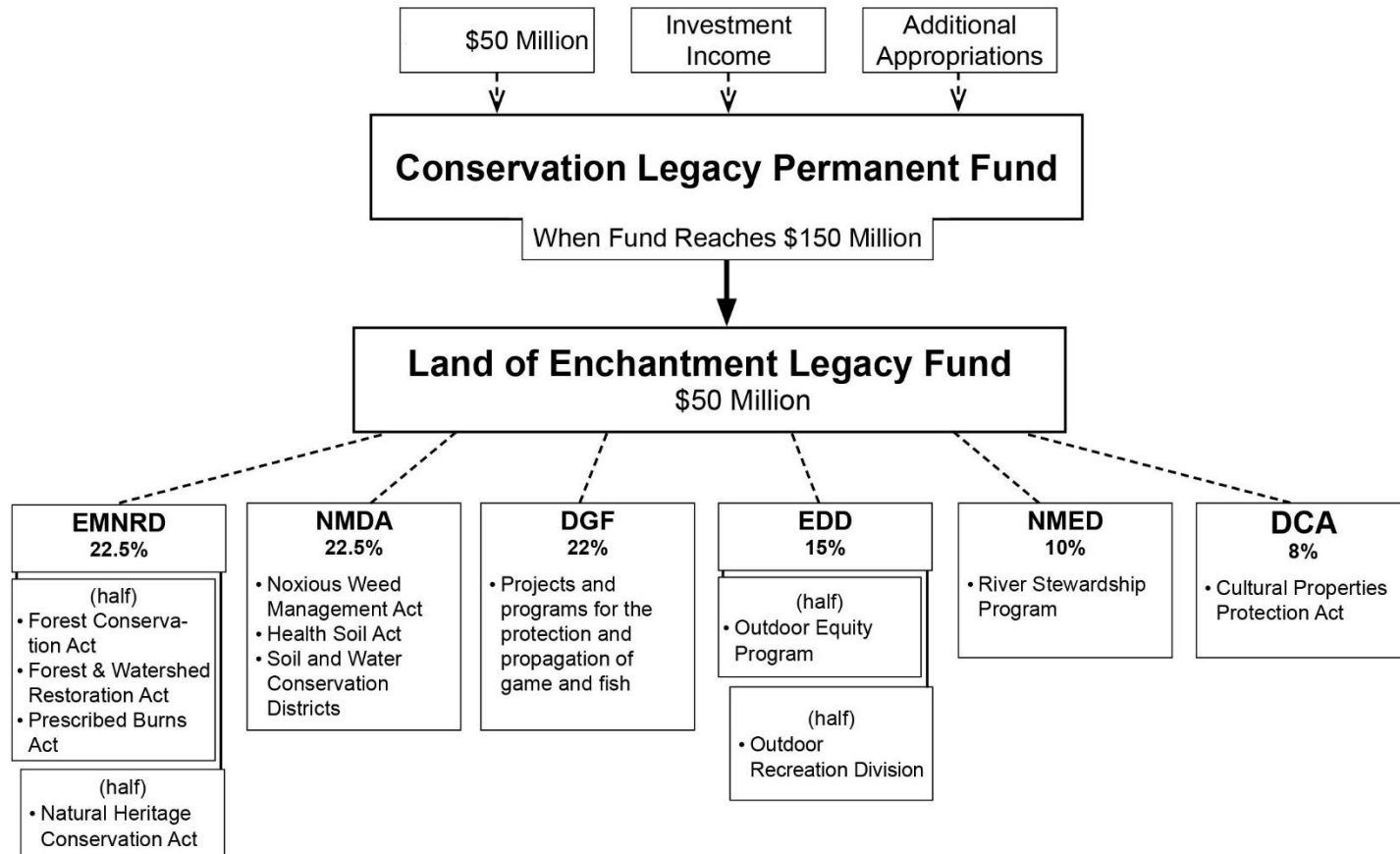




**FY24 Budget Increases Related to Climate Change, Energy, and Natural Resources
Recurring and Nonrecurring Funds**

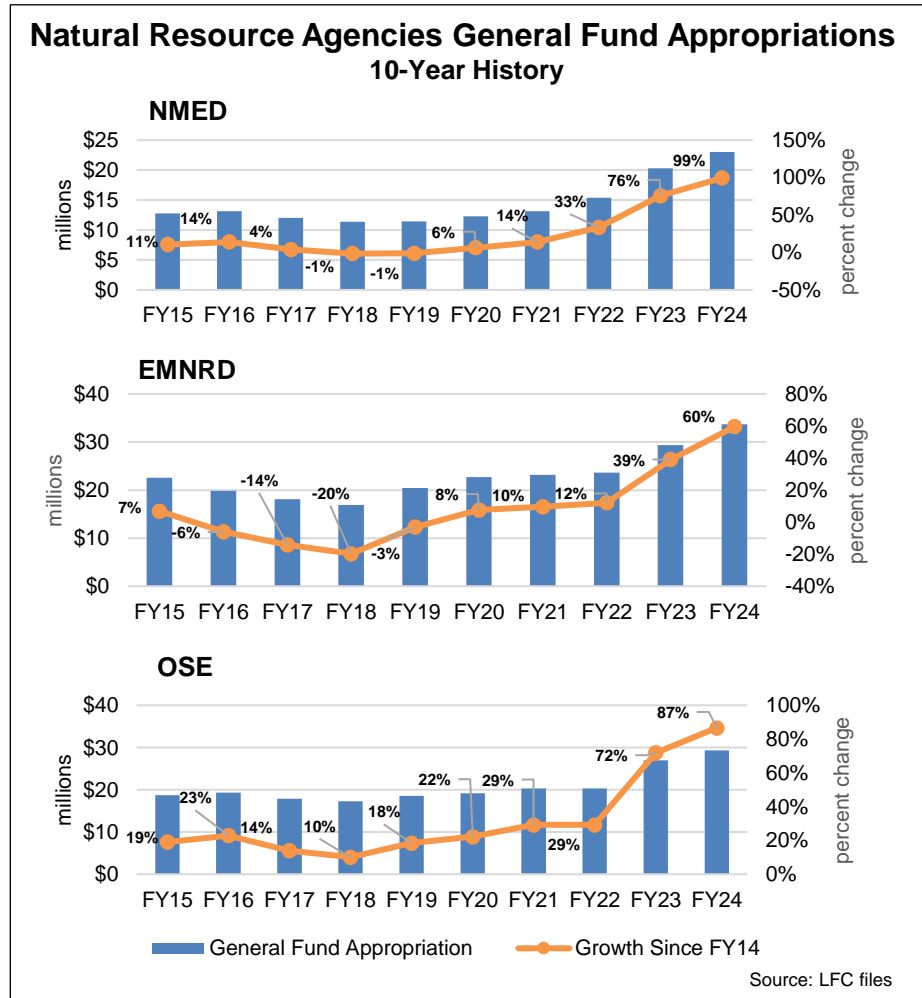
Program / Purpose / Initiative	Budget Increases in 2023	Recurring or Non-Recurring
	Regular Session dollar amount, in thousands	
Office of the State Engineer		
1 Lower Rio Grande water supply augmentation and interstate compact litigation (Section 5)	\$ 35,000.0	NR
2 Lower Rio Grande aquifers (Capital Outlay)	\$ 30,000.0	NR
3 Middle Rio Grande river channel improvements (Section 5)	\$ 10,000.0	NR
4 Middle Rio Grande - river maintenance, habitat restoration, flood control (Capital Outlay)	\$ 10,000.0	NR
5 50-year water plan implementation (Section 5)	\$ 500.0	NR
6 Pecos Settlement Agreement	\$ 2,000.0	NR
7 Strategic Water Reserve	\$ 7,500.0	NR
8 Ute Dam Repairs	\$ 1,000.0	NR
9 Surface water and groundwater measurement statewide (Capital Outlay)	\$ 2,000.0	NR
10 Dam maintenance projects	\$ 10,000.0	NR
11 Acequia and Community Ditch Infrastructure Fund	\$ 2,000.0	NR
12 50-year water plan implementation (Interstate Stream Commission Staff)	\$ 150.0	R
13 Targeted pay raises and vacancy rate reduction	\$ 735.0	R
14 Lower Rio Grande groundwater depletion reduction program	\$ 450.0	R
15 Cannabis Permit Staff	\$ 150.0	R
16 Deputy Secretary (Chief of Staff)	\$ 150.0	R
17 Capital Project Management Unit Staff	\$ 300.0	R
18 Dam Safety Bureau Staff	\$ 150.0	R
19	Subtotal \$ 112,085.0	
20		
21 Department of Environment		
22 Surface water discharge permitting program	\$ 680.0	NR
23 Water reuse	\$ 2,900.0	NR
24 ENMWUA State Cost Share	\$ 15,000.0	NR
25 River stewardship program	\$ 1,500.0	NR
26 Rural infrastructure revolving loan program (water projects)	\$ 10,000.0	NR
27 Regionalization of small water systems	\$ 1,000.0	NR
28 Emergency drinking water fund	\$ 10,000.0	NR
29 Superfund Match	\$ 839.7	NR
30 Climate Change and Infrastructure	\$ 4,000.0	NR
31 Ozone attainment	\$ 2,000.0	NR
32 Radioactive materials management	\$ 600.0	NR
33 Financial Services Bureau Business Operations	\$ 150.0	NR
34 Office of Strategic Initiatives Business Operations Improvement	\$ 1,350.0	NR
35 Contract Engineers - Project Management (Water Protection Division)	\$ 750.0	R
36 Contract Engineers (Resource Protection Division)	\$ 100.0	R
37 Vacancy Rate Reduction	\$ 764.3	R
38 Hemp and Cannabis permitting, monitoring and enforcement	\$ 491.3	R
39	Subtotal \$ 52,125.3	
40		
41 Energy, Minerals and Natural Resources Department		
42 Black Fire Restoration	\$ 2,000.0	NR
43 Energy Conservation and Management (Federal match)	\$ 1,813.4	NR
44 Hot Shot Crews (Equipment and Land Acquisition)	\$ 7,500.0	NR
45 Sustainable Building Tax Credit Staff	\$ 244.2	R
46 Hot Shot Crews (Staff)	\$ 1,123.6	R
47 Inter-agency fire management team	\$ 518.8	R
48 Law Enforcement Park Rangers (State Parks Division)	\$ 700.0	R
49 Vacancy Rate Reduction and Revenue Offset	\$ 150.0	R
50	Subtotal \$ 14,050.0	
51		
52 Other Major Nonrecurring (Department)		
53 Conservation Legacy Permanent Fund (Department of Finance and Administration)	\$ 50,000.0	NR
54 Land of Enchantment Legacy Fund (Department of Finance Administration)	\$ 50,000.0	NR
55 Trail and Outdoor Infrastructure Grants (Economic Development Department)	\$ 10,000.0	NR
56 Outdoor Equity Grants (Economic Development Department)	\$ 1,000.0	NR
57 Reformation Center (New Mexico State University)	\$ 10,000.0	NR
58 Geothermal Resources Center for Excellence (New Mexico Institute of Mining and Technology)	\$ 400.0	NR
59 Water Trust Fund recapitalization (Department of Finance and Administration)	\$ 100,000.0	NR
60	Subtotal \$ 221,400.0	
61		
62 Grand Total \$ 399,660.3		
63 Recurring Total \$ 6,927.2		
64 Nonrecurring Total \$ 392,733.1		

\$100 million was invested for conservation and \$100 million was provided for zero interest disaster recover loans



Natural resource agency saw recurring general revenue increase by 12.3 percent for FY24.

- 13.5 percent general fund increase for Environment Department over FY23,
- 14.7 percent general fund increase for Energy, Minerals and Natural Resources Department over FY23, including support for 50 new wildfire response positions in the state forestry division.
- 8.8 percent general fund increase for Office of State Engineer and Interstate Stream Commission over FY23.



Many other natural resource issues were passed during the session supporting resiliency, conservation, and renewable energy.

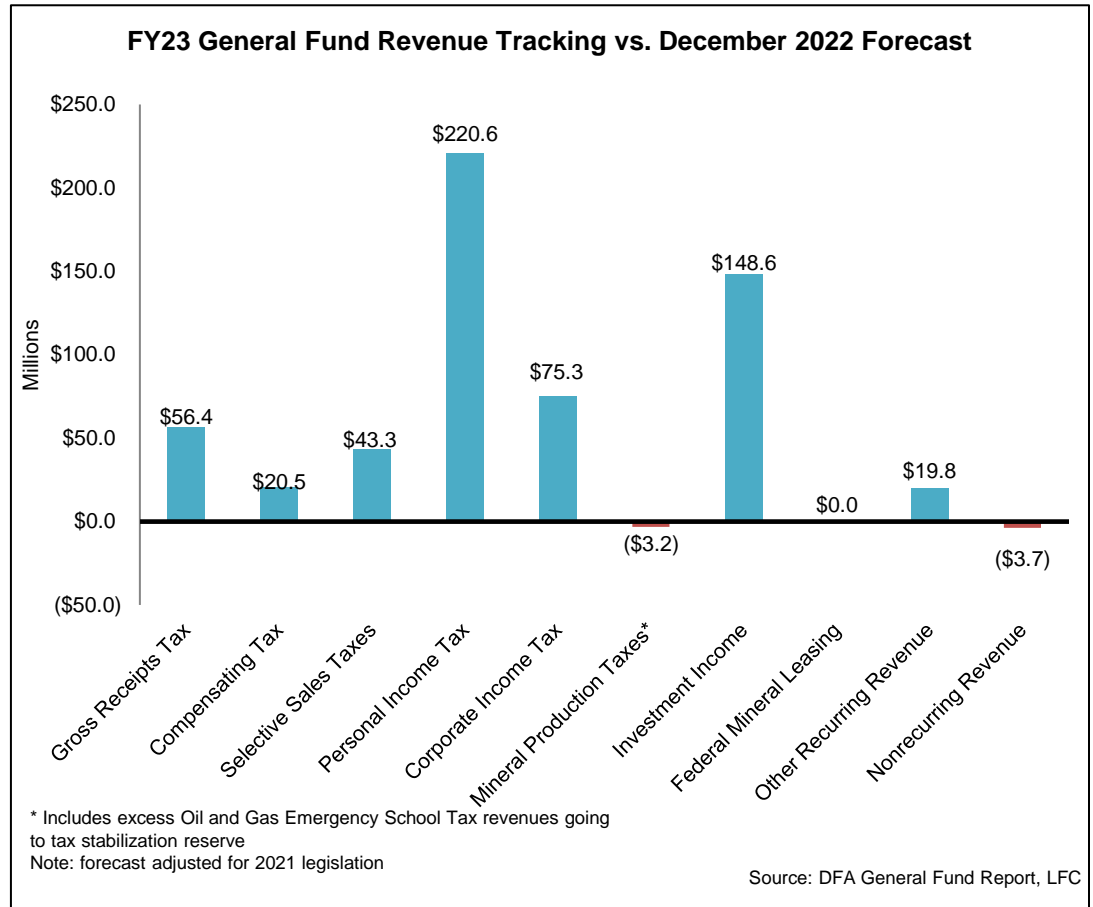
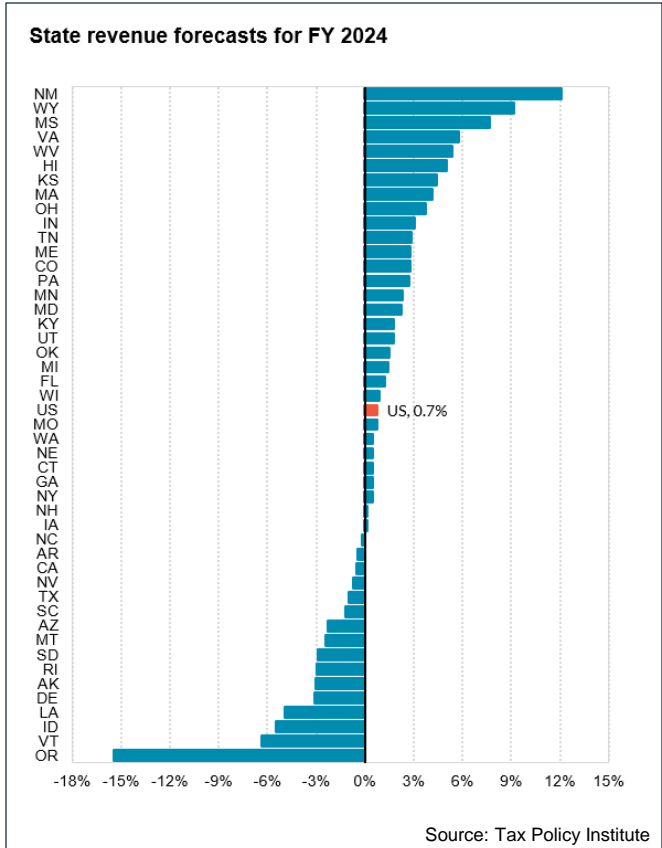
- **Regional Water System Resiliency.** Senate Bill 9 enacts the Regional Water System Resiliency Act, which allows for the consolidation of two or more public utilities providing water or wastewater services to create a regional water utility authority (RWUA).
- **Generating Facility and Mine Remediation.** House Bill 142 enacts the San Juan Generating Station Facility and Mine Remediation and Restoration Study Act, which requires NMED and ENMRD to study the San Juan Generating Station facility and mine to determine the extent of environmental contamination of the lands and waters adjacent to the generating facility and mine and develop a restoration and reclamation plan.
- **Forest Division Procurement Changes.** House Bill 195 updates the Forest Conservation Act to clarify rules and regulations surrounding the State Forestry Division's (SFD) authority to conduct fire prevention activities and protect forest health.
- **State Land Office Renewable Energy Office.** House Bill 95 codifies an existing renewable energy office within the State Land Office.
- **Wildlife Corridors Fund.** Senate Bill 72 creates a fund, to be managed by the Department of Transportation, for wildlife studies and the planning, construction, and management of safe road crossings for wildlife and other projects that reduce wildlife-vehicle collisions. The GAA includes \$5 million for the fund.
- **Geothermal Resources Development (vetoed).** House Bill 365, the Geothermal Resources Development Act, sought to create a new Center for Excellence at the New Mexico Institute of Mining and Technology focused on developing and promoting innovation in geothermal resources. The bill was pocket vetoed by the governor.
- **State Game Commission Changes (vetoed).** House Bill 184 sought to change the way state game commissioners are appointed by giving the Legislative Council the authority to appoint four of the seven members. The governor currently appoints all seven members. The bill was pocket vetoed by the governor.



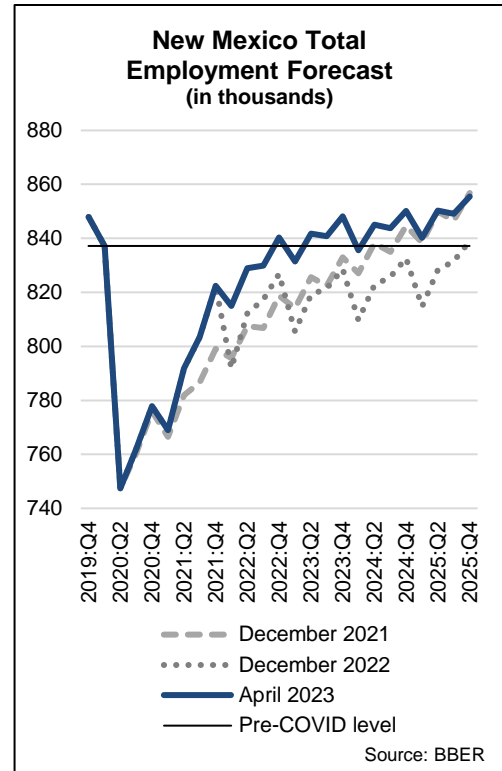
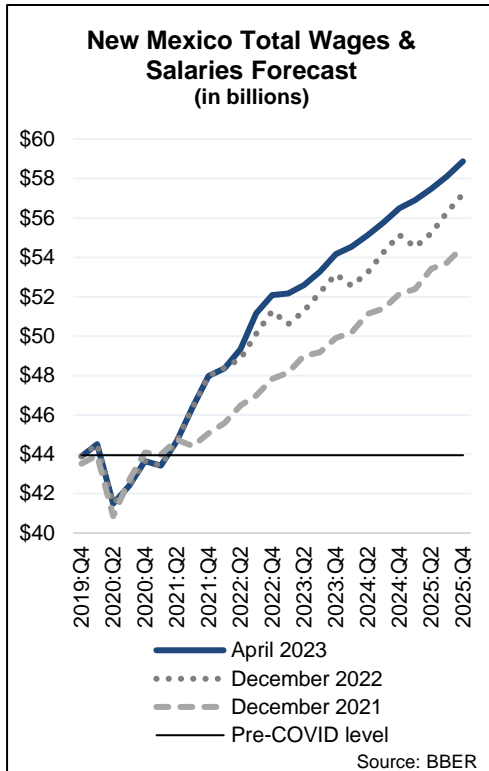
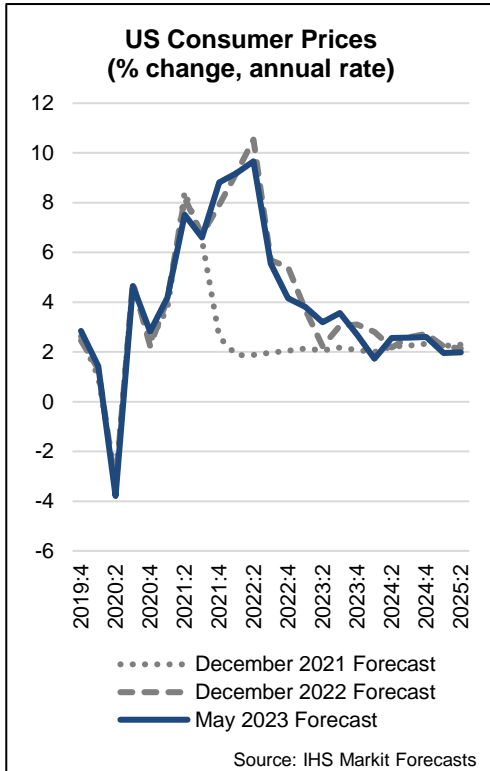
STATE FINANCIAL OUTLOOK



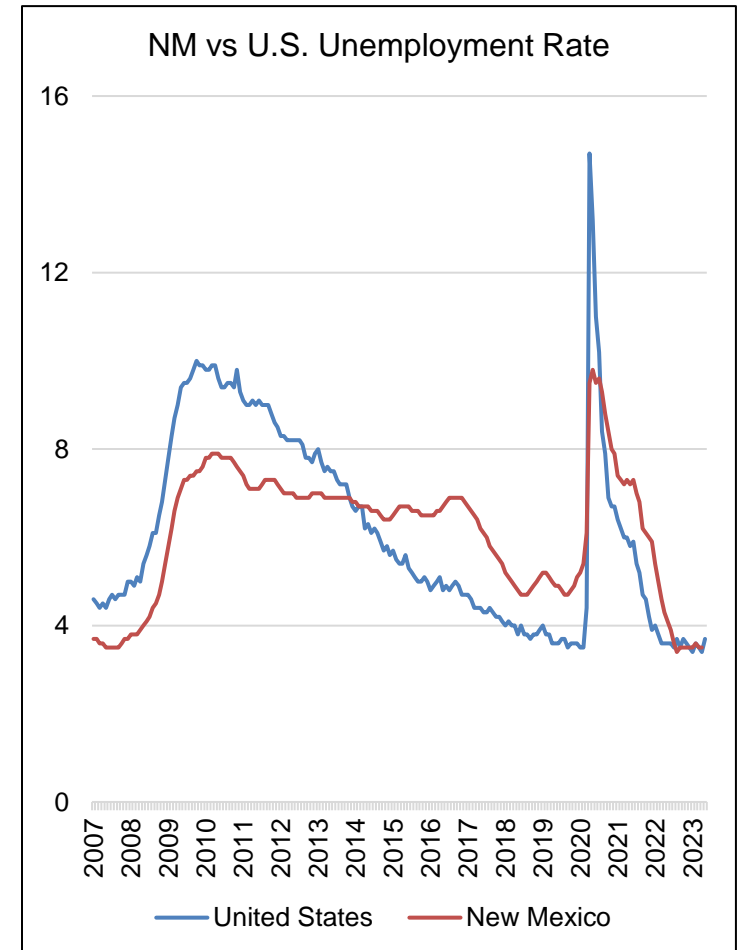
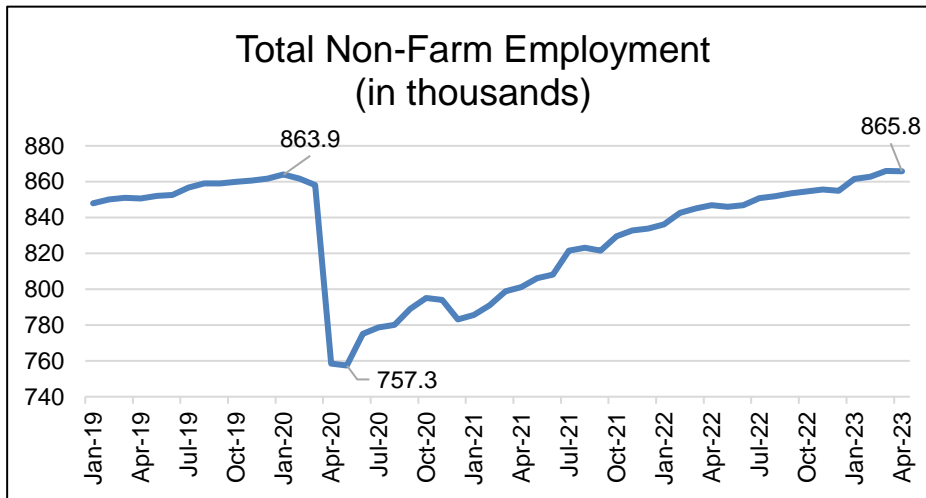
Revenues are currently tracking about \$581 million above the consensus estimate...



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



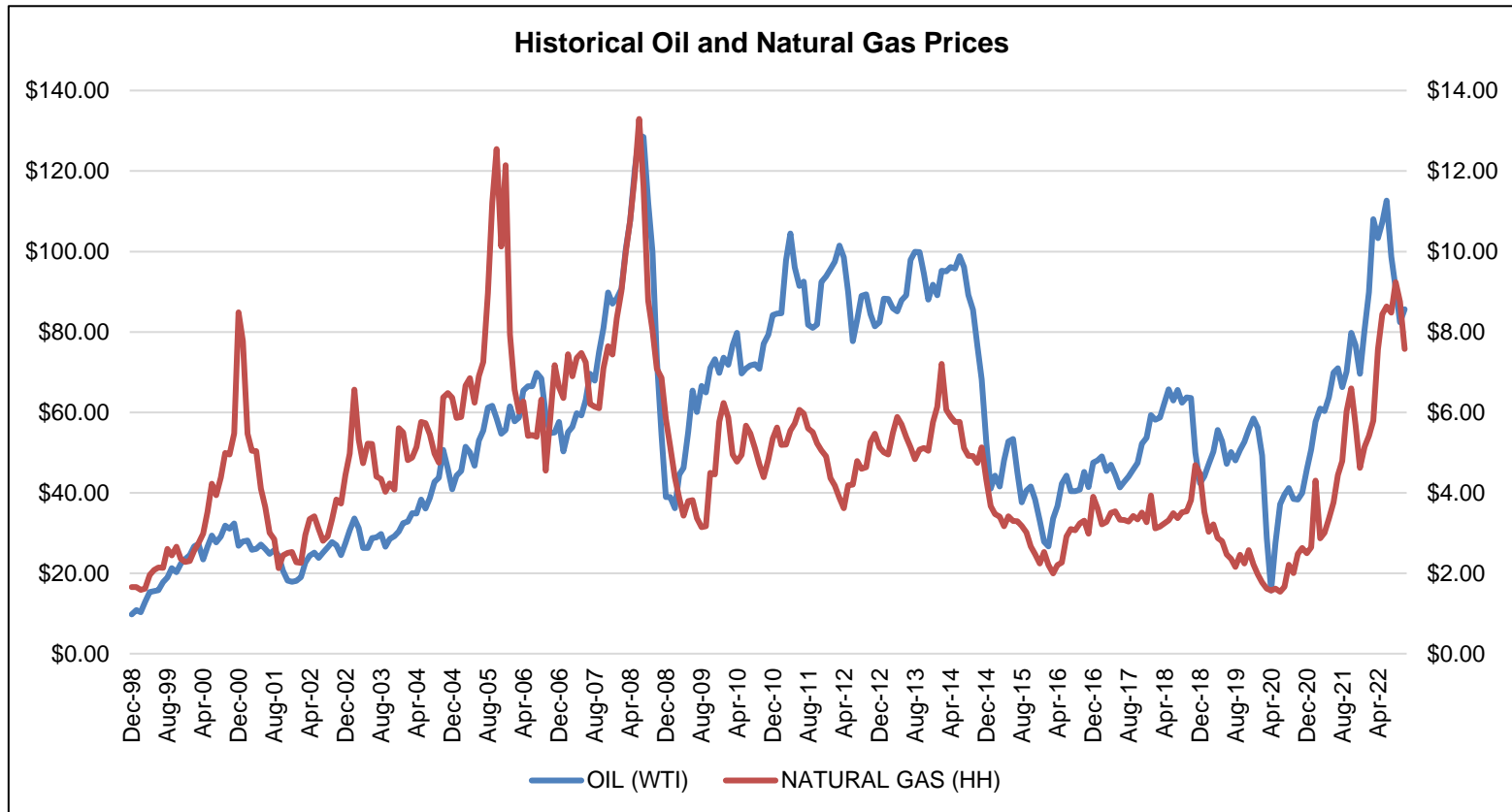
Employment has recovered at only 1.1 thousand jobs below pre-pandemic levels.



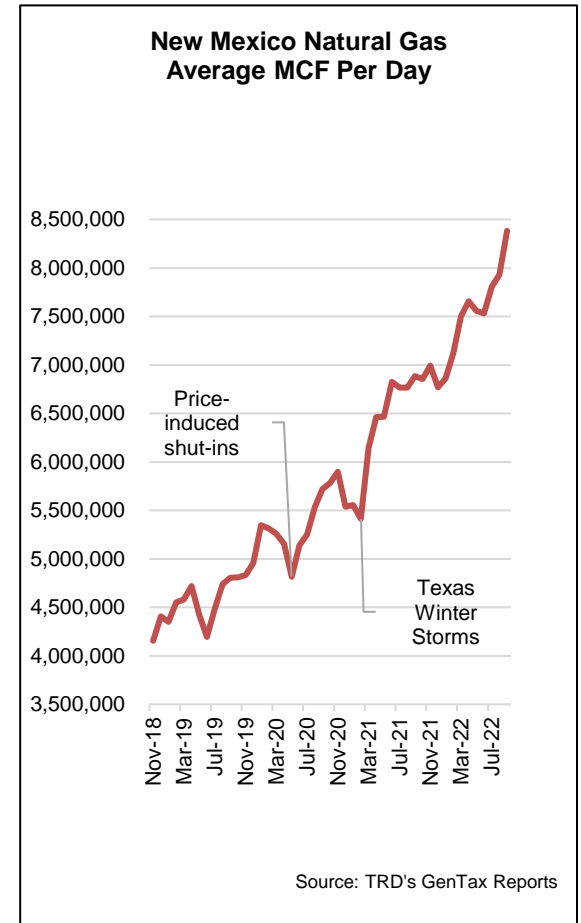
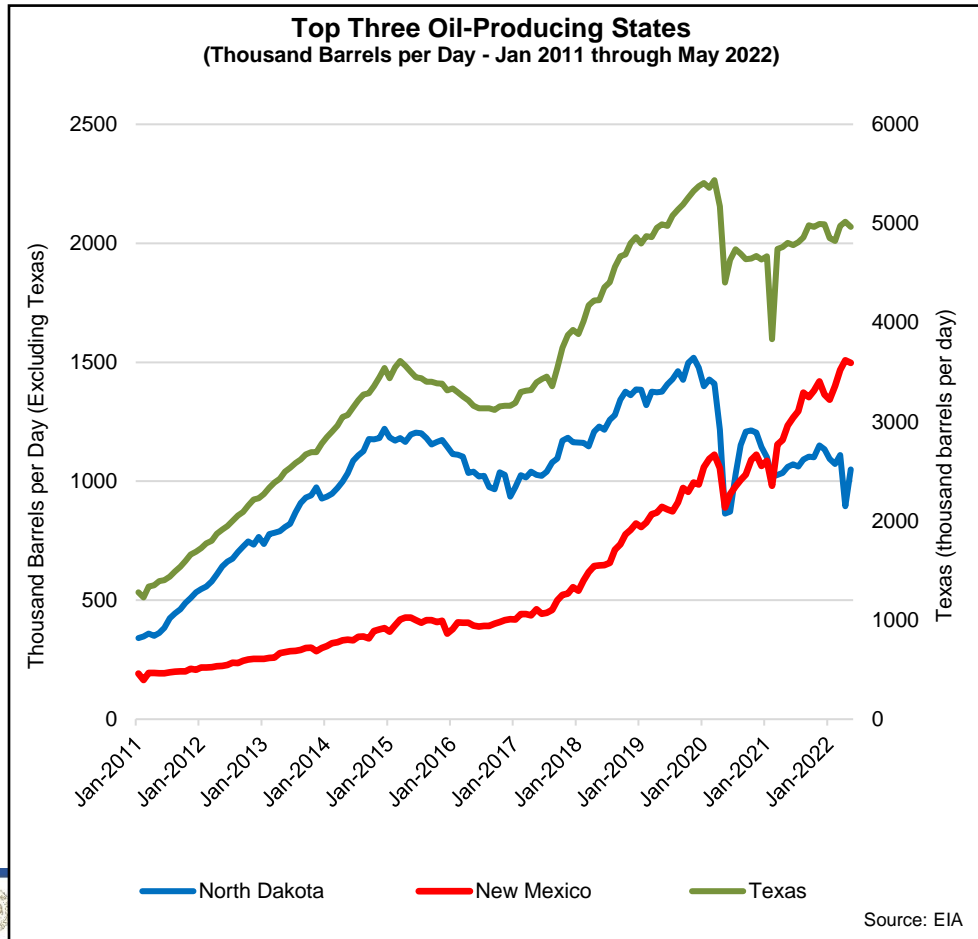
- As of April 2023, the state has regained all of the jobs lost in the pandemic. There are nearly 2,000 more jobs than before the pandemic.
- New Mexico's unemployment rate in April 2023 was 3.5 percent, the lowest it has been since before the 2008 recession and about equal to the national rate (3.4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



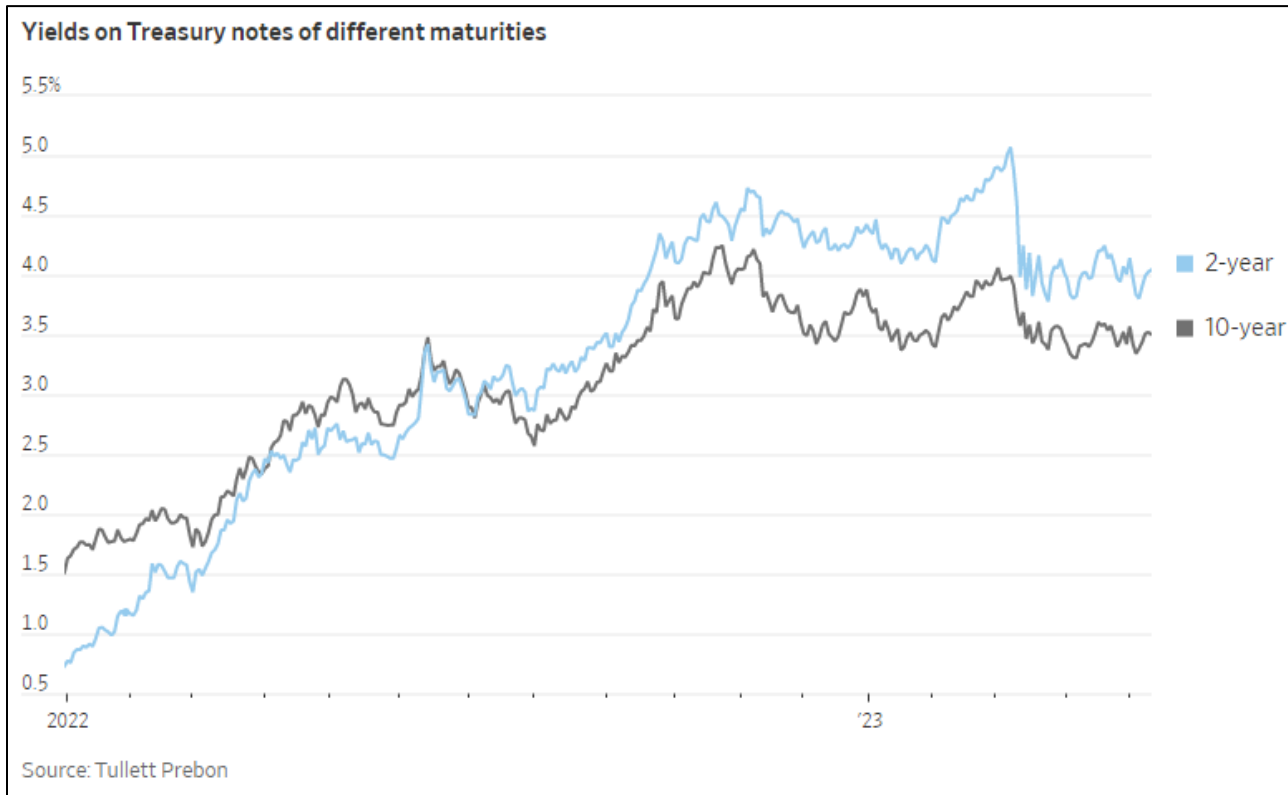
Oil and natural gas prices are tracking at near-record levels due to national and global market conditions...



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



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

2023 TAX CHANGES AND LEGISLATION AFFECTING REVENUES



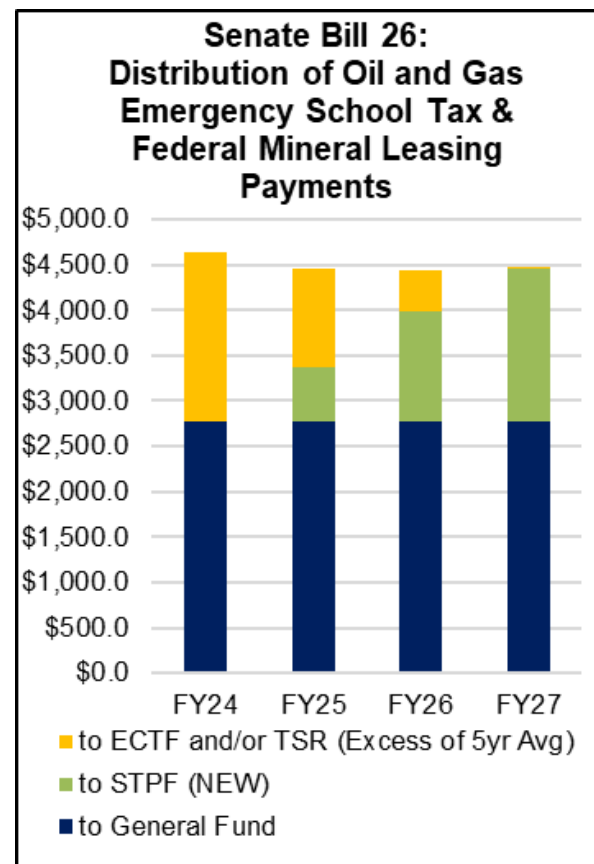
Legislation passed during the 2023 regular session reduced recurring general fund revenue by \$175.6 million in FY24, \$828.7 million in FY25, and \$1.46 billion in FY26. An additional nonrecurring revenue loss of \$666.9 million is estimated in FY23.

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>								
Bill No.								
<i>Ch. 52</i>	HB 78	Aviation Fund GRT Distribution		\$ (3.0)	\$ (3.0)	\$ (3.0)	\$ (3.0)	
<i>Ch. 157</i>	HB 353	South Campus TIDD		\$ (5.5)	\$ (5.5)	\$ (5.5)	\$ (5.5)	
<i>Ch. 192</i>	HB 462	Nuisance Penalties and Procedures	\$ 0.6	\$ 2.9	\$ 2.9	\$ 2.9	\$ 2.9	
<i>Ch. 211</i>	HB 547	Omnibus Tax Package		\$ (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		\$ (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)	\$ (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)	\$ -



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 million 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.



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
- \$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
- **\$28 million for targeted expenditures for renewable energy production, storage, and EV credits**



The governor vetoed provisions of tax changes that would have produced an estimated \$28 million in tax expenditures to support renewable energy and environmental initiatives

The governor vetoed all incentives in the tax package related to environmental issues:

- a refundable electric vehicle income tax credit of \$2,500 for each EV purchase or \$4,000 for households under 200 percent of the federal poverty level, which had an estimated fiscal impact of \$6.6 million by FY27;
- an income tax credit up to \$300 to cover the cost of purchasing and installing an electric vehicle charging unit, which had an estimated fiscal impact of \$795 thousand by FY27;
- an income tax credit of 40 percent of the cost of purchasing and installing an energy storage system, which had an estimated fiscal impact of \$4 million;
- an income credit and companion gross receipts tax deduction for the generation of geothermal electricity equal to 1.5 cents per kWh generated, which had an estimated fiscal impact of \$6.3 million by FY27;
- the reinstatement of the expired personal and corporate income tax credit for geothermal ground-coupled heat pump at 30 percent of costs, which had an estimated fiscal impact of \$8 million; and,
- a change making energy storage projects eligible for industrial revenue bonds, which had an estimated fiscal impact of \$2 million.



Estimated Revenue Impact of Vetoed Renewable Energy or Environmental Provisions of the Tax Package

Provision					Fund Affected
	FY24	FY25	FY26	FY27	
Electric Vehicle Income Tax Credits	Up to (\$6,260.1)	Up to (\$6,472)	Up to (\$6,516.3)	Up (\$6,624.2)	General Fund
EV Charging Unit Income Tax Credits	Up to (750)	Up to (\$775)	Up to (\$780)	Up (\$795)	General Fund
Energy Storage System Tax Credit	Up to (\$4,000)	Up to (\$4,000)	Up to (\$4,000)	Up to (\$4,000)	General Fund
Geothermal Energy Generation Tax Credit	(\$3,180)	(\$4,230)	(\$5,280)	(\$6,330)	General Fund
Geothermal Energy Generation Tax Credit	(\$1,420)	(\$1,420)	(\$1,420)	(\$1,420)	Local Governments
Geothermal Ground Coupled Heat Pump Credit	(\$8,000)	(\$8,000)	(\$8,000)	(\$8,000)	General Fund
Energy Facilities Bonds	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	General Fund
Total General Fund	(\$24,190)	(\$25,477)	(\$26,576)	(\$27,749)	
Total Local Government Revenue and Funds for Local Governments	(\$1,420)	(\$1,420)	(\$1,420)	(\$1,420)	



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QUESTIONS?

