



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

New Mexico Outlook: 2022 Legislative Preview

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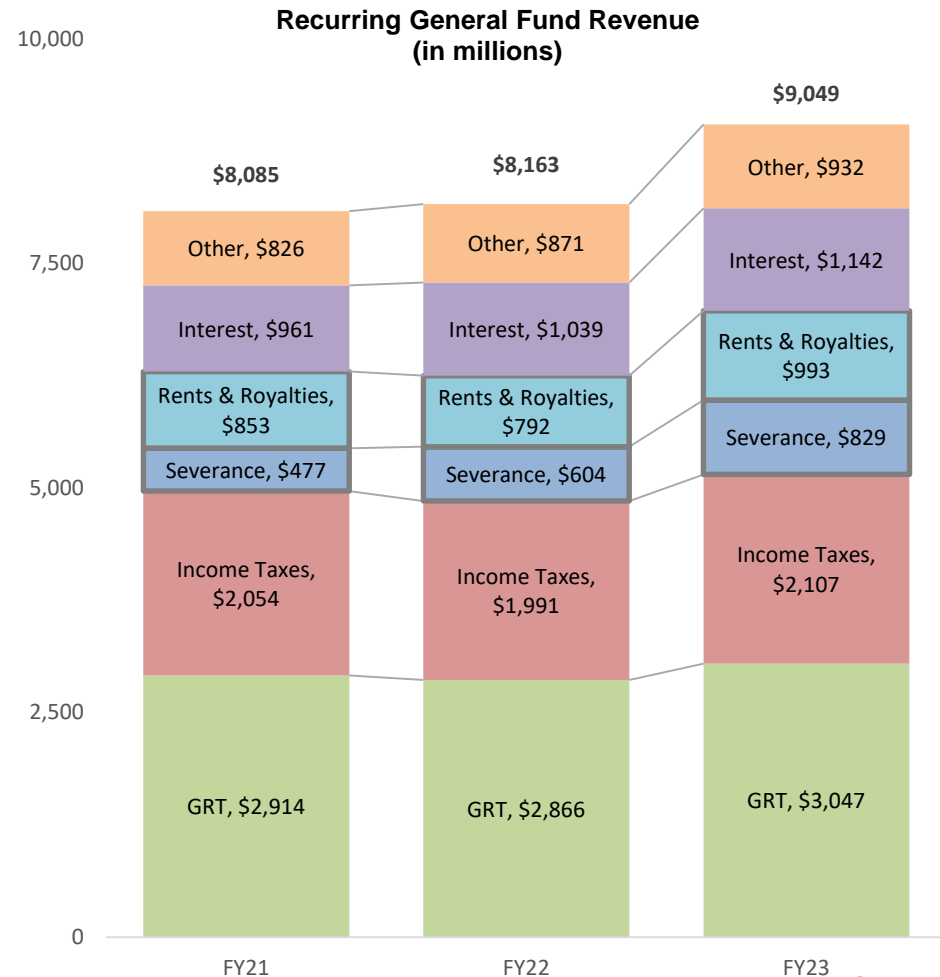
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STATE REVENUES AND ECONOMIC OUTLOOK

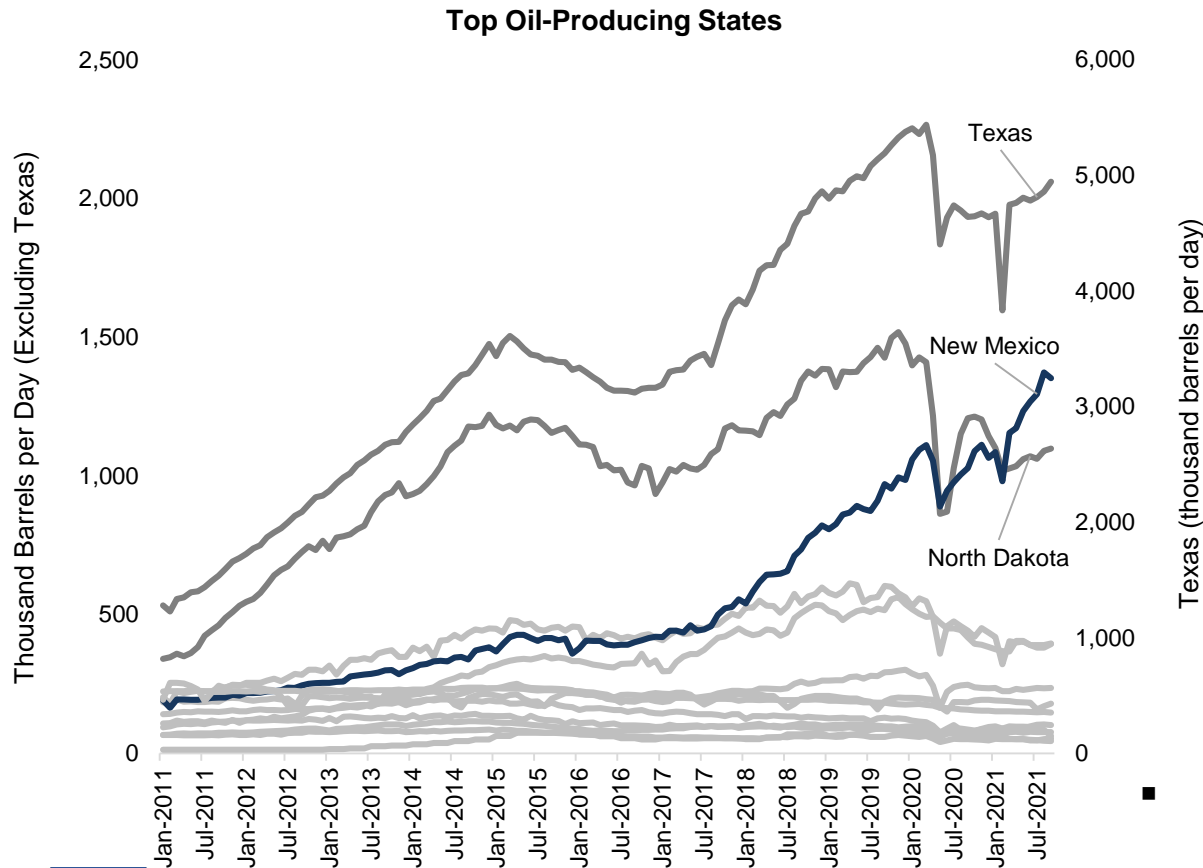


State revenues are projected to increase \$886 million in FY23, reaching \$1.599 billion of “new money.”

- Recurring revenues are projected to increase 1% and 10.9% Y-o-Y in FY22 and FY23
- Oil and gas revenues account for 20% of general fund increases in FY22 and 60% in FY23



Higher oil revenues are driven by record-breaking oil production in New Mexico.



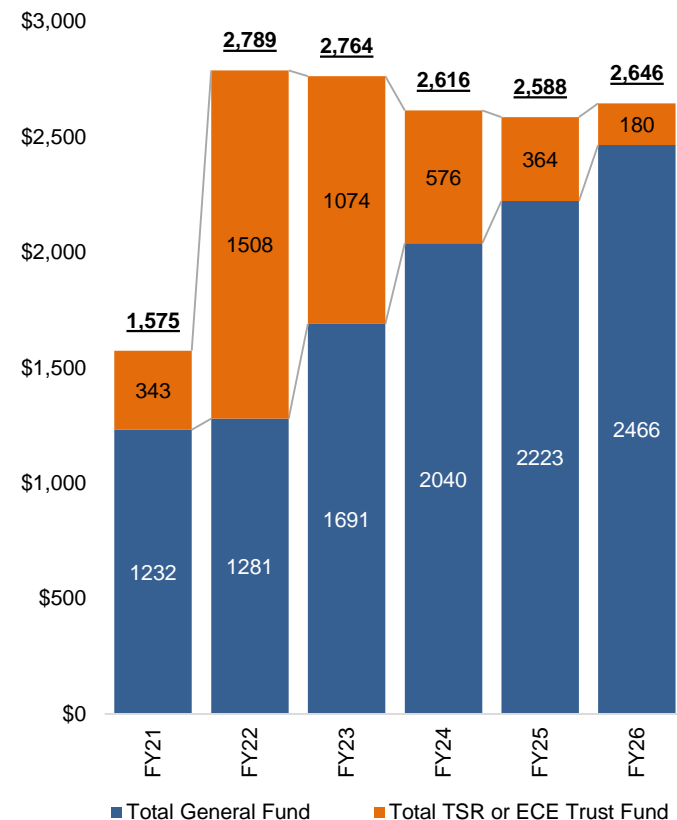
- However, oil and gas prices can be extremely volatile, creating uncertainty in the revenue forecast.



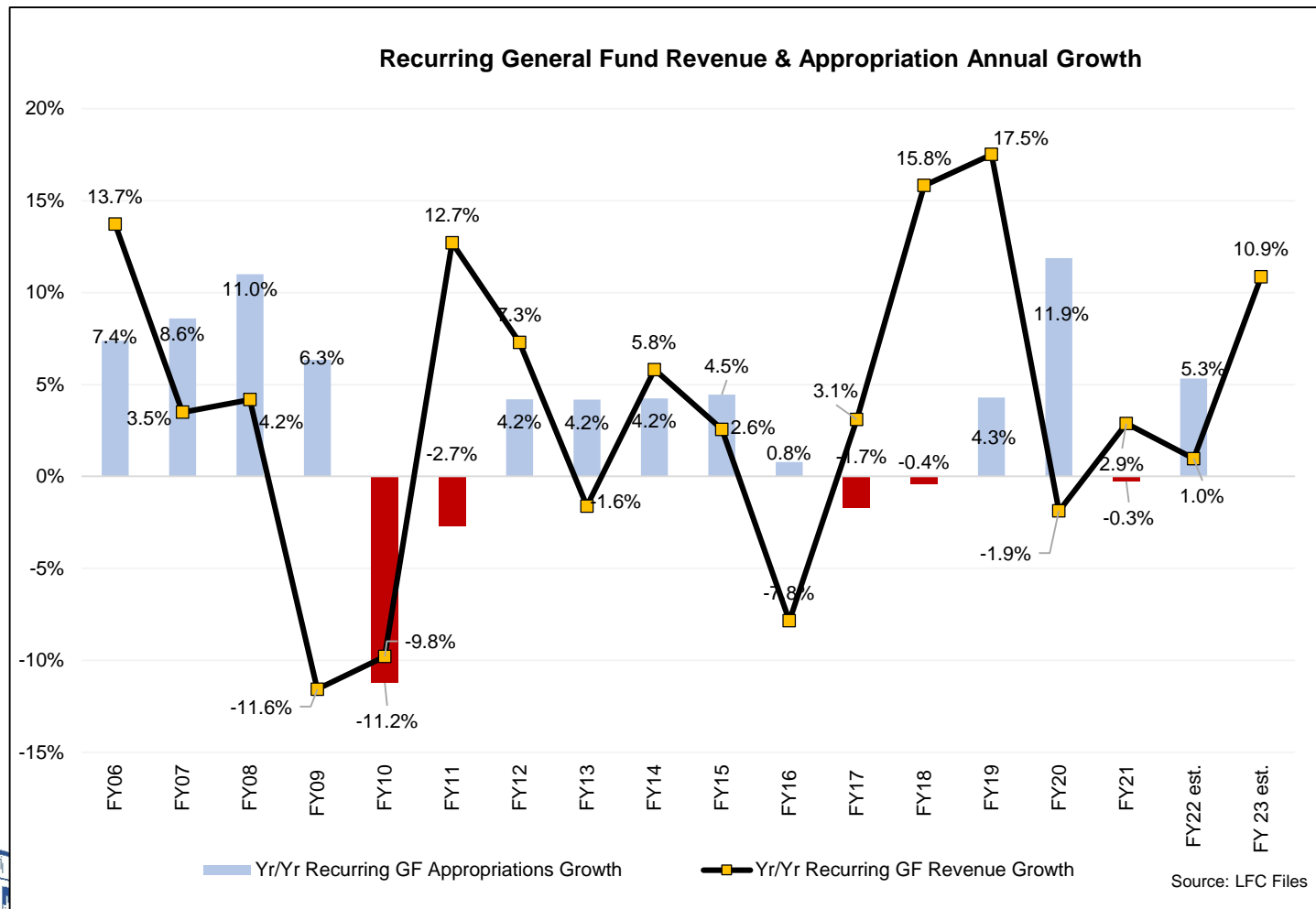
In addition to the general fund, oil and gas revenues will result in large transfers to the early childhood trust fund.

- Oil and gas revenues are expected to increase \$1.2b (77%) y-o-y in FY22
 - \$1.3b to general fund
 - \$1.5b to early childhood trust fund or tax stabilization reserve

Oil and Gas School Tax and Federal Royalty Revenue
Revenue
(in millions)

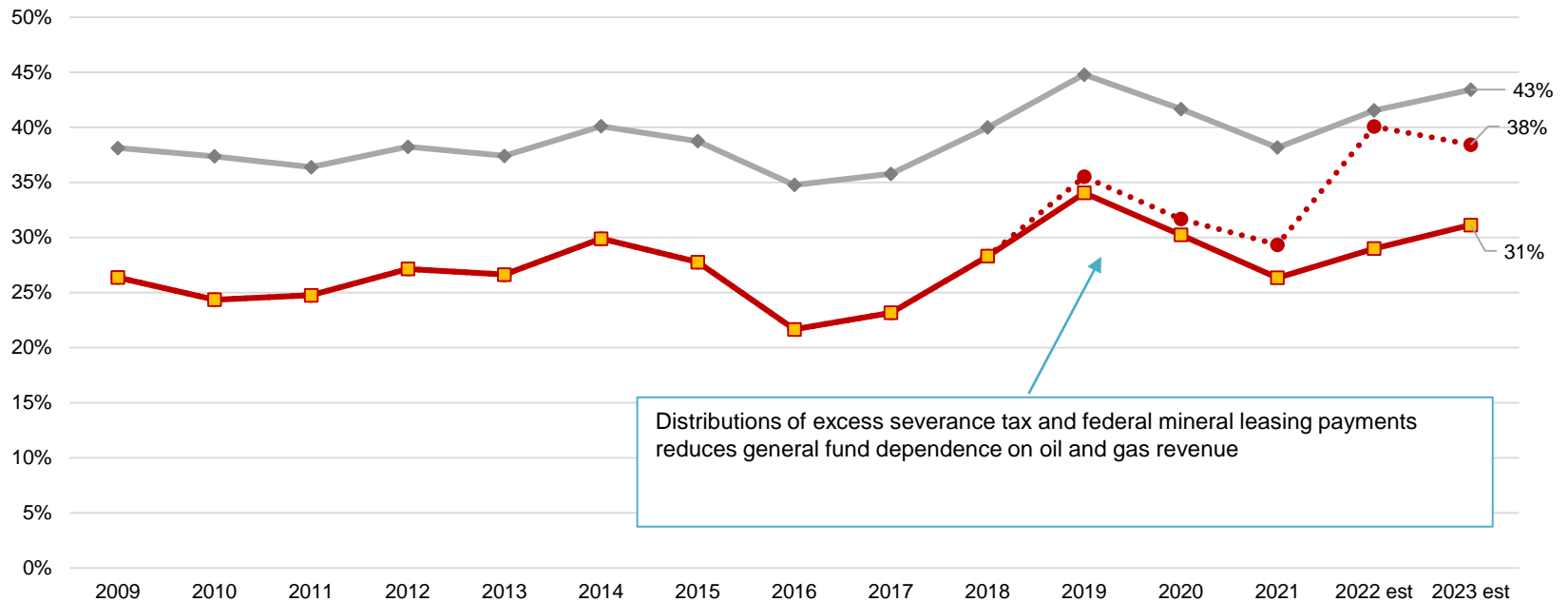


Significant volatility in revenues impedes on the state's ability to plan and execute based on stable budgeting.



Distributions to the ECE reduce the general fund's dependence on oil and gas revenues.

General Fund Revenues Dependent on Oil and Gas Industry
(percentage of recurring revenue)



% incl. permanent funds
 % if no TSR/ECE distribution
 % excl. permanent funds & TSR/ECE distrib.



Personal income taxes are rising as the “k-shape” recovery defines state job growth.

Percent Change in Employment*

In **New Mexico**, as of **August 10 2021**, employment rates among workers in the bottom wage quartile **decreased** by **18.1%** compared to January 2020 (not seasonally adjusted).



data source: **Earnin, Intuit, Kronos, Paychex**

*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.

last updated: **September 24, 2021** next update expected: **December 03, 2021**

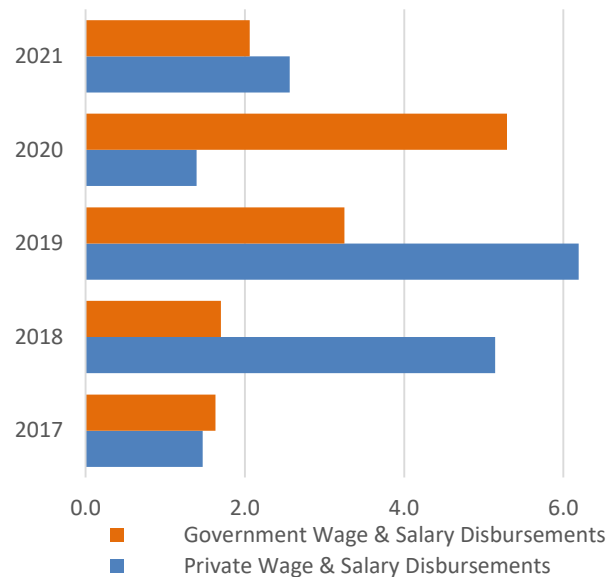
visit tracktherecovery.org to explore



As job openings rebound and the labor force shrinks, governments are struggling to compete with the private sector.

Industry	Jobs	Monthly Change	Annual Change from Oct 20	
			Number	Percent
TOTAL NONFARM	825,100	10,200	31,200	3.9
Total Private	650,400	10,200	36,100	5.9
Government	174,700	0	-4,900	-2.7

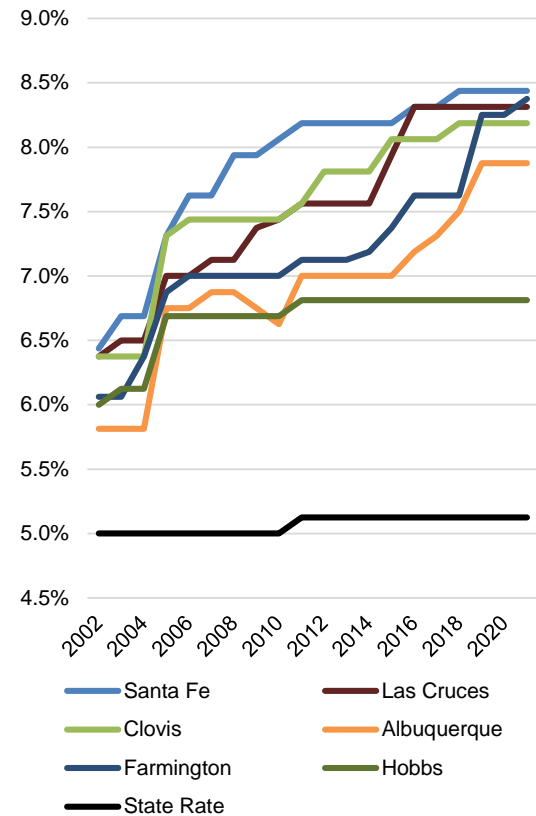
Wages and Salaries Y-o-Y Growth



A gross receipts tax cut and tax rebates in the session could help with business competitiveness and encourage consumption.

- Lower the state gross receipts tax rate by one-quarter of a percent;
- Anti-pyramiding provisions for business-to-business services;
 - Add new industries to those that deduct GRT charged on sales to other businesses;
- One-time working families tax rebate;
- Additional municipalities excluded from the hold harmless phase-out (those with population between 10-25 thousand);
- Limit local government GRT rate increases for five-years to prevent tax increases from offsetting the state rate reduction.

Selected Cities Combined Gross Receipts Tax Rate History



Source: New Mexico Tax Research Institute, TRD



THE FY23 STATE BUDGET



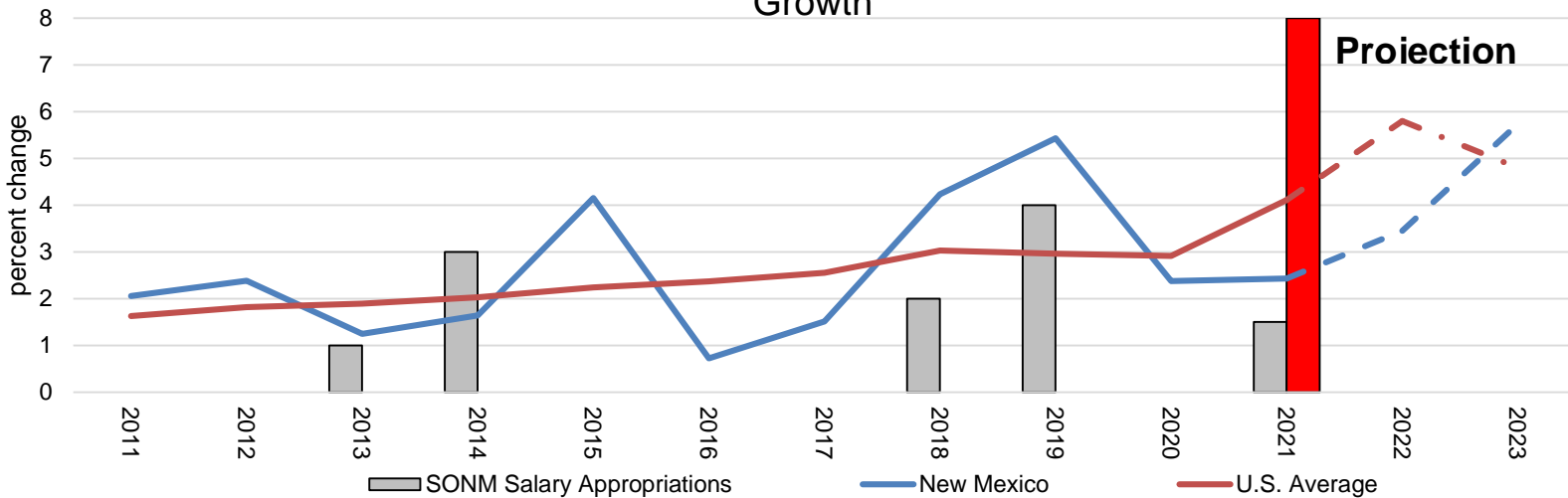
FY23 Agency Budget Requests

- For FY23, state agencies requested an average increase over 20 percent.
 - The requests prioritized hiring and included nearly \$290 million to fill an additional 2.2 thousand positions
 - The additional personnel funding came in addition to the estimated \$90 million in existing surplus funding.
- A number of agencies, including CYFD, the Corrections Department, and the Department of Public Safety requested funding for at least 200 FTE each despite having sufficient funding to fill almost 400 positions.



Salary and Pay Competitiveness

Comparison of Wage Growth
State of New Mexico Appropriated Increases v. NM and US Average Wage Growth



Data on New Mexico and U.S. Average wage increases from BBER and reflects BBER projections for 2022-2026. SONM salary appropriations in 2022 and 2023 based on LFC recommendations for FY23.

Source: LFC Files

Salaries paid by the State of New Mexico (SONM) have not kept pace with the U.S. or New Mexico average growth. Projections indicate accelerating wage growth in 2022 and 2023.



FY23 LFC Recurring Recommendation

- Economists project a 21%, or about \$1.6 billion, increase in “New Money” for FY23 (Projected Revenue minus Current Appropriations).
- Of the 21%, the LFC recommendation would spend less than 14%, about \$1 billion, **but of that amount:**
 - 8%, or more than half, goes to replace the use of one-time nonrecurring spending in agency recurring budgets, including replacing temporary federal FMAP increases, funding in schools’ SEG, fund FY22 raises in FY23 budget, other replacement of one-time funding like the use of consumer settlement funds and state engineer trust funds, and other unfunded liabilities like ERB.
 - 3% goes towards FY23 compensation increases, including additional targeted increases in agency budgets for state police, teachers, district attorneys and judges.
 - The remaining 3% is for increases in agency costs, evidence-based (proven to work through rigorous research) programs in education, health and human services and criminal justice agencies, or for expansion of other committee priorities, such as the DD waiver.
- The remaining \$583 million of new money is unspent and available for tax cuts and to keep reserves at 30 percent.



FY23 LFC Nonrecurring Recommendation

- The LFC recommendation includes one-time general fund and other investments totaling over \$2.4 billion, including full use of American Rescue Plan Act (ARPA) state relief funds and about \$180 million in public school reform funds. Virtually all the special session spending of ARPA is contained in the LFC recommendation.
- Major investments include:
 - Almost \$500 million in transportation upgrades, including major projects.
 - Almost \$650 million in economic development related investment.
 - \$115 million in water infrastructure upgrades.
 - \$158 million in rural jobs, natural resources and quality of life improvements.
 - \$418 million to improve college completion and meet workforce needs for critical services, including behavioral health and education.
 - \$74 million, plus anticipated federal matching funds, for costs related to COVID-19, including support for hospitals and nurse staffing assistance.
 - \$420 million for other special appropriations, including \$30 million to stabilize medical malpractice rates for doctors.



NON-RECURRING REVENUES AND CAPITAL OUTLAY



Outstanding Capital Outlay Projects

- As of October 2021, the total outstanding capital outlay funds total approximately \$2.3 billion.
- This total includes 3,663 projects authorized in previous years (\$1.8 billion) and supplemental severance tax bonds (SSTB) for public school capital outlay (\$569 million).

**Outstanding Capital
Projects by Year**
(in millions)

Year	Projects	Amount Unexpended
2018	275	\$ 117.5
2019	871	\$ 394.0
2020	1,148	\$ 610.4
2021	1,358	\$ 650.1
Total	3652	\$ 1,772.0

Note: Chart does not include 11 projects (\$4.3 million) from 2016 and 2017. An additional \$569 million for public school capital outlay remains unspent.

Source: LFC Files



Sources of Nonrecurring and Infrastructure Funds

- Coordinating funding sources and projects is critical to optimizing infrastructure impacts.
- In addition to the tables below, competitive federal grants will be available for application, including bridges (\$12.5 billion), electric grid upgrades (\$5 billion), orphaned well remediation (\$1.5 billion), and “middle-mile broadband” (\$1 billion).

Sources of Nonrecurring Funds	
State Sources	
Nonrecurring General Fund	~ \$1 billion
Bonding Capacity	
Severance Tax Bonds (STB)	\$663.5 million
Earmarked Funds (WTB, CIF, TIF)	\$152.4 million
Supplimental STB	\$267.1 million
General Obligation Bonds	\$259.7 million
Total Bonding Capacity	~\$1.3 billion
Federal Sources	
America Rescue Plan Act (ARPA)	~\$1 billion
ARPA Capital Fund	\$133.1 million

Estimated New Mexico Allocations in the Federal Infrastructure Investment and Jobs Act (in millions)

Spending Area	Estimated NM Allocation Over ~5 years
Roads, bridges, and major projects	\$2,725
Public transit	\$372
Airports	\$90
Electric vehicles	\$38
Power infrastructure	\$38
Broadband	\$100
Water infrastructure	\$355
Wildfires	\$38
Cybersecurity	\$13
Estimated Total	\$3,769

Source: US Chamber of Commerce, White House, and FFIS



2022 Large Capital Requests

- Department of Transportation major investment projects, local roads, and rest stops (\$450 million)
- New Mexico State Veterans Home new facilities (\$60 million)
- Public Safety Radio Statewide (\$26.2 million)
- Department of Public Safety ABQ Metro project (\$21 million)
- Mortgage Finance Authority Housing Trust Fund (\$12 million)
- University of New Mexico Center for Collaborative Arts & Technology (\$45 million)
- University of New Mexico Health Science Center Children Psych Center Replacement (\$40 million)
- New Mexico State University College of Engineering replacement (\$25 million) and Health and Education replacement and expansion (\$17 million)
- Senior Centers statewide (\$22.5 million)



THANK YOU

