



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

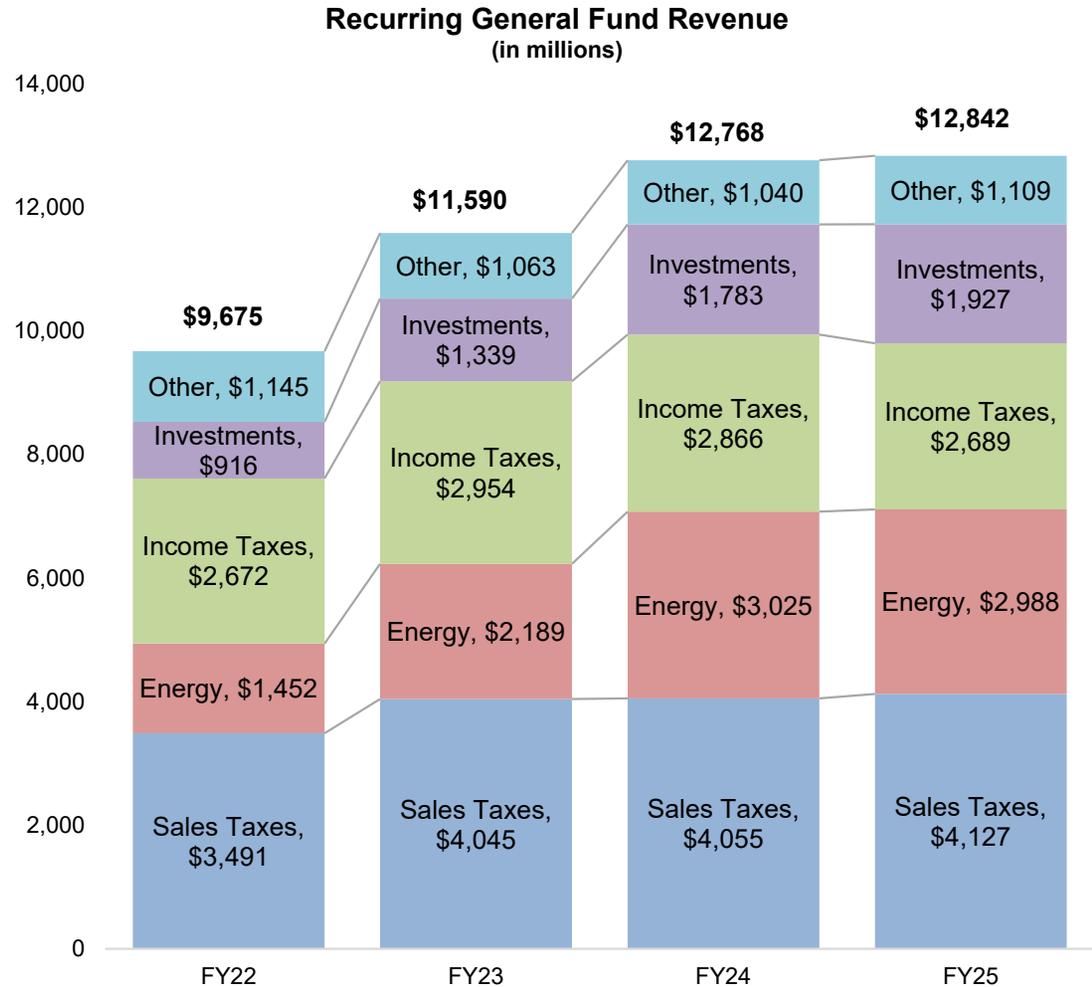
Post-Session Fiscal Review

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Presented to the
Revenue Stabilization and Tax Policy Committee
May 31, 2024

Continued recovery, soaring oil prices, and wage increases led to a record-high revenue forecast in December 2023.

- Recurring revenues were projected to increase 19.8% and 10.2% Y-o-Y in FY24 and FY25
- Oil and gas revenues accounted for 38% of projected general fund increases in FY23 and 71% in FY24
- “New Money” – FY25 recurring revenue less FY24 recurring appropriations –projected at \$3.5 billion, or 36.4% growth
- FY23 ending reserve balance of \$4 billion, or 48 percent



Source: December 2023 CREG Estimate, pre-legis. pre-veto

Lawmakers increased recurring budgets by 6.8 percent to \$10.2 billion. The 2024 session also included over \$2.4 billion of nonrecurring appropriations.

FY25 General Fund Recurring Appropriations (in millions)		
	Amount	Y-o-Y Growth
Legislative	\$ 8.12	23.8%
Judicial	\$ 25.77	6.4%
General Control	\$ (12.77)	-5.8%
Commerce, Industry	\$ 8.91	9.7%
Agriculture, Energy and Natural Resources	\$ 9.55	8.5%
Medicaid	\$ 333.24	22.9%
Other Health, Hospitals and Human Services	\$ (103.74)	-8.1%
Public Safety	\$ (2.70)	-0.5%
Other Education	\$ 41.75	84.3%
Higher Education	\$ 43.84	3.5%
Public School Support	\$ 209.47	5.1%
Recurring Compensation (excl. public education)	\$ 89.33	-
Total Recurring	\$10,219.45	6.8%

- \$89 million for compensation increases for all state employees and targeted increases for state police and the Environment Department.
- \$270 million for early childhood, public schools, and higher education.
- \$230 million to health and human services agencies, including increases for rural hospital Medicaid rates.



And funds around state government provide added security.

Spending of FY25 New Money

Est. FY25 Beginning Reserves		\$ 2,989
New Money for FY25		\$ 3,479
FY25 Spending	Tax Changes	\$ (206)
	Recurring Agency Increases	\$ (651)
	FY25 Special Appropriations	\$ (100)
	Government Results and Opportunity (GRO) Program Fund*	\$ (326)
	Land of Enchantment Legacy Fund	\$ (300)
	Transportation	\$ (70)
	Other Fund Transfers	\$ (161)
	Capital Outlay	\$ (932)
	Transfer Tobacco Settlement Fund Out of General Fund Reserves	\$ (404)
	Other	\$ (31)
	Total	\$ (3,181)
Est. FY25 Ending Reserves		\$ 3,287
FY25 Ending Reserve Percent		32%

*Does not include GRO expendable trust funds since these funds are counted in reserves for FY25.

Other funds include:

Higher Education Financial Aid Endowment Fund - \$959 million

Government Results Opportunity Expendable Trust Fund - \$512 million

Early Education Trust Fund - \$9.1 billion

Source: LFC files.



More specific information on spending and other legislative action can be found in the LFC Post-session Report.



HB 2 - FY25 General Fund Appropriations Summary by Agency (In thousands)

AGENCY	FY24 General Fund Adj. OpBud	FY25 EXEC Rec	FY25 LFC Rec	HAFC Total	SFC Total	Governor Action Changes	Final Total	Total Percent Change from Opbud
FEED BILL:								
11100 Legislative Council Service	\$ 8,887.2	\$ 8,887.2	\$ 10,623.9	\$ 10,623.9	\$ 10,623.9	\$ -	\$ 10,623.9	19.5%
11200 Legislative Finance Committee	\$ 5,947.5	\$ 6,091.8	\$ 6,244.9	\$ 7,316.8	\$ 7,316.8	\$ -	\$ 7,316.8	23.0%
11400 Senate Chief Clerk	\$ 3,106.2	\$ 3,106.2	\$ 3,367.1	\$ 3,367.1	\$ 3,367.1	\$ -	\$ 3,367.1	8.4%
11500 House Chief Clerk	\$ 3,097.1	\$ 3,097.1	\$ 3,357.3	\$ 3,357.3	\$ 3,357.3	\$ -	\$ 3,357.3	8.4%
11700 Legislative Education Study Committee	\$ 1,767.6	\$ 1,856.5	\$ 1,856.5	\$ 1,856.5	\$ 1,856.5	\$ -	\$ 1,856.5	5.0%
11900 Legislative Building Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
13100 Legislature	\$ 5,905.3	\$ 5,185.3	\$ 2,855.0	\$ 3,855.0	\$ 3,855.0	\$ -	\$ 3,855.0	-34.7%
LEGISLATIVE:	\$ 28,710.9	\$ 28,224.1	\$ 28,304.7	\$ 30,376.6	\$ 30,376.6	\$ -	\$ 30,376.6	5.8%
GENERAL APPROPRIATIONS ACT:								
11100 Legislative Council Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
11100 Energy Council Dues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
11200 Legislative Finance Committee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
11400 Senate Chief Clerk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
11500 House Chief Clerk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-

https://www.nmlegis.gov/Entity/LFC/Session_Publications



2024 LEGISLATION AFFECTING REVENUES



Legislation passed during the 2024 regular session reduced recurring general fund revenue by \$205.7 million in FY25, \$220.1 million in FY26, and \$259.7 million in FY27.

Appropriation Account Detail: 2024 Regular Legislative Session
(in millions of dollars)

	FY24		FY25		FY26		FY27	
	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring
REVENUE								
<u>2024 Regular Session:</u>								
Bill No.								
<i>Ch. 32</i> HB 7 Health Care Affordability Fund Distributions					\$ (83.2)		\$ (85.7)	
<i>Ch. 67</i> HB 252 Tax Package	\$ (2.0)		\$ (187.8)		\$ (221.6)		\$ (238.6)	
<i>Ch. 41</i> SB 17 Health Care Access and Delivery Act					\$ 112.2		\$ 114.4	
<i>Ch. 24</i> SB 108 Distribution to Election Fund			\$ (15.0)		\$ (15.0)		\$ (15.0)	
<i>Ch. 59</i> SB 148 Tax & Admin Fees							\$ (22.1)	
<i>Ch. 27</i> SB 151 Premium Tax to Emergency Fund			\$ (2.9)		\$ (11.0)		\$ (11.2)	
<i>Ch. 29</i> SB 165 Legislative Retirement Changes					\$ (1.5)		\$ (1.5)	
TOTAL REVENUE	\$ (2.0)	\$ -	\$ (205.7)	\$ -	\$ (220.1)	\$ -	\$ (259.7)	\$ -



The tax package passed during the 2024 legislative session reduced recurring revenue by \$266.5 million by FY28.

House Bill 252 cut up to an estimated \$266 million in recurring revenues in a series of tax changes, including:

- \$176 million for income tax rate and bracket restructure
- \$17 million in revenue gains to create a flat corporate income tax
- \$65 million in revenue gains to limit the capital gains deduction
- \$18.1 million for targeted expenditures for health care and childcare
- \$126 million for targeted expenditures for environmental initiatives
- \$12 million to indefinitely exempt some military retirement income from income tax
- \$6 million for a GRT exemption for dyed diesel used in agriculture
- \$8 million for targeted expenditures for wildfire victims
- \$2 million for angel investments

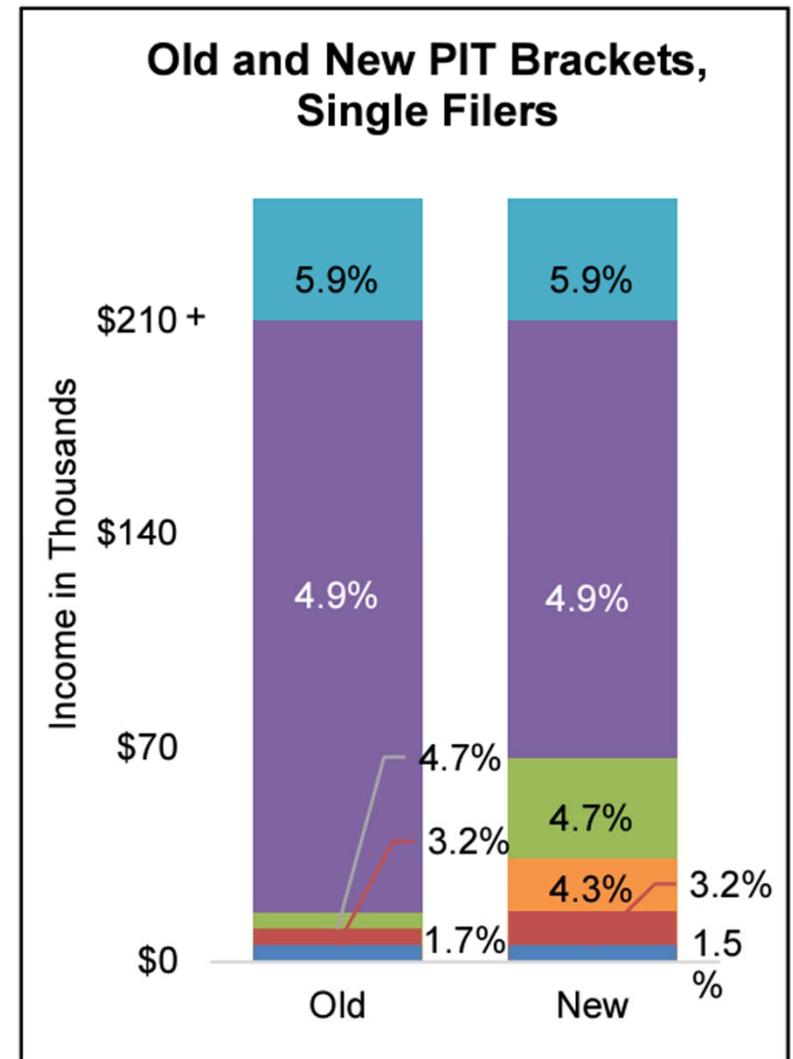


The tax package passed during the 2024 legislative session reduced recurring revenue by \$266.5 million by FY28.

The largest tax change restructures the personal income tax rates and income brackets to increase the number of brackets, adjust the rates, and change the income range within each bracket.

The new personal income tax structure decreases taxes for all taxpayers, with the rate decreases targeted at the lowest income earners.

Single filers with incomes below \$66.5 thousand and married filers with incomes below \$100 thousand will see a tax rate decrease. Those with incomes above those thresholds maintain the same top tax rate as currently in statute but will see a tax liability decrease due to the marginal structure of personal income taxes.

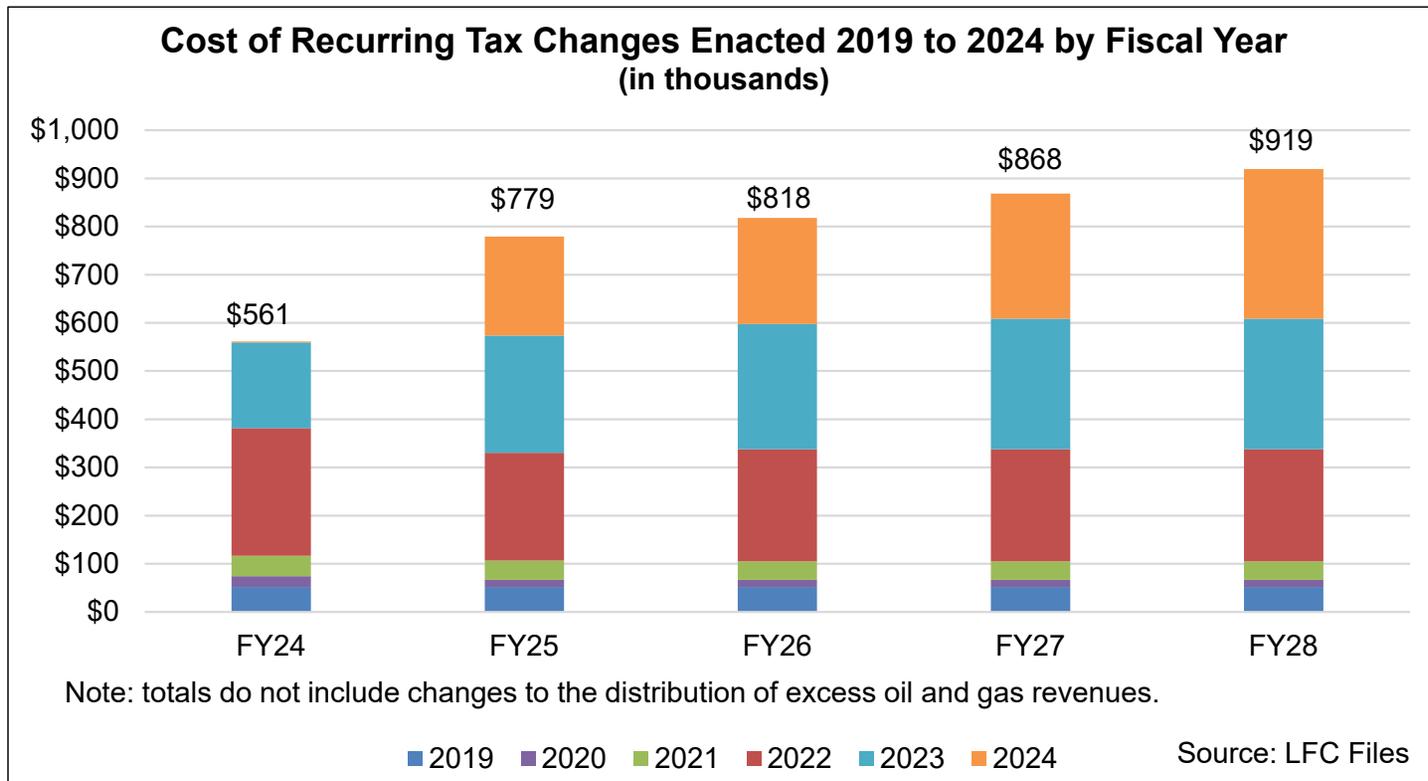


The Legislature passed other measures in the 2024 regular session that reduce general fund revenues.

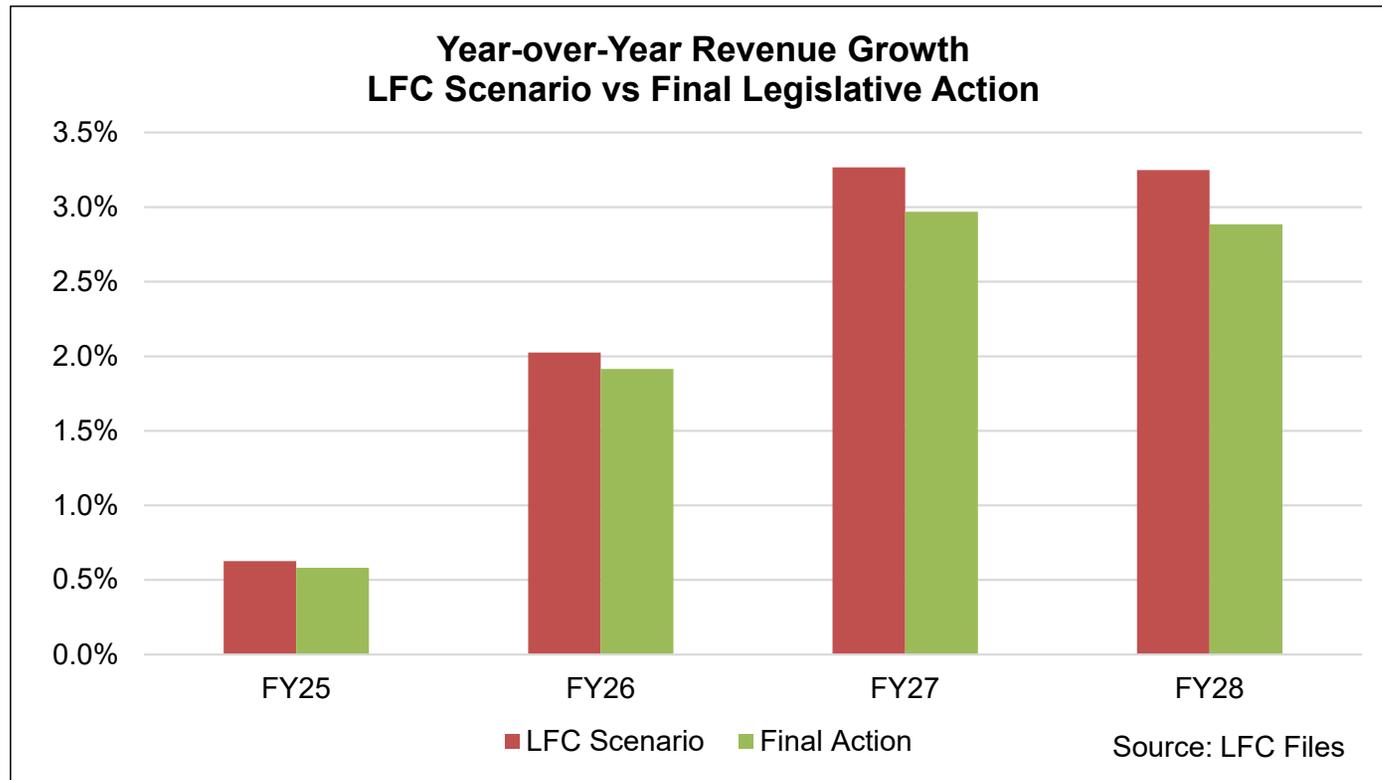
In addition to the tax changes, the Legislature passed multiple other bills that affect general fund revenues.

- **Senate Bill 17 imposes assessments on most hospitals in the state and takes advantage of the multiplier effect of an almost 75 percent Medicaid match, with the assessment providing achieving a \$3 revenue impact for every \$1 assessment. This generates nearly \$1.5 billion for the new health care delivery and access fund.**
- **Senate Bill 7 and Senate Bill 151 redistribute around \$96 million of health insurance premium tax and surtax revenues to the health care affordability fund and the emergency medical services fund instead of the general fund.**
- **Senate Bill 148 fully eliminates administrative costs and fees that are currently withheld from local government tax receipts by the Taxation and Revenue Department for the cost of administering local taxes, costing the state over \$45 million, annually.**
- **Senate Bill 108 earmarks up to \$15 million for the administration of elections. Senate Bill 165 changes the formula for calculating legislators' pension benefits, increasing them by 50 percent and costing the general fund an estimated \$1.5 million per year.**

Tax changes passed in the last six legislative sessions will reduce recurring revenues in FY28 by \$919 million.



2024 legislative action will reduce revenues more than the \$200 million proposed in the LFC budget scenario, reducing year-over-year revenue growth.



Tax changes have equivalent impacts to budget planning and spending as budget growth. When including tax changes, 2024 session recurring expenditure growth is over 8.5 percent and will grow to over 9 percent by FY28.

FY25 Recurring Appropriations Increases and Revenue Decreases (in millions)

	Amount	% of Net Change
Legislative	\$ 8.12	1%
Judicial	\$ 25.77	3%
General Control	\$ (12.77)	-1%
Commerce, Industry	\$ 8.91	1%
Agriculture, Energy and Natural Resources	\$ 9.55	1%
Medicaid	\$ 333.24	39%
Other Health, Hospitals and Human Services	\$ (103.74)	-12%
Public Safety	\$ (2.70)	0%
Other Education	\$ 41.75	5%
Higher Education	\$ 43.84	5%
Public School Support	\$ 209.47	24%
Recurring Compensation (excl. public education)	\$ 89.33	10%
Total Appropriations Increase	\$ 650.77	76%
Tax Package Revenue Decrease	\$ 187.8	22%
Non-Tax Package Revenue Decrease	\$ 17.9	2%
Total Revenue Decrease	\$ 205.7	24%
Total Net Recurring Budget Capacity Change	\$ 856.47	100%

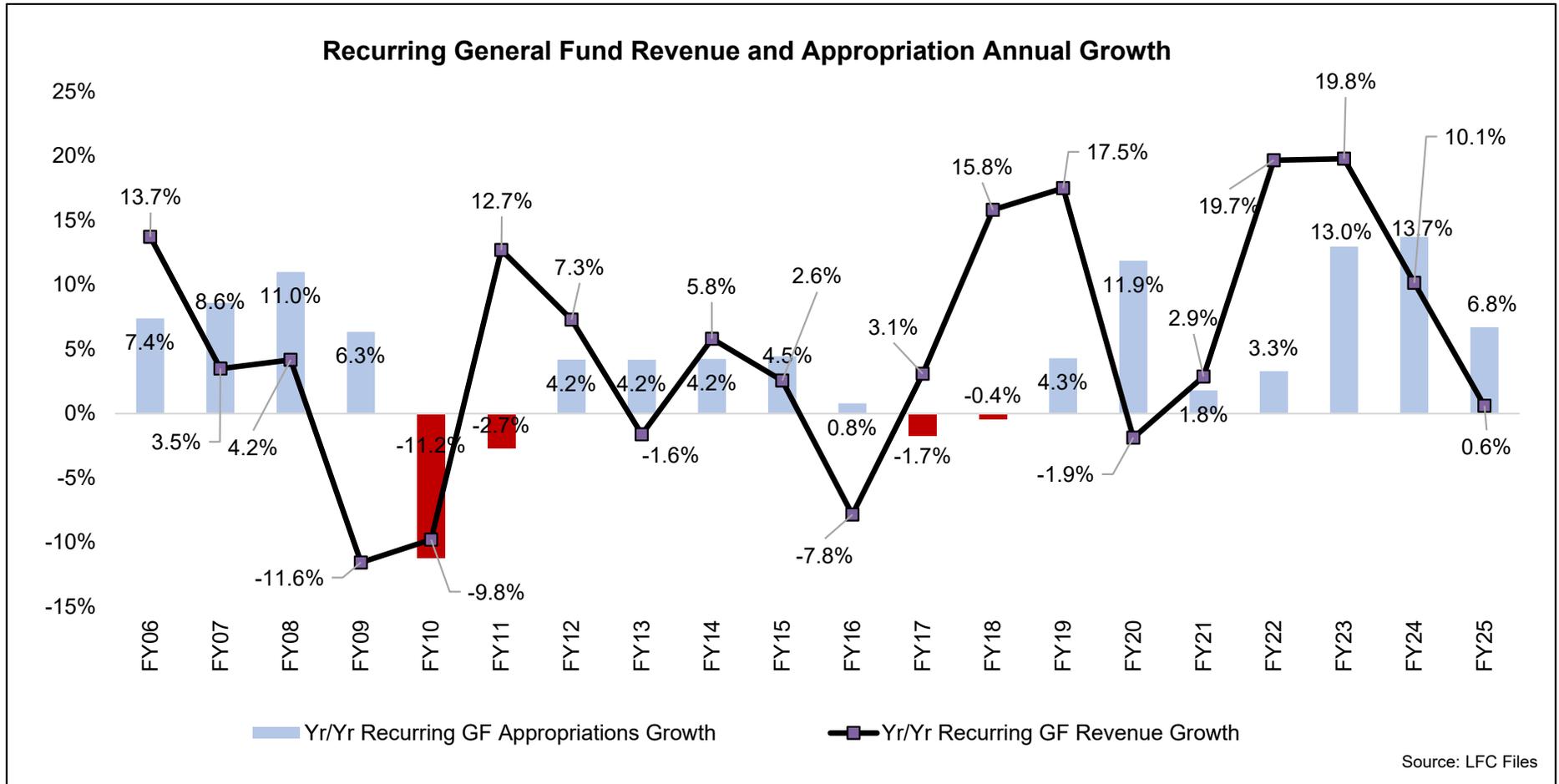


New Mexico has over 200 tax expenditures that cost well over \$1.8 billion annually.

The state's top ten reported tax expenditures account for almost 75 percent of the total estimated cost.

Top 10 Tax Expenditures		
	2023 Amount	2023 Rank
Sale of Food at Retail Food Stores GRT Deduction (cost includes hold harmless distributions)	\$307,072	1
Prescription Drugs, Oxygen and Oxygen Services and Medical Cannabis GRT/GGRT Deduction	\$235,500	2
DOH-Licensed Hospitals 60% GRT Deduction	\$171,581	3
Capital Gains PIT Deduction	\$114,533	4
Film and Television Tax Credits against PIT or CIT	\$100,240	5
Working Families Tax PIT Credit	\$93,802	6
Sales to Manufacturers GRT/GGRT Deduction	\$90,601	7
Social Security Income PIT Exemption	\$71,480	8
Transportation Natural Gas Deduction	\$56,612	9
Health Care Practitioner Services GRT Deduction (cost includes hold harmless distributions)	\$52,485	10

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

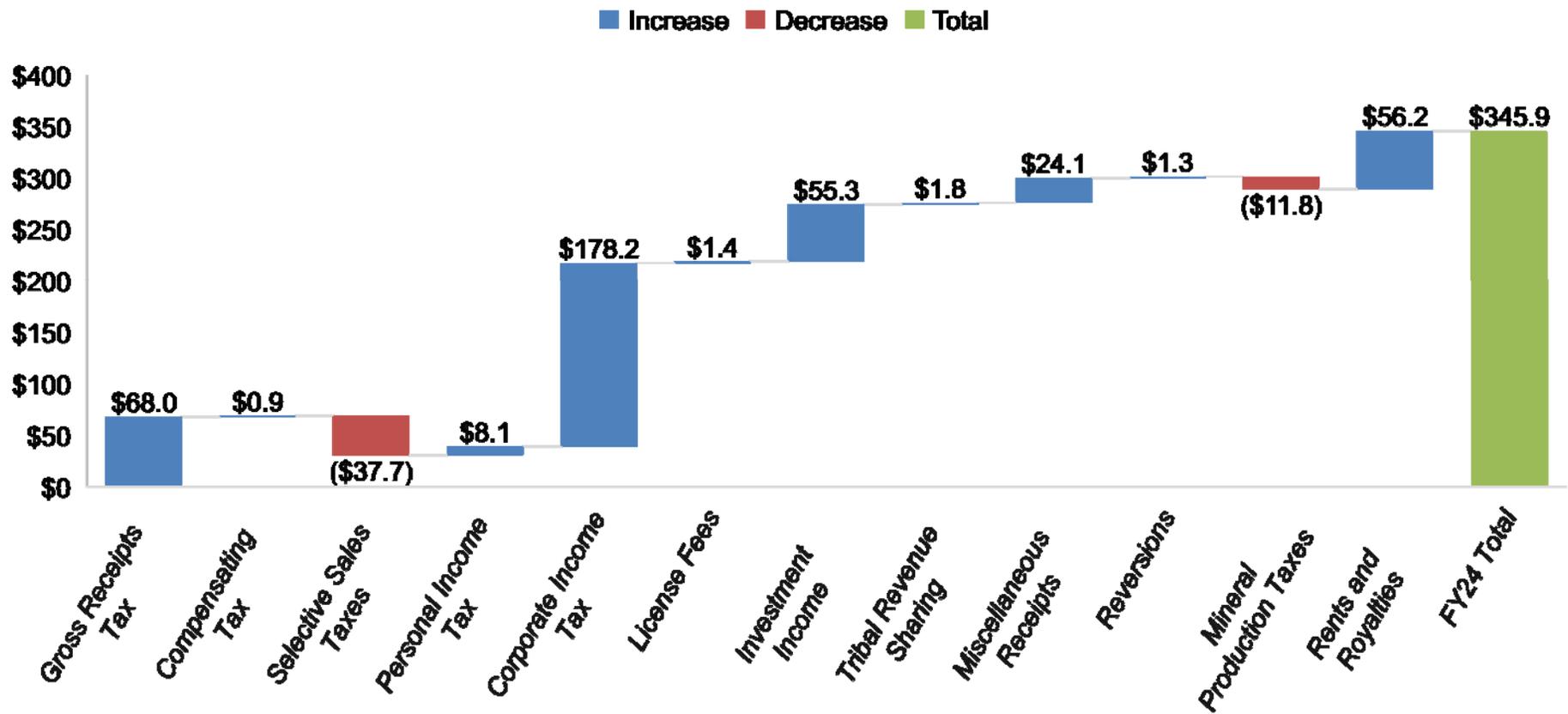


STATE FINANCIAL OUTLOOK

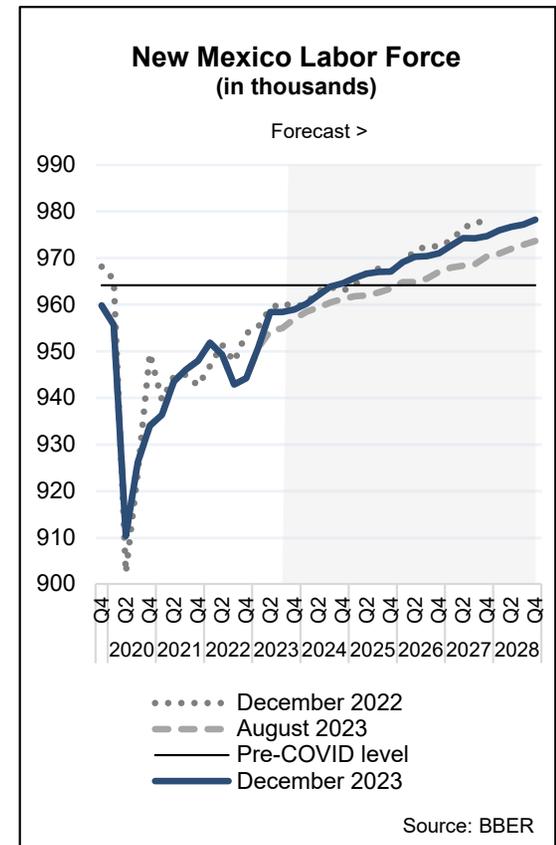
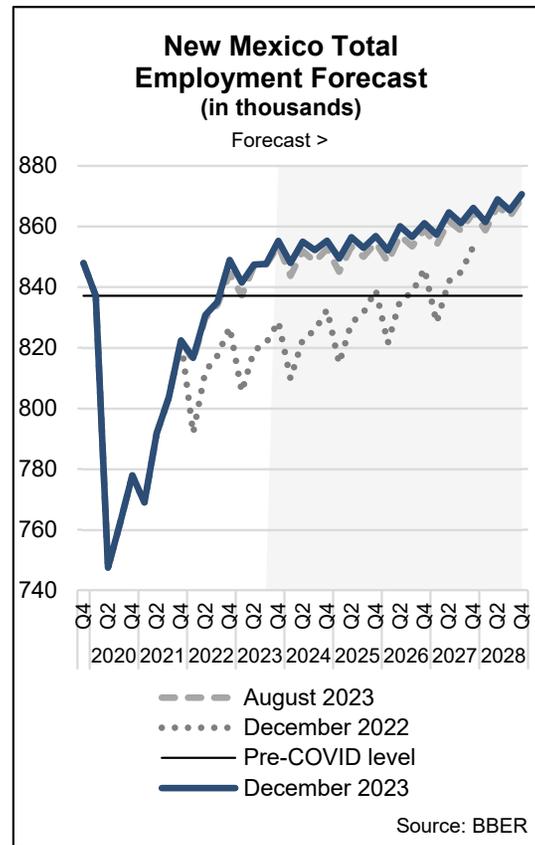
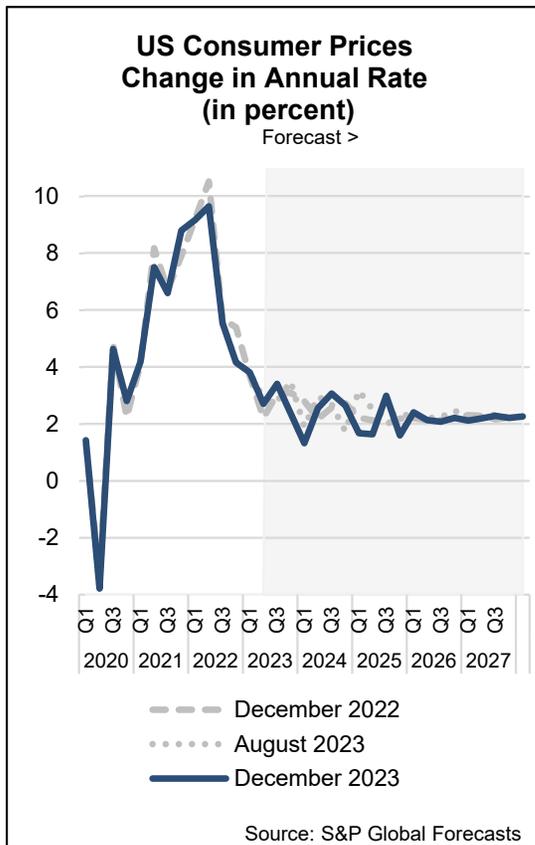


Revenues are currently tracking about \$345.9 million above the consensus estimate.

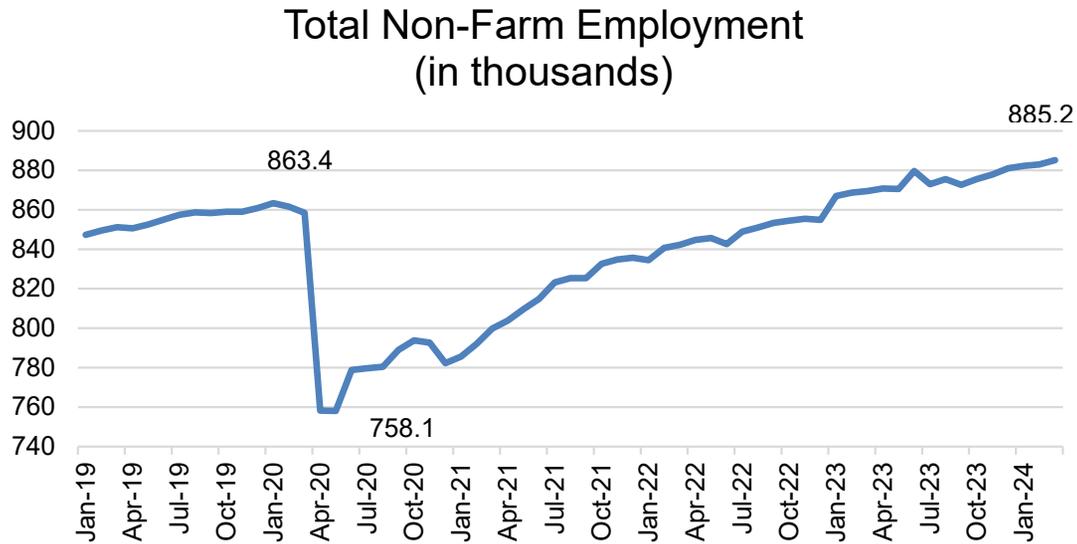
**Recurring Revenue, FY24 Tracking Estimates over Forecast
(In millions)**



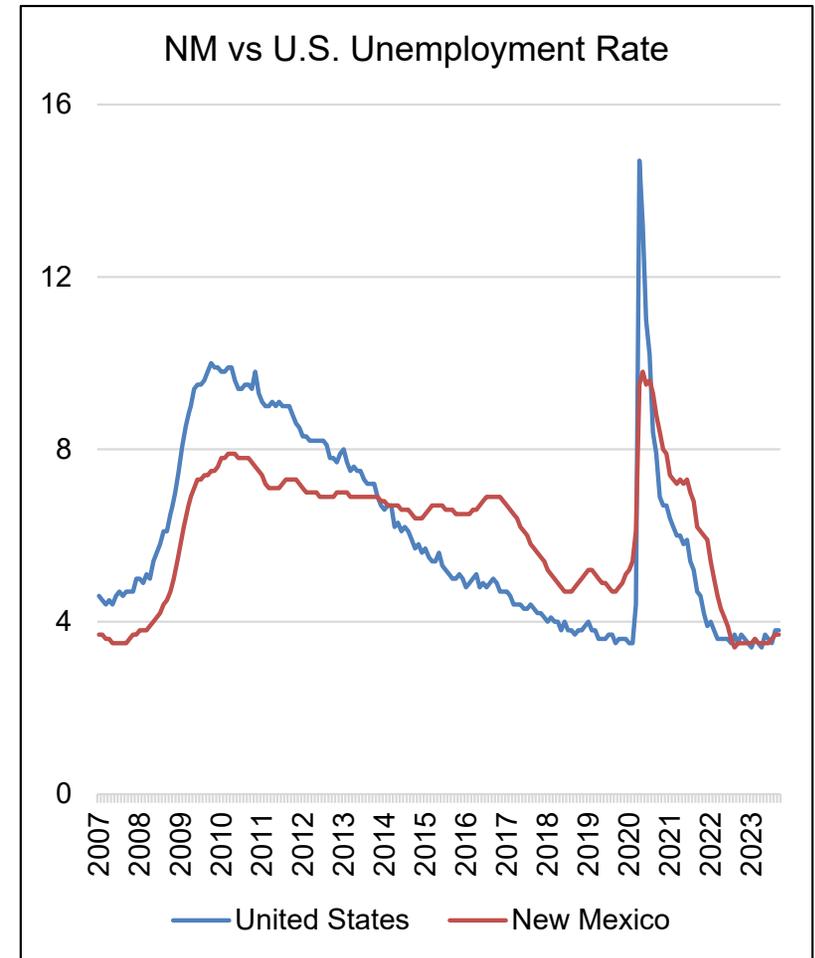
Forecasts are becoming more predictable as the economy stabilizes and recession risks diminish.



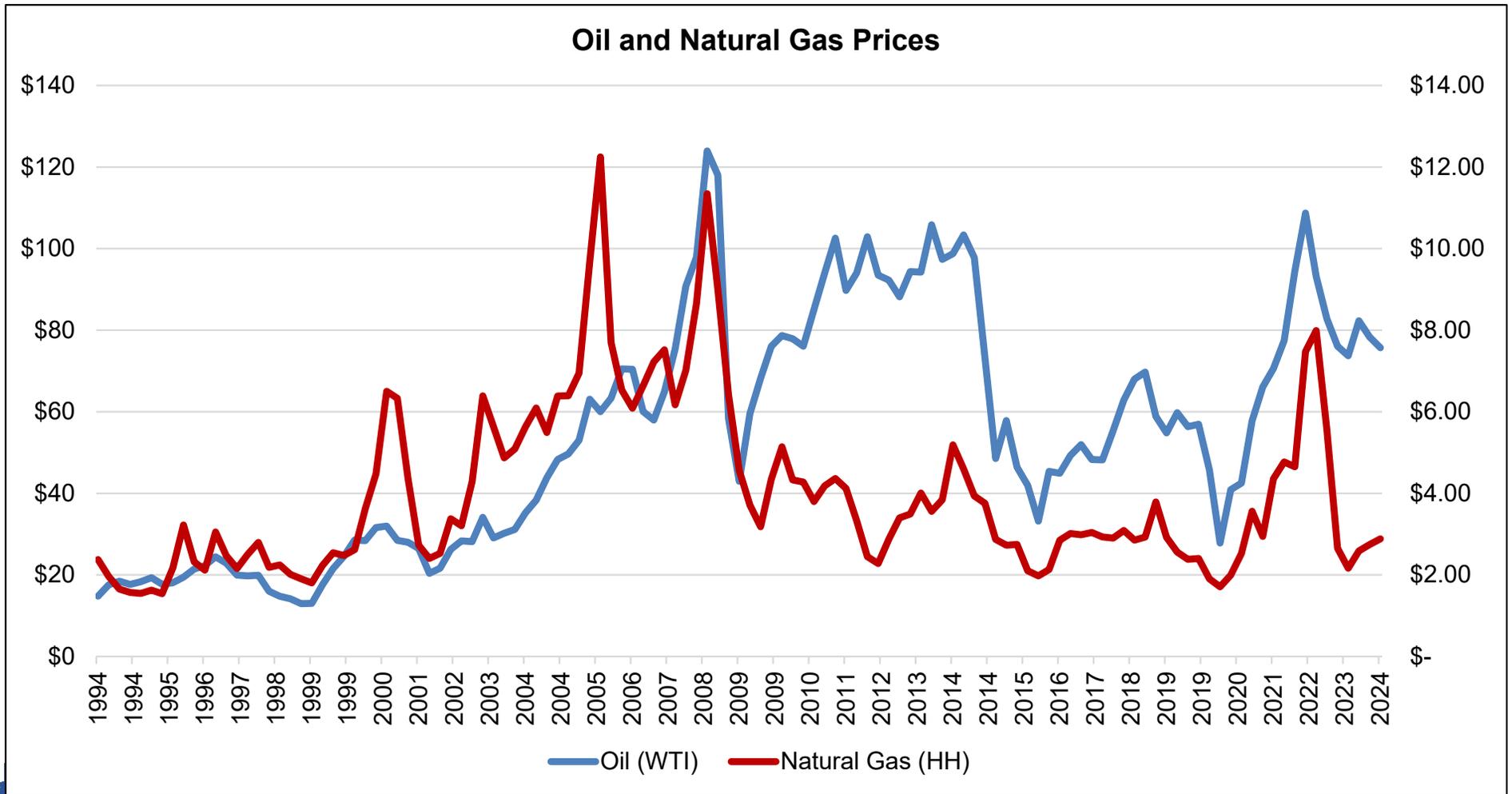
Employment has gained 21.8 thousand jobs above pre-pandemic levels.



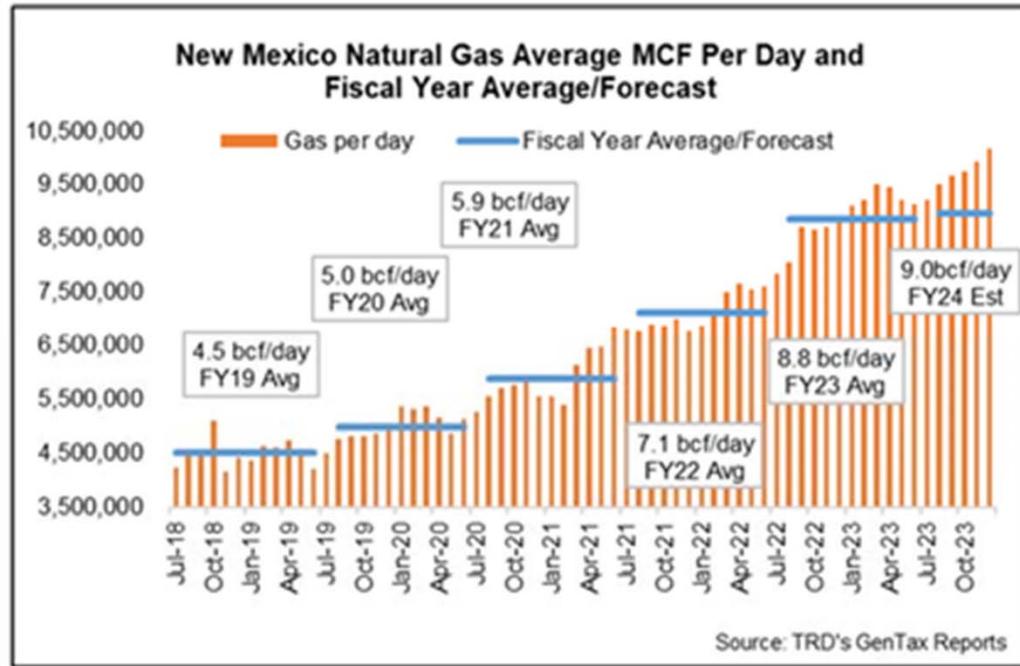
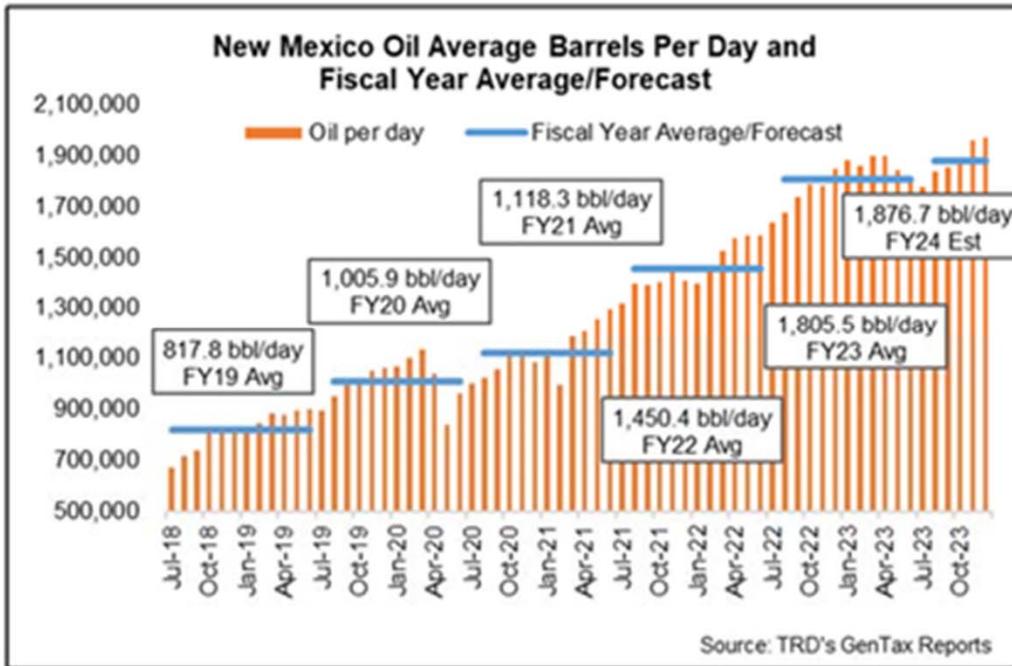
- As of March 2024, statewide nonfarm employment was 2.5 percent higher than it was in January 2020.
- New Mexico's unemployment rate in March 2024 was 3.8 percent.



Oil 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?

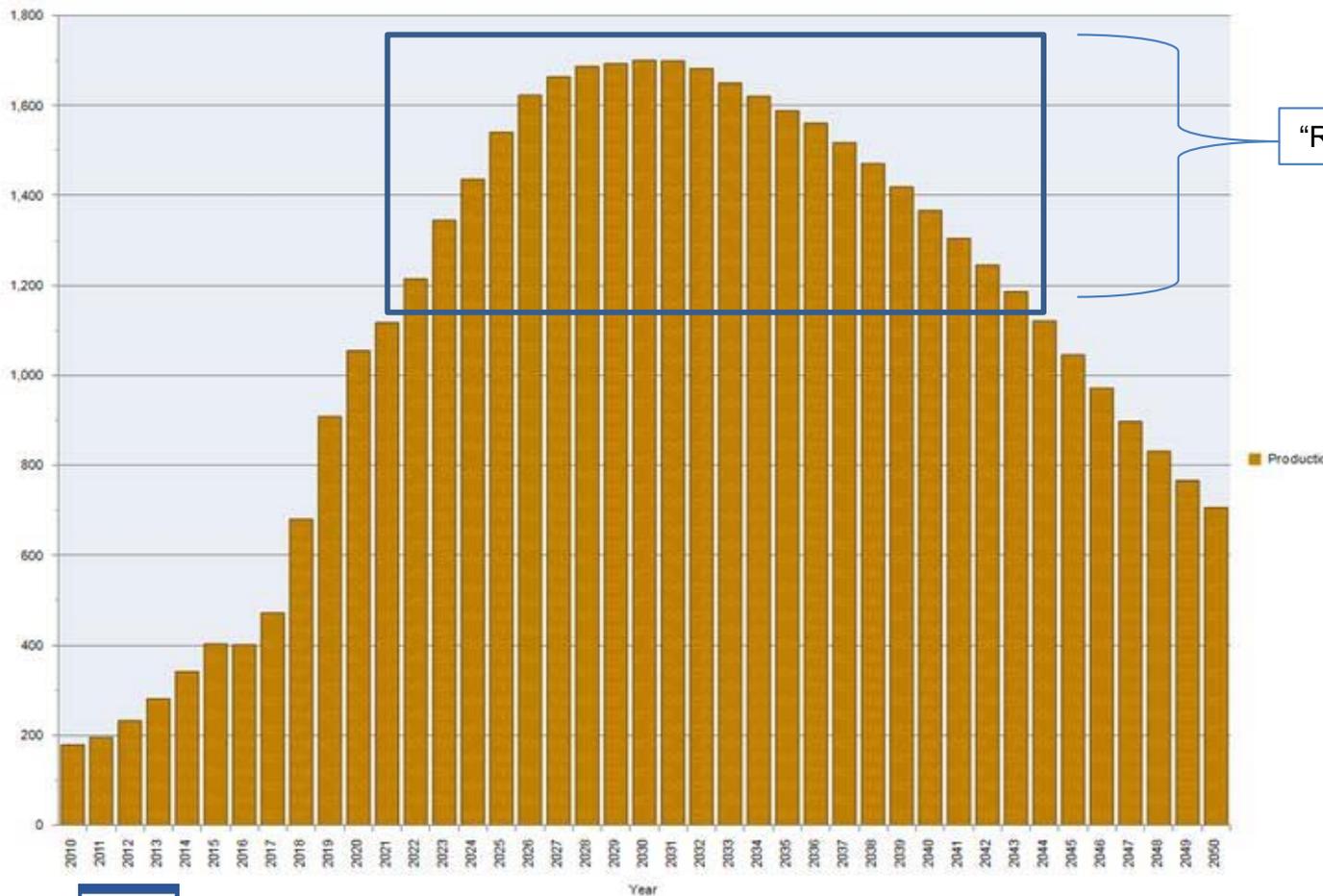
- Based on December 2023 estimate for direct oil and gas revenues (production taxes and federal royalties),
 - A \$1 change in the annual average NM price of oil has about a \$59.8 million impact on revenues.
 - A 10 cent change in the annual average NM price of natural gas has about a \$45.7 million impact.
 - Each additional million barrels of oil generates about \$6.9 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

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



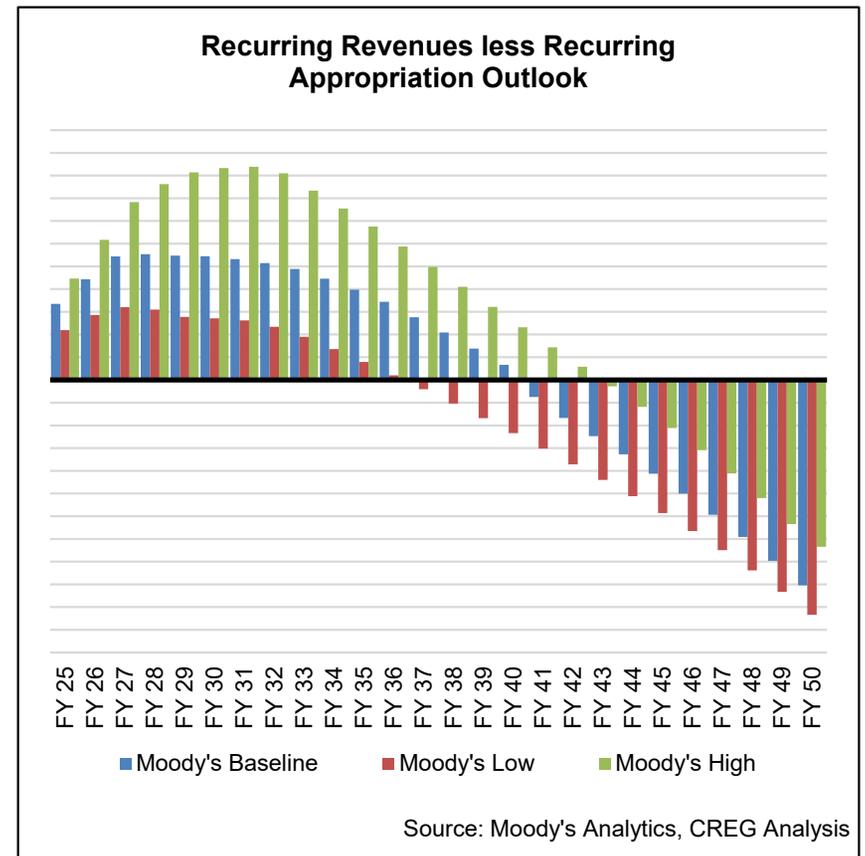
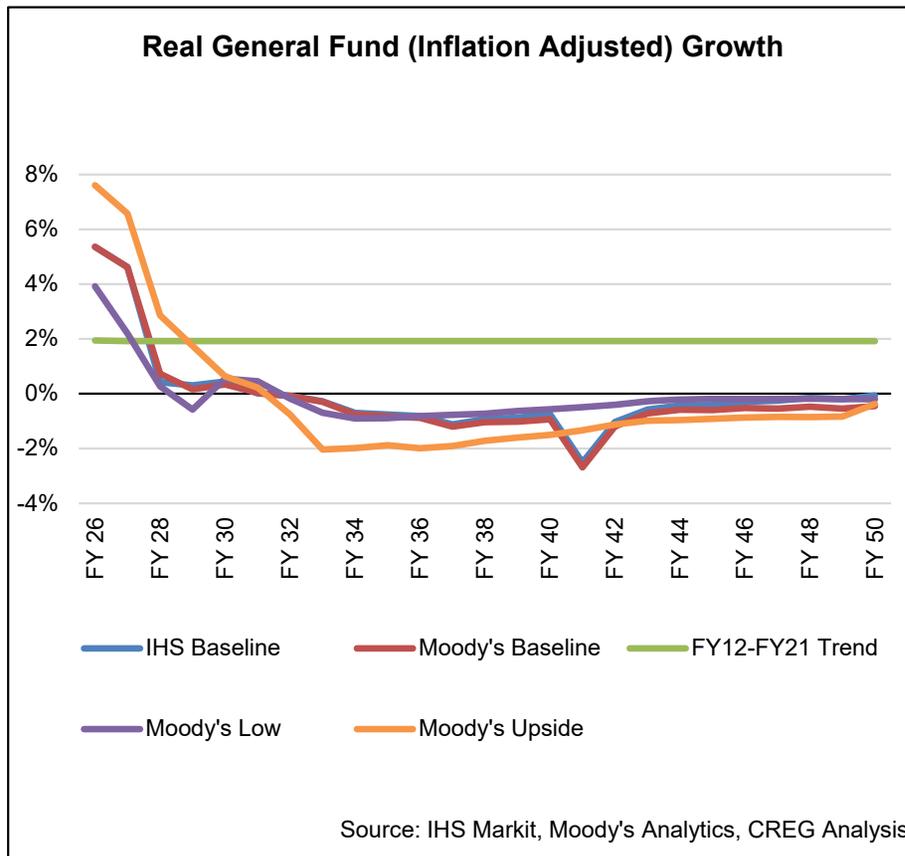
“Recurring” or “nonrecurring”?

- 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; UCube Projections, version 2021-03-26

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



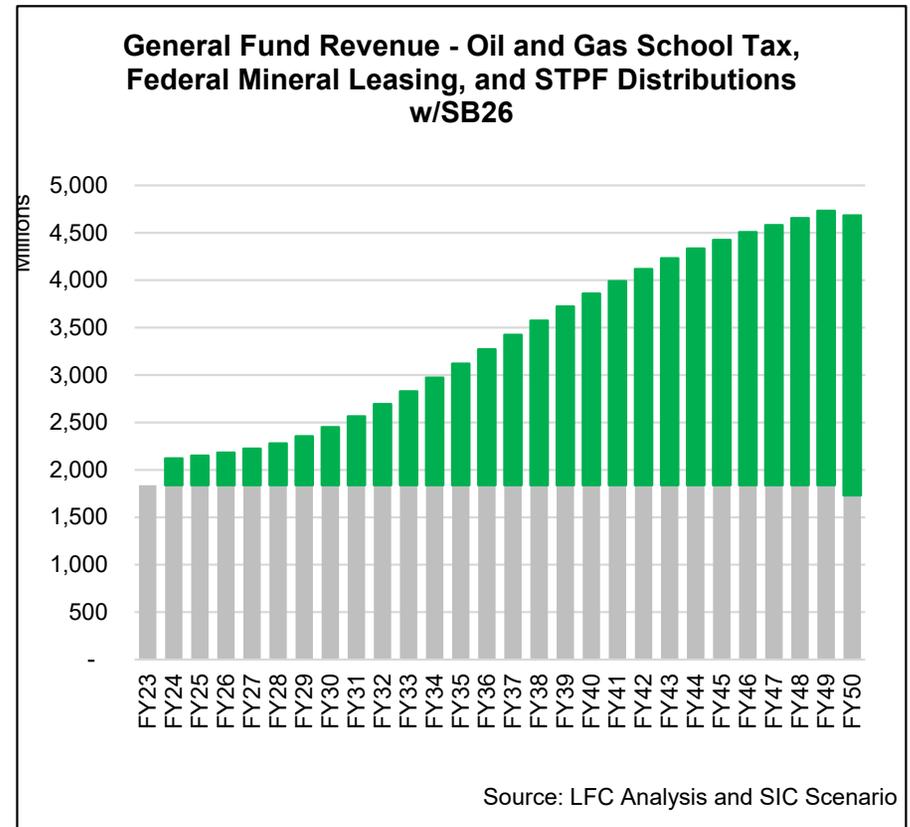
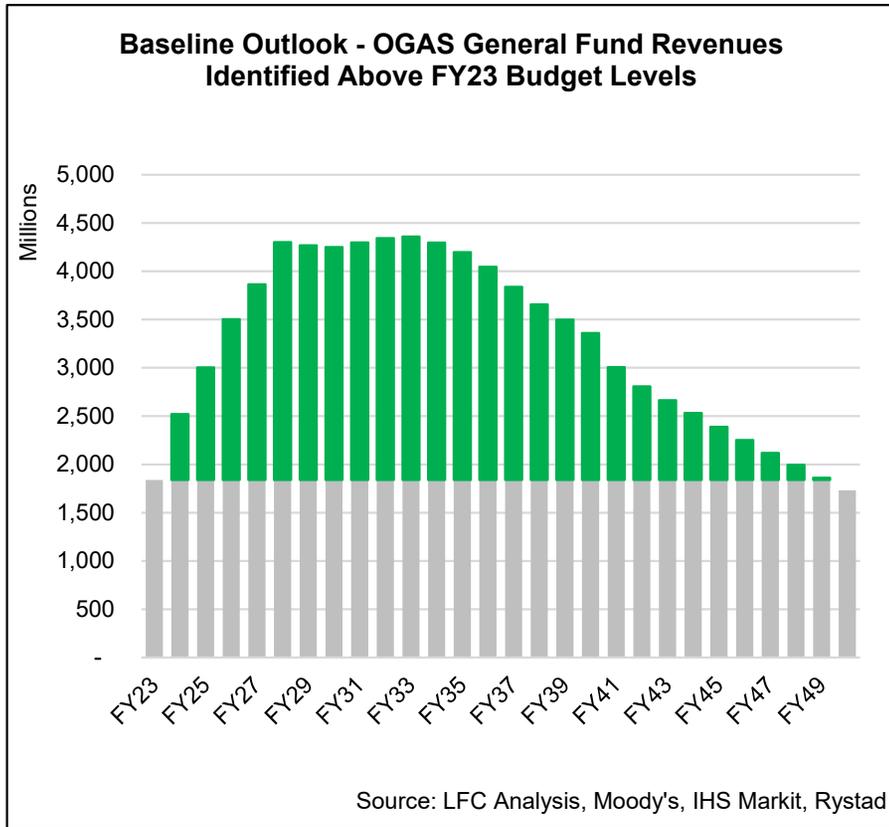
In addition to the general fund, oil and gas revenues benefit the early childhood trust fund and, beginning in FY25, the severance tax permanent fund.

- Oil and gas revenues increased 162% y-o-y in FY22 and grew to over \$5b in FY23
 - \$1.95b to general fund
 - \$3.2b to early childhood trust fund or tax stabilization reserve

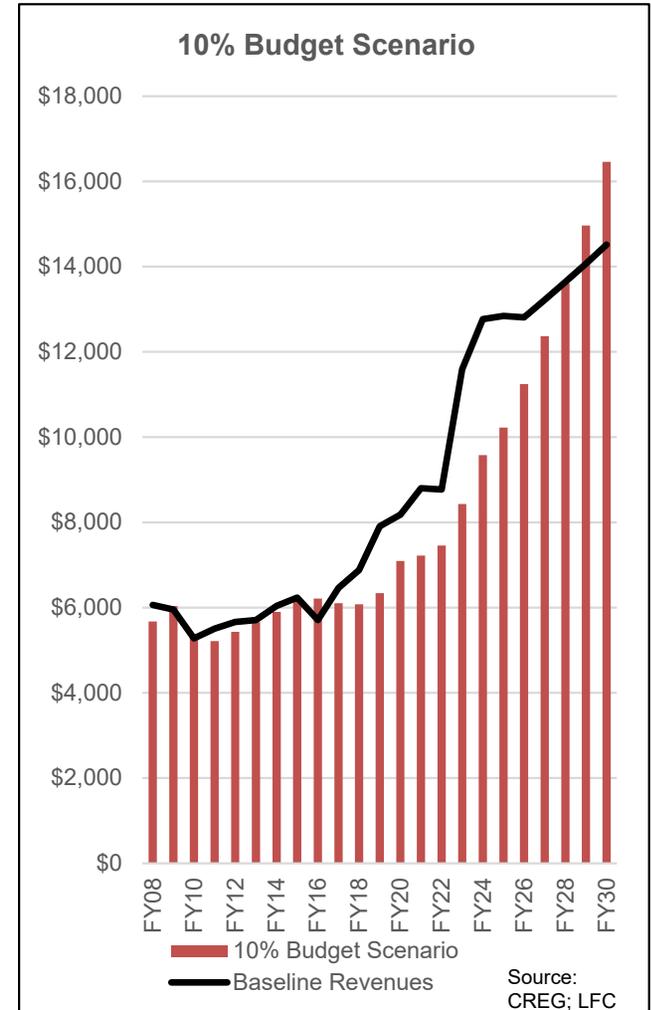
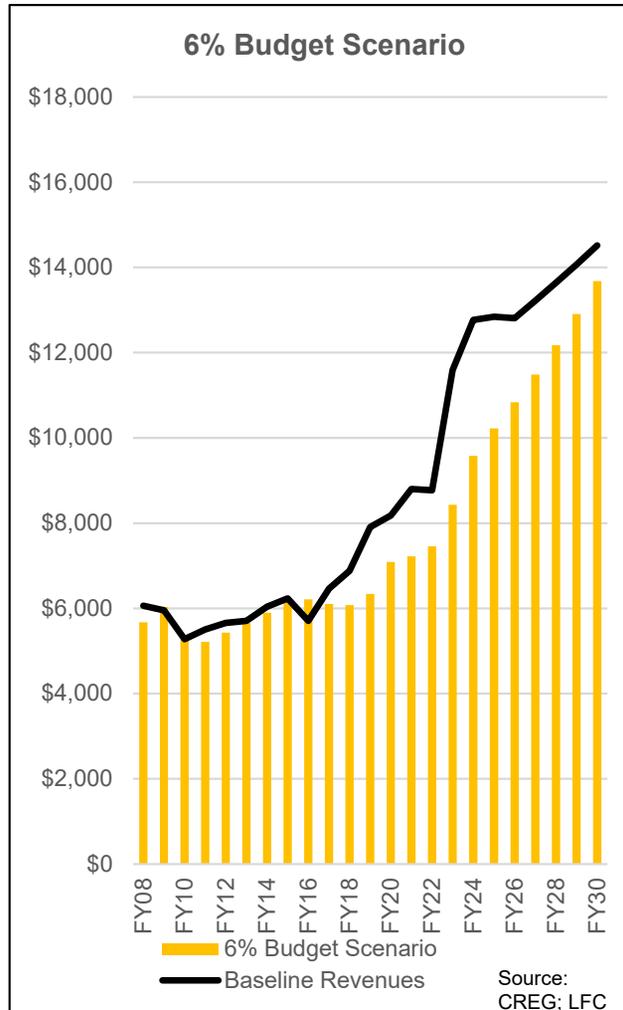
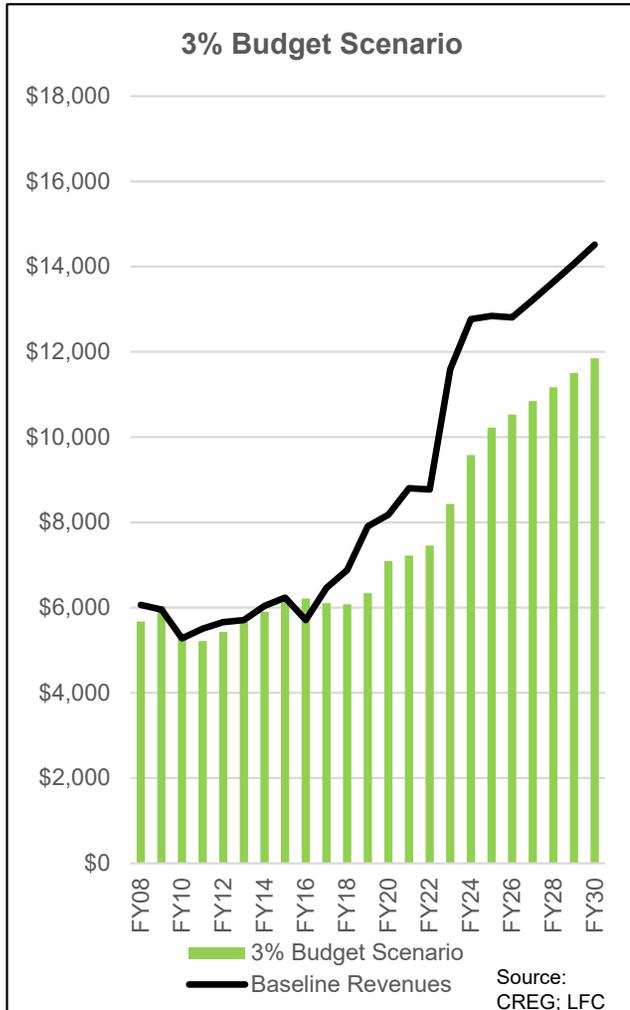
- Oil and gas revenue from federal mineral leasing and the emergency school tax that flows to the general fund is capped at \$2.79 billion.



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



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



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QUESTIONS?

