



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

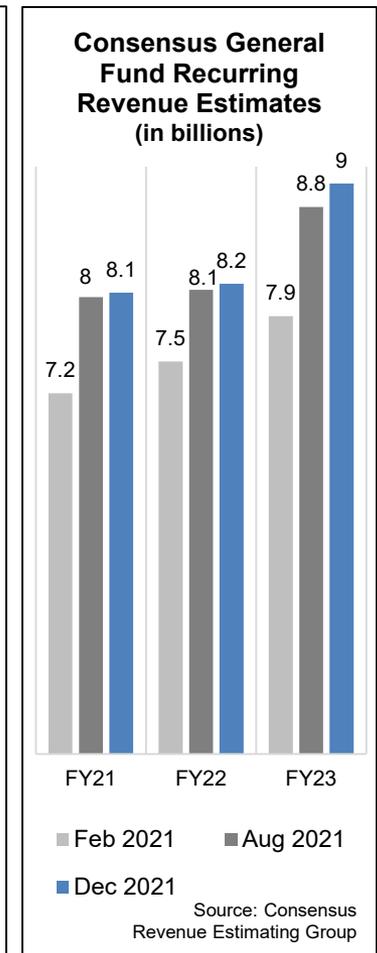
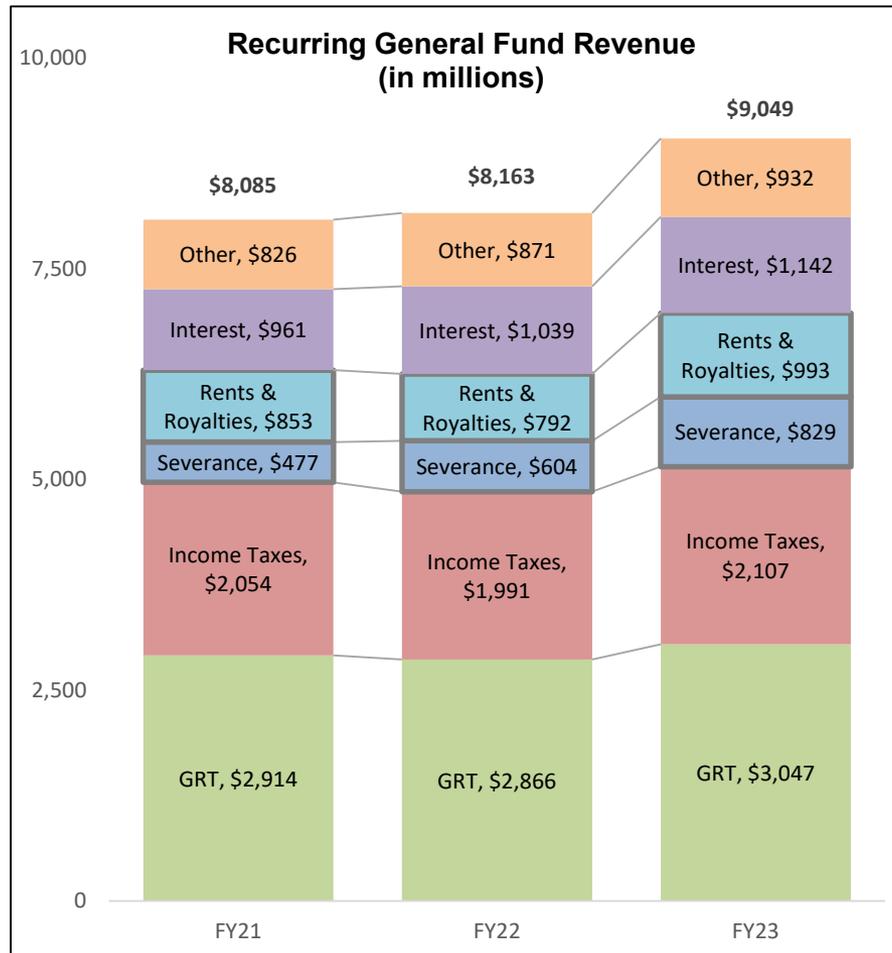
# Post-Session Fiscal Report

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Presented to the  
Revenue Stabilization and Tax Policy Committee  
May 13, 2022

# Continued recovery, soaring oil prices, and wage increases led to a record-high revenue forecast in December 2021.

- Recurring revenues were projected to increase 1% and 10.9% Y-o-Y in FY22 and FY23
- Oil and gas revenues accounted for 20% of projected general fund increases in FY22 and 60% in FY23
- “New Money” – FY23 recurring revenue less FY22 recurring appropriations –projected at \$1.599 billion, or 21.5% growth
- FY21 ending reserve balance of \$2.5 billion, or 35.4 percent



Lawmakers increased recurring budgets by 14 percent to \$8.46 billion. The 2022 sessions also included over \$2 billion of nonrecurring appropriations.

2022 GAA - General Fund Recurring Appropriations (in millions)		
	Amount	Y-o-Y Growth
Legislative	\$24.1	10.0%
Judicial	\$345.2	5.3%
General Control	\$166.4	4.8%
Commerce, Industry	\$77.1	17.6%
Agriculture, Energy and Natural Resources	\$91.0	15.1%
Medicaid	\$1,283.7	24.4%
Other Health, Hospitals and Human Services	\$1,017.9	7.5%
Public Safety	\$491.5	3.1%
Other Education	\$56.7	62.0%
Higher Education	\$939.1	5.0%
Public School Support	\$3,812.9	11.8%
Recurring Compensation (excl. public education)	\$178.6	32376.0%
<b>Total Recurring</b>	<b>\$8,484.3</b>	<b>13.9%</b>

2021 HB2 Special Session, 2022 HB2 Regular Session, and 2022 GOB/STB Nonrecurring Appropriations (in millions)							
Agency Name	2021 Special Session From ARPA State Relief	2022 Regular Session GF Final	Regular Session State Fiscal Recovery Funds	Regular Session OSF Final	2022 GOB/STB	Total HB2/GOB/STB Regular Session Final	Total Special Session and Regular Session
Transportation	\$172.5	\$371.5	\$20.0	\$0	\$0	\$391.5	<b>\$955.5</b>
Economic Development	\$15.0	\$100.0	\$20.0	\$70.0	\$14.0	\$204.0	<b>\$423.0</b>
Rural Jobs and Natural Resources	\$13.5	\$72.0	\$66.8	\$0	\$49.1	\$187.9	<b>\$389.3</b>
Quality of Life and Other	\$30.0	\$5.0	\$53.0	\$0	\$127.4	\$185.41	<b>\$400.8</b>
Post Pandemic Workforce Development	\$17.0	\$0	\$328.0	\$25.0	\$20.0	\$373.0	<b>\$763.0</b>
Respond to Covid-19 Related Costs and Improve Healthcare	\$95.0	\$48.6	\$87.4	\$10.0	\$9.7	\$155.7	<b>\$406.4</b>
Other	\$2.4	\$162.3	\$8.5	\$0	\$11.3	\$182.1	<b>\$366.6</b>
<b>Total Nonrecurring</b>	<b>\$345.4</b>	<b>\$759.4</b>	<b>\$583.7</b>	<b>\$105.0</b>	<b>\$231.5</b>	<b>\$1,679.6</b>	<b>\$3,704.6</b>



**FY23 Budget Increases Related to Climate Change, Energy, and Natural Resources  
Recurring and Nonrecurring Funds**

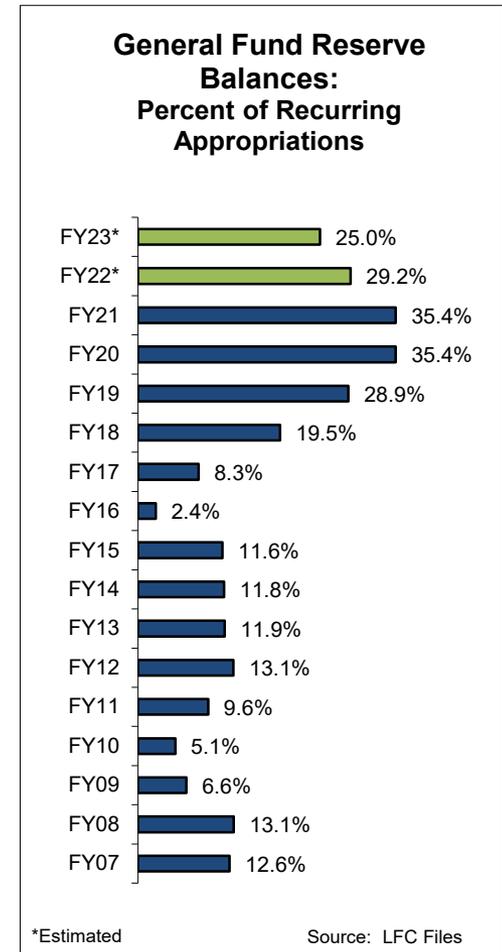
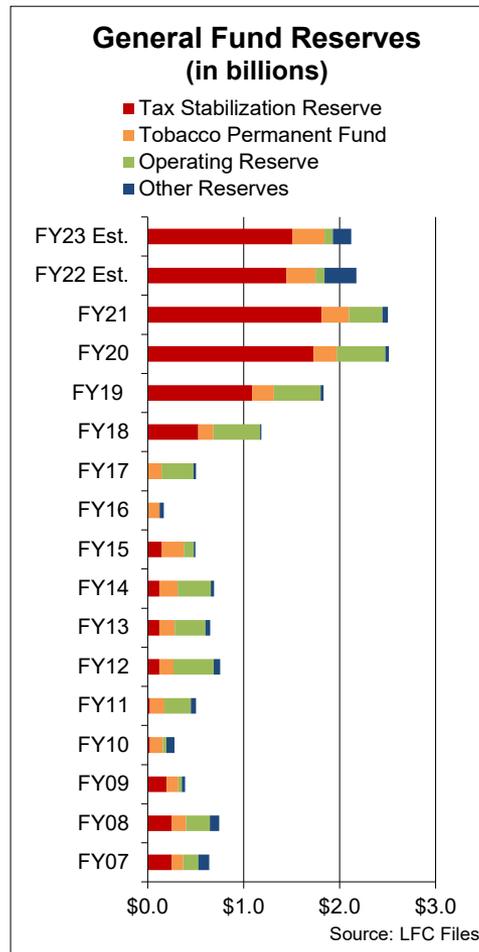
<b>Program / Purpose / Initiative</b>	<b>Budget Increases in 2021 2nd Special Session and 2022 Regular Session</b>	<b>Recurring or Non-Recurring</b>
	dollar amount, in thousands	
<b>Climate Change Resilience and Mitigation</b>		
Drought mitigation and planning	\$ 30,300.0	NR
Surface and ground water measurement, river channel improvements	\$ 4,100.0	NR
Recruitment and retention for water management and conservation, hydrologic data collection and modeling, compact and environmental compliance, and drought planning staff	\$ 1,283.6	R
Weather stations	\$ 1,000.0	NR
Development of a 50-year water plan and implementation of the Water Data Act (OSE)	\$ 850.0	NR
Climate Change Bureau (NMED)	\$ 650.0	R
Oil and gas regulatory compliance, including new methane rule	\$ 450.0	R
Addressing ozone pollution	\$ 450.0	NR
Office of Regulatory Affairs (EMNRD): strategic climate planning and regulatory engagement	\$ 400.0	R
Climate and drought resilience staff	\$ 310.0	R
Climate Bureau Chief (EMNRD)	\$ 150.0	R
Reforestation, seed collection, endangered plants staff	\$ 140.5	R
<b>Subtotal</b>	<b>\$ 40,084.1</b>	
<b>Land, Water, and Wildlife Conservation/Remediation; Outdoor Recreation and Public Lands Access</b>		
Forest and watershed treatment and restoration, wildfire prevention and readiness	\$ 35,000.0	NR
State park improvements to land and water/wastewater infrastructure	\$ 20,000.0	NR
Land and wildlife conservation, habitat restoration and improvement, and increased public access to outdoor spaces	\$ 24,850.0	NR
River Stewardships Program: improvement of surface water quality and river habitats	\$ 11,500.0	NR
Outdoor recreation and outdoor equity grants	\$ 10,000.0	NR
Eastern New Mexico Rural Water System	\$ 30,000.0	NR
Statewide dam rehabilitation	\$ 17,000.0	NR
Clean-up New Mexico Roadway Beautification Program (litter pickup)	\$ 10,000.0	NR
Soil and water conservation districts	\$ 3,000.0	NR
Acequia planning, engineering, design, construction, and repair	\$ 5,000.0	NR
Planning and implementation of abandoned oil and gas well reclamation	\$ 3,500.0	NR
Natural resource protection and land conservation in state parks	\$ 3,022.4	R
Repairs and renovations at agricultural science centers	\$ 2,000.0	NR
River habitat restoration for endangered species	\$ 1,500.0	NR
State park improvements to water/wastewater infrastructure	\$ 468.0	NR
Watershed and wetland restoration/protection (federal grant match)	\$ 750.0	R
Contractual services for abandoned oil and gas well reclamation	\$ 646.7	R
Coal mine regulation and reclamation	\$ 560.7	R
Initiatives that protect the public from emerging contaminants such as PFAS	\$ 525.0	NR
Pursuit of natural resource injury claims	\$ 500.0	NR
Strategic water reserve and Endangered Species Act compliance	\$ 500.0	NR
Reclamation/remediation of state trust land, enforcement of contractual cleanup requirements	\$ 473.3	R
Superfund and uranium mine site cleanup	\$ 400.0	NR
Natural resources damage assessment staff	\$ 195.7	R
Outdoor recreation program staff	\$ 176.0	R
<b>Subtotal</b>	<b>\$ 181,567.8</b>	
<b>Clean Energy and Energy Efficiency</b>		
Affordable housing weatherization and energy-efficient improvements for low-income households	\$ 22,000.0	NR
Community energy efficiency block grant program for underserved communities	\$ 10,000.0	NR
Construction of electric vehicle charging stations	\$ 10,000.0	NR
Emissions reduction planning, grid modernization roadmap, and economic energy diversification	\$ 200.0	R
Energy Conservation Deputy Director (EMNRD)	\$ 150.0	R
<b>Subtotal</b>	<b>\$ 42,350.0</b>	
<b>Grand Total</b>	<b>\$ 264,001.9</b>	
<b>Recurring Total</b>	<b>\$ 9,558.9</b>	
<b>Nonrecurring Total</b>	<b>\$ 254,443.0</b>	

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 sessions, general fund reserve balances were projected to end FY22 at \$2.18 billion and to end FY23 at \$2.12 billion.

General Fund Reserve Balance Projections (in millions)		
Reserve Fund	FY22	FY23
Operating Reserve	\$93.1	\$87.2
Appropriation Contingency Fund	\$322.5	\$179.5
State Support Reserve	\$10.4	\$10.4
Tobacco Settlement Permanent Fund	\$301.0	\$333.8
Tax Stabilization Reserve	\$1,448.1	\$1,510.2
<b>Total Balances</b>	<b>\$2,175.1</b>	<b>\$2,121.1</b>

Source: LFC Post-Session Report, April 2022



New Mexico has received over \$26 billion in federal funds, including direct payments to individuals, support to businesses, and funding to state and local governments.

Federal Stimulus  
Funding by Category  
to All New Mexico  
Governments,  
Businesses,  
Individuals, and Other  
Entities  
as of March 22, 2022  
(in thousands)

Category	ARPA	CARES Act	CRSSA	Other Acts	Total
Direct Payments to Individuals	\$2,594,329	\$1,787,812	\$939,252	\$439,843	\$5,761,235
Business Support	\$74,489	\$5,087,377	\$0	\$0	\$5,161,866
Additional Unemployment Benefits	\$275	\$3,311,876	\$650	\$233,000	\$3,545,801
State General	\$1,751,543	\$1,250,000	\$0	\$0	\$3,001,543
Local General	\$704,730	\$1,897,800	\$0	\$0	\$2,602,530
K-12	\$1,018,675	\$130,837	\$463,069	\$0	\$1,612,581
Healthcare Providers	\$79,224	\$633,895	\$2,488	\$1,176	\$716,783
Housing and Rental Assistance	\$269,237	\$71,656	\$205,061	\$0	\$545,954
Higher Education	\$244,927	\$75,316	\$120,661	\$0	\$440,904
Childcare and Early Ed	\$324,463	\$29,443	\$82,158	\$0	\$436,065
Covid Testing And Vaccination	\$183,365	\$8,632	\$140,299	\$86,071	\$418,368
Airports, Roads and Other Transportation	\$79,364	\$158,846	\$105,036	\$0	\$343,246
Medicaid FMAP	\$0	\$0	\$0	\$655,078	\$655,078
Food Assistance	\$18,344	\$215,829	\$10,172	\$17,807	\$262,151
State Capital	\$133,067	\$0	\$0	\$0	\$133,067
FEMA	\$124,962	\$1,486	\$0	\$0	\$126,448
DOH: Other	\$30,795	\$6,355	\$47,940	\$10,783	\$95,873
Broadband	\$51,874	\$0	\$0	\$0	\$51,874
Substance Use / Mental Health Grants	\$16,999	\$2,000	\$30,188	\$0	\$49,186
Econ. Development	\$11,223	\$20,640	\$0	\$0	\$31,863
Older Americans Support	\$12,570	\$6,585	\$1,866	\$1,556	\$22,576
Head Start	\$8,306	\$6,192	\$2,064	\$0	\$16,562
UI Admin and Reemployment	\$1,228	\$6,645	\$0	\$5,263	\$13,136
Justice and Courts	\$0	\$9,451	\$117	\$0	\$9,568
Abuse and Violence Prevention	\$7,522	\$610	\$798	\$0	\$8,929
Museum, Arts and Library Supports	\$5,501	\$1,325	\$0	\$0	\$6,826
Income Supports for TANF Recept.	\$6,385	\$0	\$0	\$0	\$6,385
Election Support	\$0	\$3,890	\$0	\$0	\$3,890
UNM HSC other	\$2,281	\$191	\$0	\$0	\$2,472
Foster Care Supports	\$0	\$0	\$2,147	\$0	\$2,147
<b>Grand Total</b>	<b>\$7,755,677</b>	<b>\$14,724,687</b>	<b>\$2,153,966</b>	<b>\$1,450,577</b>	<b>\$26,084,907</b>



Source: Federal Funds Information for States

**General Fund Financial Summary:**  
**2022 Regular and Special Legislative Session**  
(millions of dollars)

	<b>Audited FY2021</b>	<b>Estimate FY2022</b>	<b>Estimate FY2023</b>
<b><u>APPROPRIATION ACCOUNT</u></b>			
<b>REVENUE</b>			
Recurring Revenue			
August 2021 Consensus Revenue Forecast	\$ 8,045.7	\$ 8,108.6	\$ 8,841.7
December 2021 Consensus Revenue Update	\$ 39.4	\$ 54.4	\$ 207.4
2022 Recurring Revenue Legislation Scenario	\$ -	\$ -	\$ (203.7)
Total Recurring Revenue	\$ 8,085.1	\$ 8,163.1	\$ 8,845.4
<i>Percent Change in Recurring Revenue</i>	<i>2.9%</i>	<i>1.0%</i>	<i>8.4%</i>
Nonrecurring Revenue			
Federal Stimulus Funds	\$ 750.0	\$ 1,069.2	\$ -
2021 Nonrecurring Revenue Legislation (post-veto)	\$ (148.8)	\$ (8.2)	\$ -
August 2021 Consensus Revenue Forecast	\$ 82.6	\$ -	\$ -
December 2021 Consensus Revenue Update	\$ 32.0		
2022 Nonrecurring Revenue Legislation Scenario		\$ (338.7)	\$ (664.2)
Total Nonrecurring Revenue	\$ 715.8	\$ 722.3	\$ (664.2)
<b>TOTAL REVENUE</b>	<b>\$ 8,801.0</b>	<b>\$ 8,885.3</b>	<b>\$ 8,181.2</b>
<b>APPROPRIATIONS</b>			
Recurring Appropriations			
2020 Regular Session Legislation & Feed Bill	\$ 7,621.4	\$ -	
2020 Special Session Solvency Savings <sup>1</sup>	\$ (411.9)	\$ -	
2021 Regular and Special Sessions Legislation & Feed Bill (pre-veto)	\$ 10.0	\$ 7,449.7	
2022 Regular Session Recurring Legislation & Feed Bill	\$ -	\$ 7.6	\$ 8,484.3
Total Recurring Appropriations	\$ 7,219.5	\$ 7,457.3	\$ 8,484.3
2020 Special Session Federal Funds Swaps	\$ (146.6)		
Total Operating Budget	\$ 7,072.9	\$ 7,457.3	\$ 8,484.3
Nonrecurring Appropriations			
2020 Session Nonrecurring Appropriations & Legislation	\$ 320.0	\$ -	
2020 First Special Session Solvency Savings <sup>1</sup>	\$ (20.0)	\$ -	
2020 Second Special Session Appropriations	\$ 329.2	\$ -	
2021 Regular and Special Session ARPA Appropriations (post-veto)	\$ 931.0	\$ 346.1	
2022 Regular Session ARPA Related Nonrecurring	\$ -	\$ 448.7	\$ 135.0
2022 Regular Session Nonrecurring	\$ -	\$ 1,056.7	\$ 100.0
Total Nonrecurring Appropriations	\$ 1,560.2	\$ 1,851.5	\$ 235.0
Subtotal Recurring and Nonrecurring Appropriations	\$ 8,633.1	\$ 9,308.9	\$ 8,719.3
<b>Audit Adjustments</b>			
2021 GAA Audit Adjustment	\$ 11.5		
2020 GAA Undistributed Nonrecurring Appropriations <sup>2</sup>	\$ 259.5		
2019 GAA Undistributed Nonrecurring Appropriations <sup>3</sup>			
<b>TOTAL APPROPRIATIONS</b>	<b>\$ 8,904.1</b>	<b>\$ 9,308.9</b>	<b>\$ 8,719.3</b>
Transfer to (from) Operating Reserves	\$ (103.2)	\$ (698.5)	\$ (403.1)
Transfer to (from) Appropriation Contingency Fund		\$ 275.0	\$ (135.0)
<b>TOTAL REVENUE LESS TOTAL APPROPRIATIONS</b>		<b>\$ (423.5)</b>	<b>\$ (538.1)</b>
<b>GENERAL FUND RESERVES</b>			
Beginning Balances	\$ 2,513.5	\$ 2,504.8	\$ 2,175.1
Transfers from (to) Appropriations Account	\$ (103.2)	\$ (698.5)	\$ (403.1)
Revenue and Reversions	\$ 589.0	\$ 2,056.7	\$ 569.1
Appropriations, Expenditures and Transfers Out	\$ (504.5)	\$ (1,687.9)	\$ (220.0)
<b>Ending Balances</b>	<b>\$ 2,504.8</b>	<b>\$ 2,175.1</b>	<b>\$ 2,121.1</b>
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>35.4%</i>	<i>29.2%</i>	<i>25.0%</i>

## General Fund Financial Summary

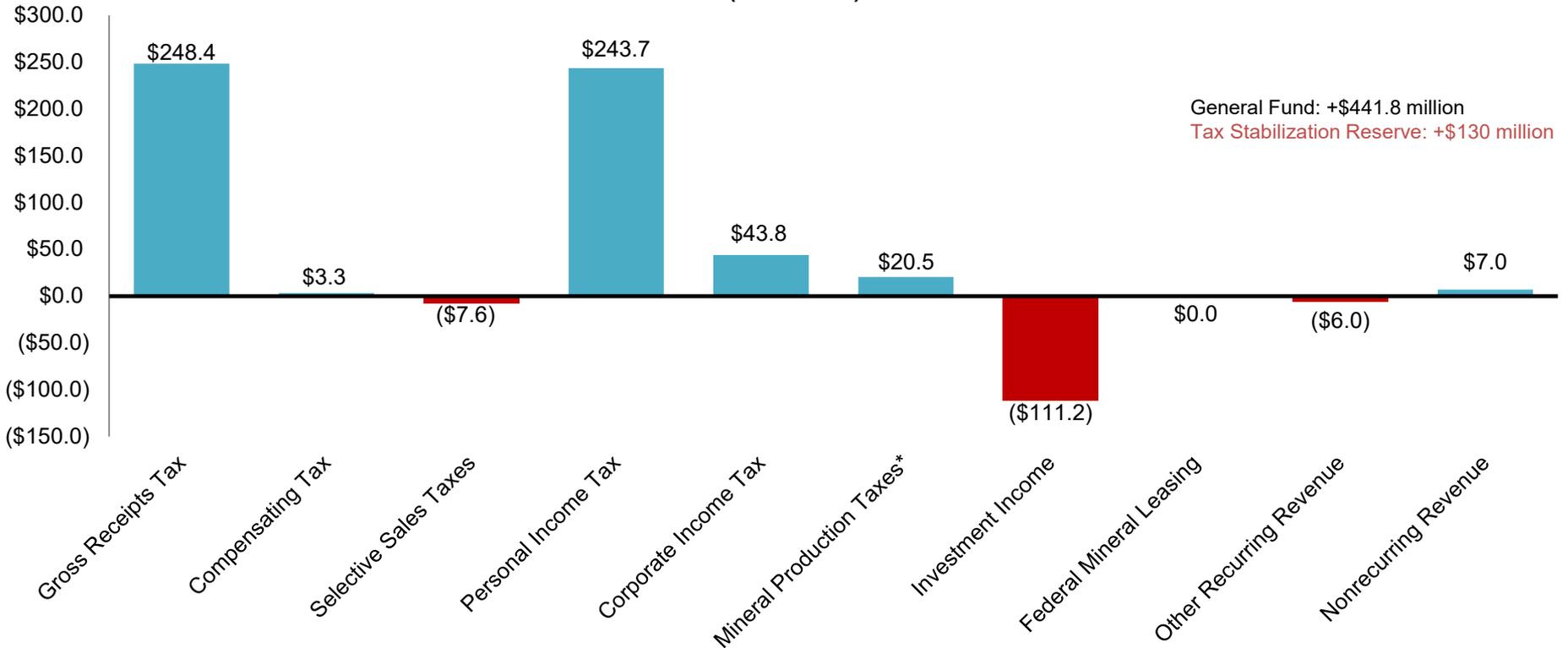
LFC Post-Session Report, April 2022

[https://www.nmlegis.gov/Entity/LFC/Documents/Session\\_Publications/Post\\_Session\\_Fiscal\\_Reviews/April%202022.pdf](https://www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Post_Session_Fiscal_Reviews/April%202022.pdf)



# Revenues are currently tracking about \$442 million above the consensus estimate...

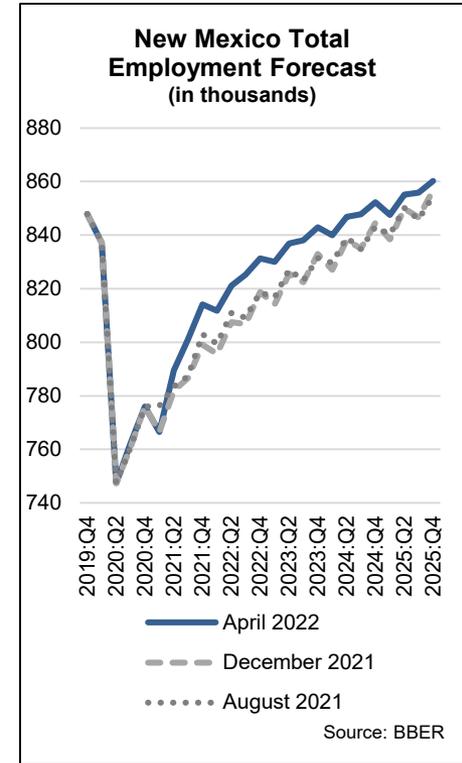
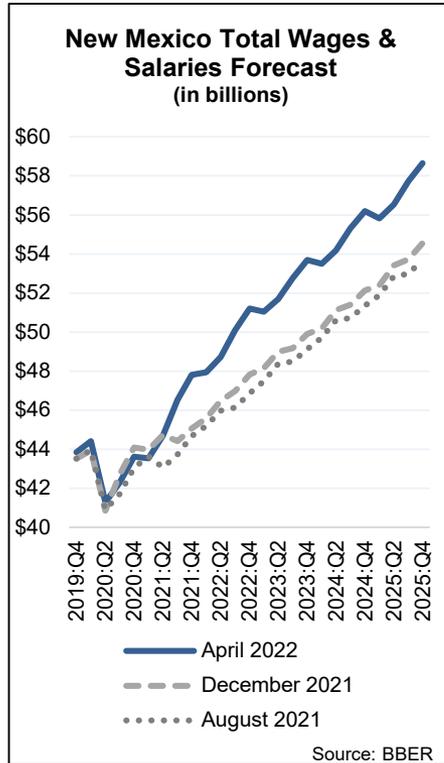
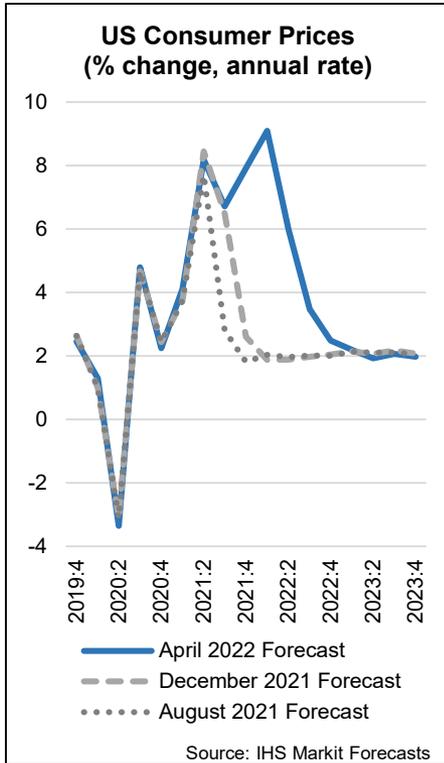
**FY22 General Fund Revenue Tracking vs. Forecast**  
(in millions)



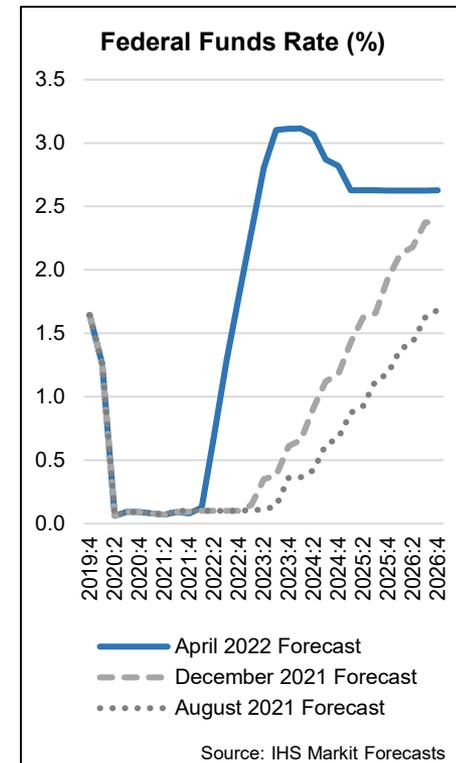
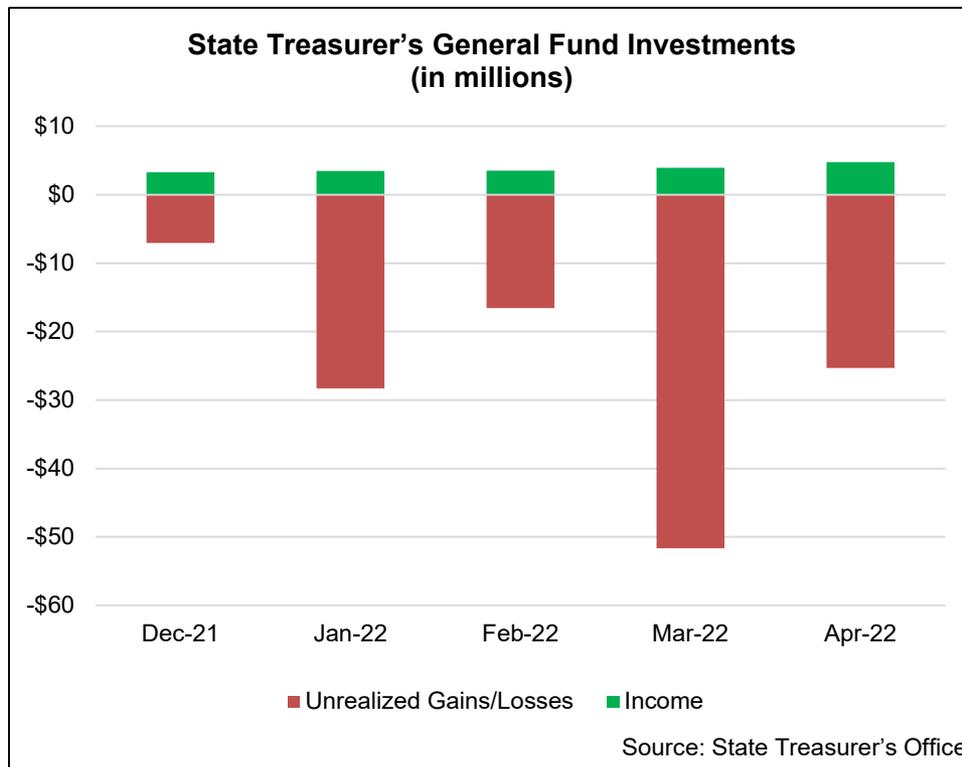
\* Includes excess Oil and Gas Emergency School Tax revenues going to tax stabilization reserve (TSR)

Source: DFA General Fund Report, LFC Files

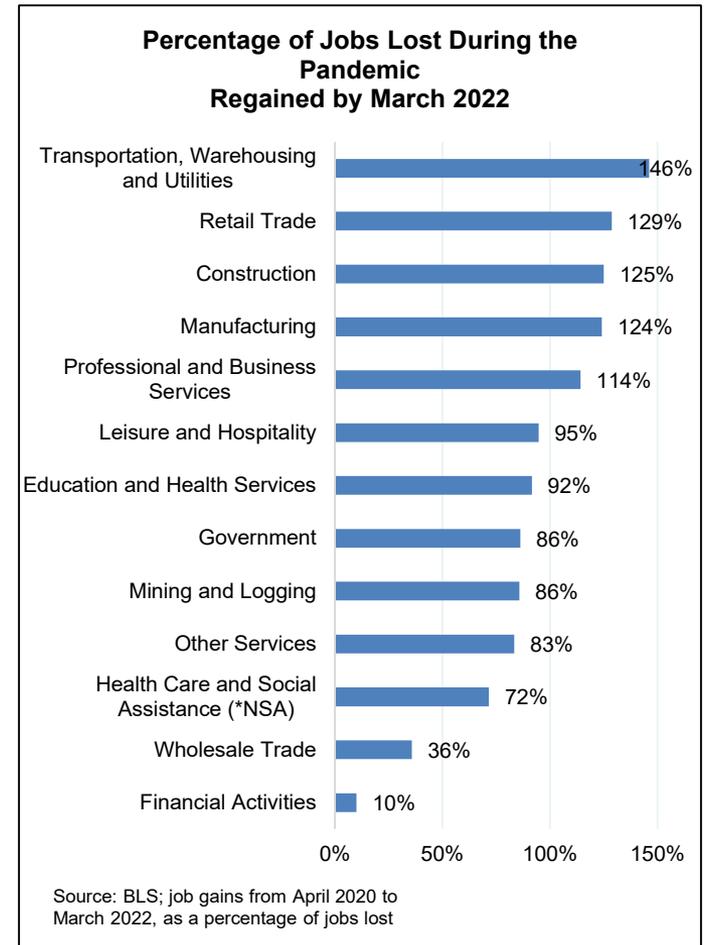
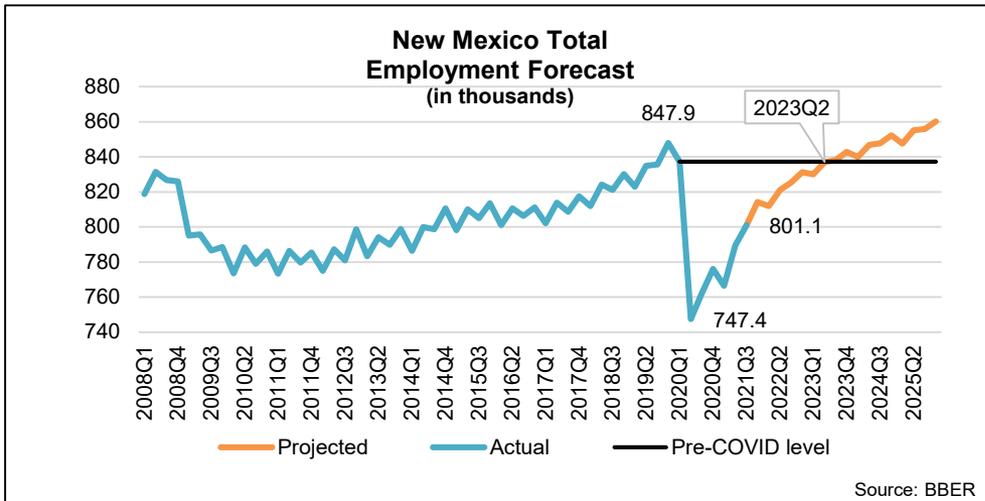
...largely due to unforeseen growth in wages, oil prices and production, inflation, and employment resulting in higher than expected PIT, GRT, and energy-related receipts.



# The State Treasurer's investment accounts are booking large unrealized losses due to the rising interest rate environment.



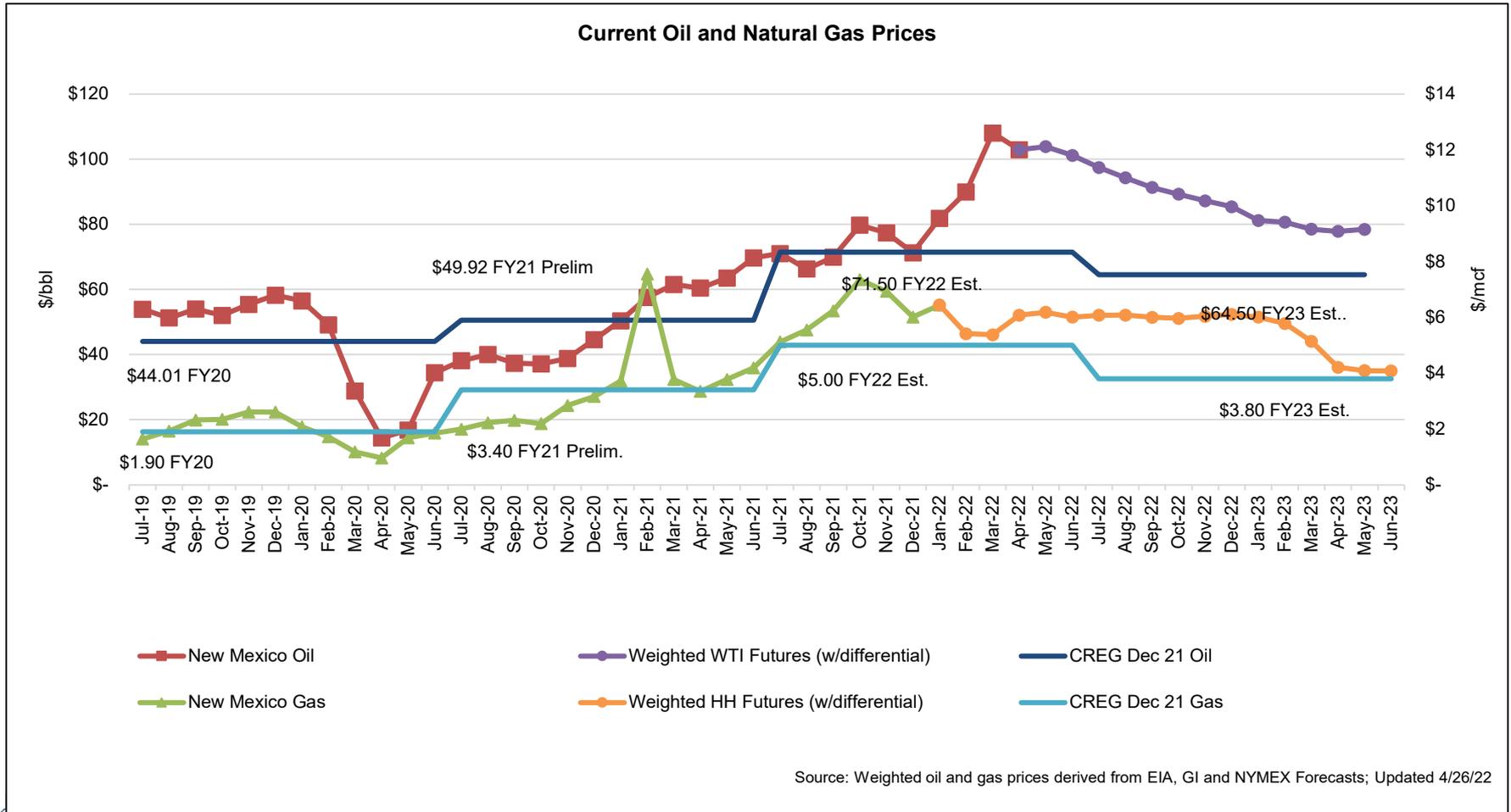
Employment is recovering, but remains 2.3 percent (21.8 thousand jobs) below pre-pandemic levels, and below employment levels in the Great Recession.



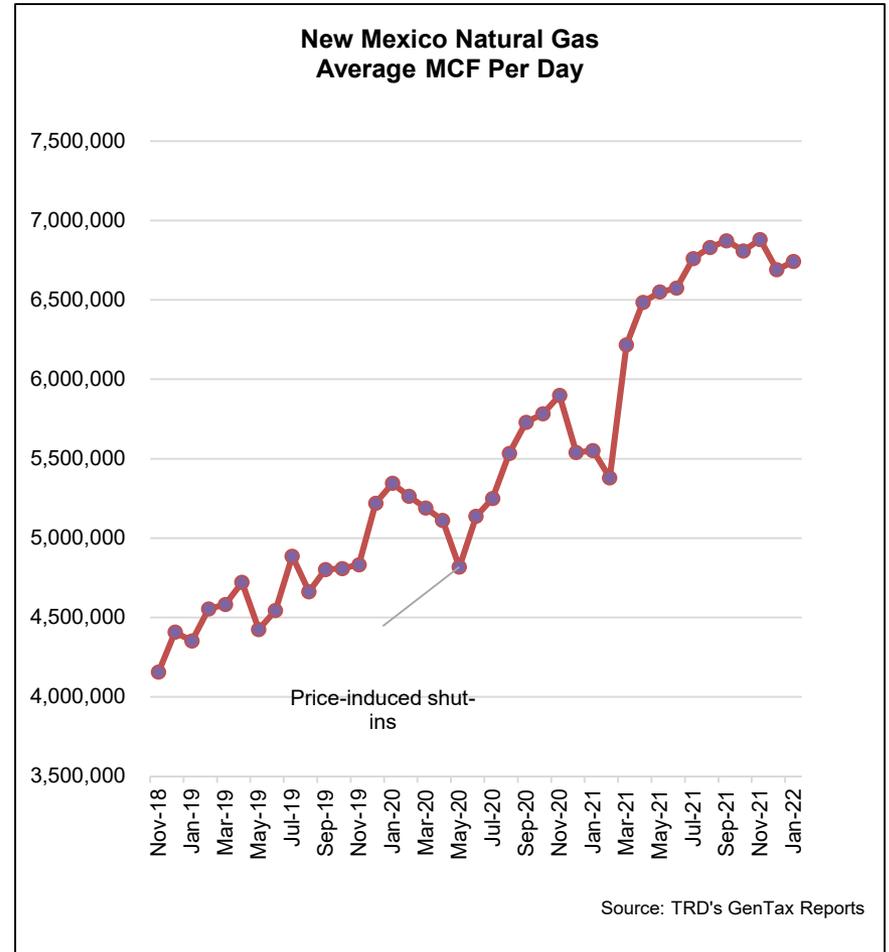
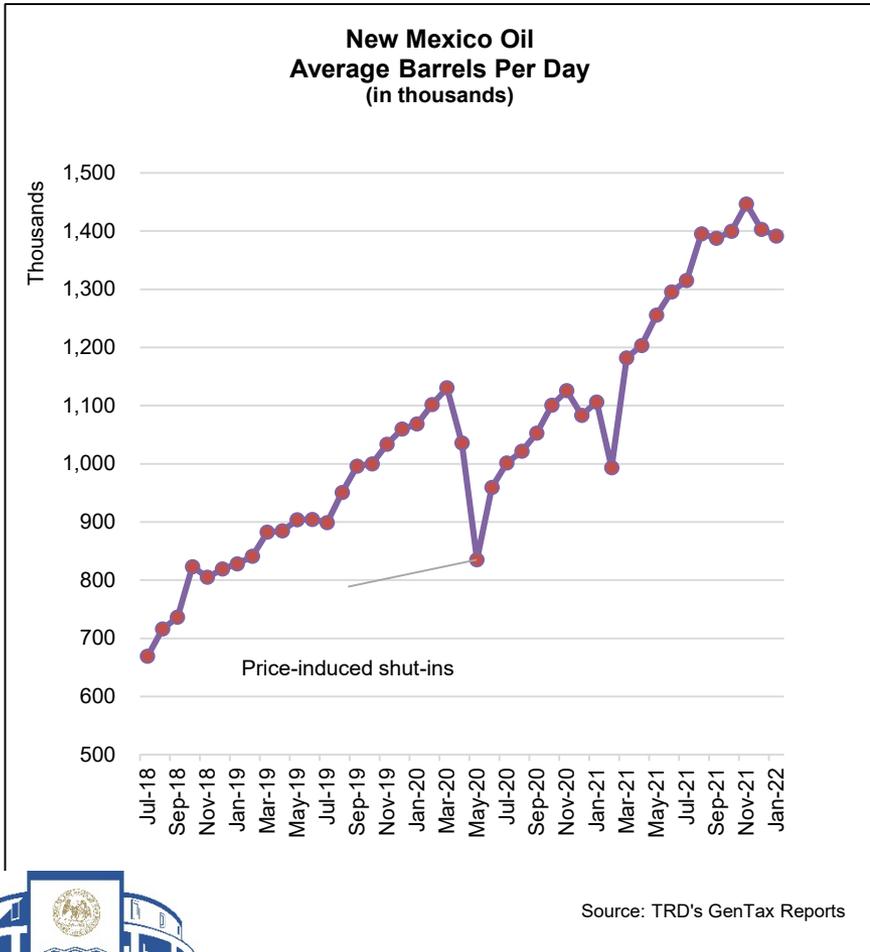
- As of March 2022, the state had regained 79 percent of jobs lost in the pandemic
- New Mexico's unemployment rate in March 2022 was 5.3 percent
- UNM's Bureau of Business and Economic Research estimates the state will not reach pre-pandemic employment levels until mid-2023



# 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 2021 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 an \$30 million impact
  - A \$0.10 change in the annual average NM price of natural gas has about a \$14 million impact
  - Each additional million barrels of oil generates about \$4.3 million
  - Each additional 10 billion cubic feet of natural gas generates about \$3 million



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

# 2022 LEGISLATION AFFECTING REVENUES



# Legislation passed during the 2022 legislative sessions reduced **GRT** recurring revenue by \$109.8 million in FY23, \$214.8 million in FY24, and \$223.9 million in FY25.

Recognizing record-high revenues, the noncompetitive business position New Mexico holds relative to other states, and the fact the gross receipts tax (GRT) rate had not been reduced in 40 years, the Legislature addressed reducing GRT across the board and for specific industries.

- Chapter 47 (House Bill 163) reduced revenues by:
  - \$94.1 million **reducing the state GRT** rate by 1/8<sup>th</sup> (an additional 1/8th reduction is to follow, depending on revenue triggers that could unwind rate cuts, and will cost \$206.2 million by FY26),
  - \$5.6 million for **GRT anti-pyramiding for manufacturers**,
  - \$2.1 million adjusting **food and medical hold harmless** payments to certain municipalities,
  - \$3 million **defining disclosed agents**,
  - \$1.7 million **reducing the compensating tax rate**, and
  - \$1.4 million **eliminating GRT for feminine hygiene products**.

		FY23	FY24	FY25
<b>2022 Regular Session</b>				
HB 8	Land Grant-Merced Assistance Fund	\$ (1.5)	\$ (1.5)	\$ (1.6)
HB 67	Technology Readiness GRT Credit	\$ (0.5)	\$ (2.0)	\$ (2.0)
HB 82	Dialysis Facility GRT Deduction			\$ (1.5)
HB 163	Tax Changes			
	Food and Medical Hold Harmless	\$ (2.1)	\$ (3.5)	\$ (5.0)
	Disclosed Agents	\$ (3.0)	\$ (3.0)	\$ (3.0)
	GRT Rate Cut	\$ (94.1)	\$ (194.1)	\$ (199.9)
	Comp Tax Cut	\$ (1.7)	\$ (3.4)	\$ (3.4)
	B to B Manufacturers	\$ (5.6)	\$ (5.8)	\$ (6.0)
	Feminine Hygiene Products Exemption	\$ (1.4)	\$ (1.5)	\$ (1.5)
<b>TOTAL GRT</b>		<b>\$ (109.8)</b>	<b>\$ (214.8)</b>	<b>\$ (223.9)</b>

- Chapter 32 (House Bill 8) creates the **land grant-merced assistance fund** and makes \$1.5 million distributions to qualified land grants-mercedes from the GRT starting in FY23.
- Chapter 45 (House Bill 67) extends the **technology readiness GRT credit** sunset to July 1, 2032, and eliminates the fund used to pay for the credit in favor of a direct GRT credit for claimants.
- Chapter 49 (House Bill 82) explicitly defines **dialysis facilities** as included in the healthcare practitioner GRT deduction and extends the repeal date, resulting in an estimated \$1.5 million reduction in GRT revenues for FY25 and \$1.6 million in FY26.



# The 2022 sessions resulted in large recurring and nonrecurring PIT and CIT revenue reductions.

Chapter 47 (House Bill 163) reduced recurring PIT revenues by:

- \$7.4 million **exempting military retirement** from income tax
- \$84.1 million **exempting social security income** from income tax for individuals with less than \$100 thousand in income and couples with less than \$150 thousand in income
- \$7.2 million extending the **solar building tax credit**
- \$1.9 million for the **New Solar Market Tax Credit**
- \$312 million for a **one-time income tax rebate**
- \$9.4 million for a **one-time tax credit for NM nurses**
- \$74 million for a **child tax credit** beginning in FY24

	FY22		FY23		FY24		FY25	
	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring
<b>2022 Third Special Session</b>								
HB 2 Tax Rebates		\$ (338.7)		\$ (338.7)				
<b>2022 Regular Session</b>								
HB 163 Tax Changes								
Child Credit					\$ (74.0)		\$ (74.7)	
Military Pension Exemption			\$ (7.4)		\$ (13.5)		\$ (17.8)	
Social Security Exemption			\$ (84.1)		\$ (89.4)		\$ (94.4)	
New Solar Market Tax Credit			\$ (1.9)		\$ (1.8)		\$ (2.3)	
Nurses Credit				\$ (9.4)				
2021 Rebate				\$ (312.0)				
SBTC Date Change				\$ (7.2)				
<b>TOTAL PIT/CIT</b>	<b>\$ -</b>	<b>\$ (338.7)</b>	<b>\$ (93.4)</b>	<b>\$ (667.2)</b>	<b>\$ (178.7)</b>	<b>\$ -</b>	<b>\$ (189.2)</b>	<b>\$ -</b>

In addition to Chapter 47, Chapter 2 (House Bill 2, 3rd special session) enacted during the special session in April provides **two temporary PIT rebates** for all resident taxpayers in the state. The estimated loss in general fund revenues due to the rebates is \$677.4 million split across FY22 and FY23, decreasing PIT revenues by an estimated \$338.7 million in each fiscal year.

Total rebate costs amount to \$989.4 million across three rebates in FY22-23.



The Legislature also passed two other measures in the 2022 regular session that reduce general fund revenues.

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In addition to the GRT and PIT/CIT tax changes, the Legislature passed Chapter 48 (House Bill 167) and Chapter 56 (House Bill 68), both of which impact general fund revenues.

- Chapter 48, which allows vehicles purchased on tribal land to reduce their **motor vehicle excise tax** by the amount of GRT paid on the vehicle, will likely cost the state around \$500 thousand to \$900 thousand in motor vehicle excise tax revenue per year.
- Chapter 56, a **comprehensive crime package**, diverts law enforcement protection fund revenue, a fund that previously transferred money to the general fund, to increased distributions to agencies, the peace officers' survivors fund, and the law enforcement retention fund, resulting in a recurring reduction in general fund revenue of \$13.8 million in FY24, \$15.3 million in FY25, and \$17 million in FY26.

Legislation passed during the 2022 regular and special session reduced recurring general fund revenue by \$203.7 million in FY23, \$408.1 million in FY24, and \$429.3 million in FY25. An additional nonrecurring revenue loss of \$338.7 million and \$664.2 million is estimated in FY22 and FY23, respectively.

**Revenue Impacts: 2022 Legislative Sessions**  
(in millions of dollars)

	FY22		FY23		FY24		FY25	
	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring
<b><u>2022 Third Special Session:</u></b>								
<i>Ch. 2</i> HB 2 Tax Rebates	\$	(338.7)	\$	(338.7)				
<b><u>2022 Regular Session:</u></b>								
<i>Ch. 32</i> HB 8 Land Grant-Merced Assistance Fund			\$	(1.5)	\$	(1.5)	\$	(1.6)
<i>Ch. 45</i> HB 67 Technology Readiness Gross Receipts Tax Credit			\$	(0.5)	\$	(2.0)	\$	(2.0)
<i>Ch. 56</i> HB 68 Criminal Code Changes					\$	(14.0)	\$	(15.5)
<i>Ch. 49</i> HB 82 Dialysis Facility Gross Receipts Deduction							\$	(1.5)
<i>Ch. 47</i> HB 163 Tax Changes								
Food and Medical Hold Harmless			\$	(2.1)	\$	(3.5)	\$	(5.0)
Child Credit					\$	(74.0)	\$	(74.7)
Military Pension Exemption			\$	(7.4)	\$	(13.5)	\$	(17.8)
Social Security Exemption			\$	(84.1)	\$	(89.4)	\$	(94.4)
New Solar Market Tax Credit			\$	(1.9)	\$	(1.8)	\$	(2.3)
Disclosed Agents			\$	(3.0)	\$	(3.0)	\$	(3.0)
GRT Rate Cut			\$	(94.1)	\$	(194.1)	\$	(199.9)
Comp Tax Cut			\$	(1.7)	\$	(3.4)	\$	(3.4)
B to B Manufacturers			\$	(5.6)	\$	(5.8)	\$	(6.0)
Feminie Hygeine Products Exemption			\$	(1.4)	\$	(1.5)	\$	(1.5)
Nurses Credit				\$	(9.4)			
2021 Rebate				\$	(312.0)			
SBTC Date Change				\$	(7.2)			
<i>Ch. 48</i> HB 167 Tribe & Pueblo Car Excise Tax Credit			\$	(0.5)	\$	(0.6)	\$	(0.7)
<b>TOTAL REVENUE</b>	<b>0.0</b>	<b>(338.7)</b>	<b>(203.7)</b>	<b>(664.2)</b>	<b>(408.1)</b>	<b>0.0</b>	<b>(429.3)</b>	<b>0.0</b>



# OUTLOOK FOR TAX ISSUES

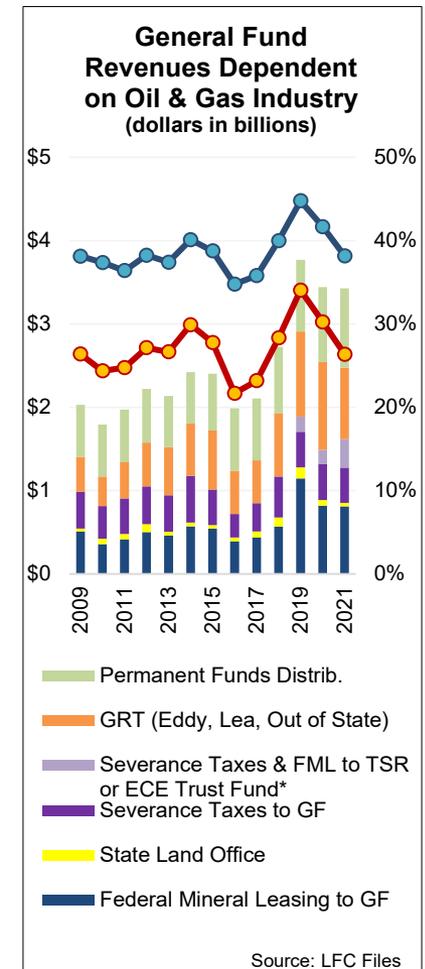


# Outstanding Tax Policy Issues

Despite the significant tax changes made during the session, many state tax issues remain. The state remains highly dependent on volatile revenues, the tax base has been narrowed in recent decades, and old tax structures require modernization.

- The state's strong reliance on the oil and gas industry creates a highly volatile tax structure dependent on the booms and busts of the industry. Strengthening tax stabilization mechanisms should continue to be prioritized in tax reform considerations.
- Tax reform should include a comprehensive review eliminating, capping, or adding sunsets to existing tax expenditures to broaden the tax base and reduce tax rates.
- GRT charged on business-to-business transactions (pyramiding) leads to a higher cost of business in New Mexico compared to other states.
- In addition to broadening the tax base, the base could be better defined to encourage economic development.

As the world transitions away from fossil fuels, the state will likely need to consider viable ways to bring wind, solar, and hydrogen-based energy into its recurring tax base while balancing the taxation of renewable energy with the state's competitiveness for the industry to grow. As new markets are sought for inclusion in the tax base, more study is needed to determine the optimal balance between taxing and recruiting renewable energy production in New Mexico.



New Mexico has over 100 tax expenditures that cost over \$1 billion annually. The state's top ten tax expenditures account for over 75 percent of the total cost.

Expenditure	2021 Cost (in thousands)	2021 Rank
Sale of Food at Retail Food Stores GRT Deduction and Hold Harmless Distribution	442,464	1
DOH-Licensed Hospitals Sixty Percent GRT Deduction	227,147	2
Prescription Drugs and Oxygen GRT and GGRT Deduction	183,000	3
Working Families Credit against PIT	77,954	4
Health Care Practitioner Services GRT Deduction and Hold Harmless Distribution	71,662	5
Capital Gain Deduction From PIT	63,318	6
Nonprofit Organizations Exemption from GRT	50,600	7
Apportionment Election for CIT Manufacturers	42,876	8
Film and Television Credit against PIT and CIT	39,823	9
Low- and Middle-Income Taxpayers Exemption from PIT	20,086	10

Source: TRD 2021 Tax Expenditure Report

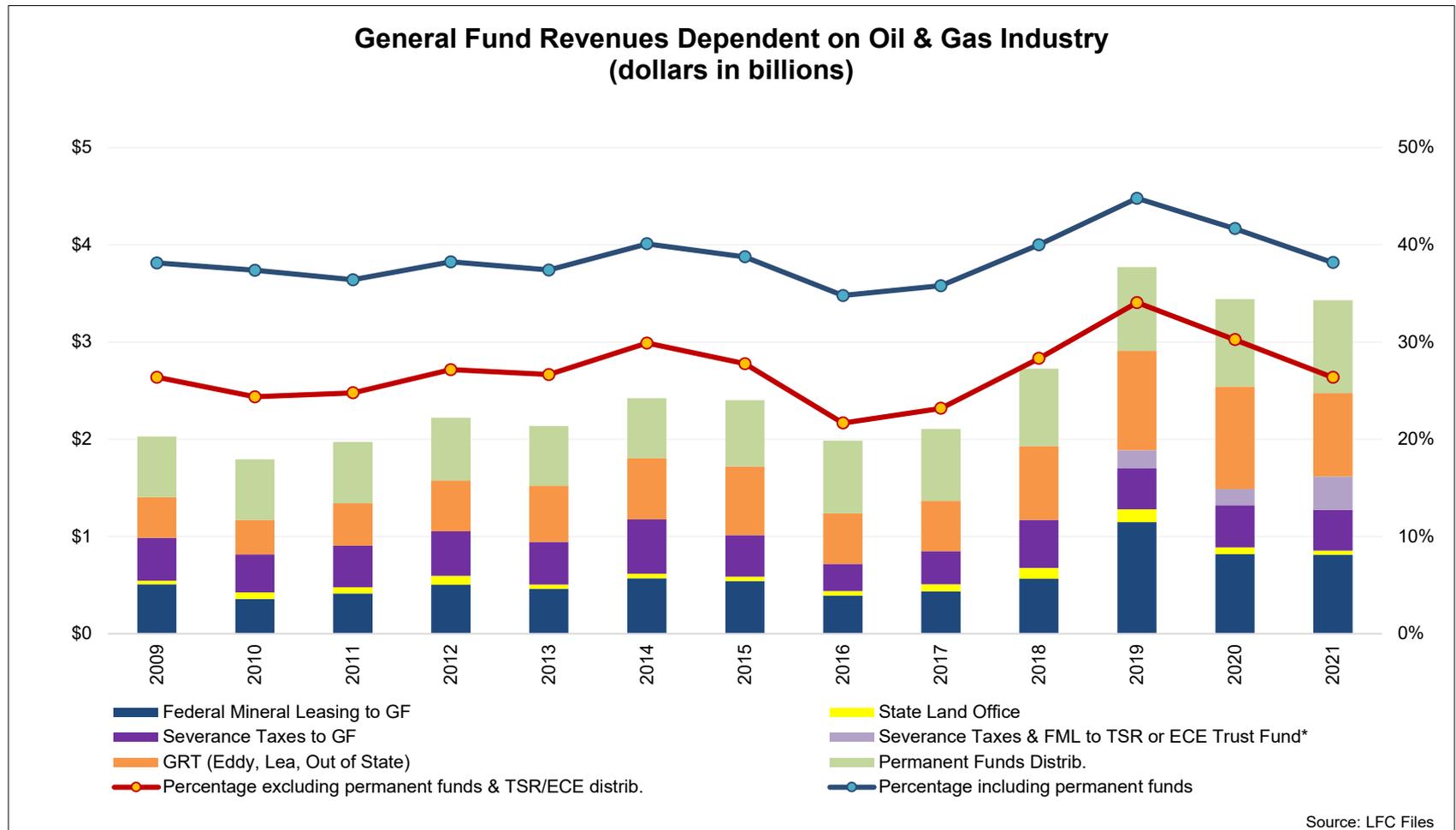
\*The working families tax credit (WFTC) was expanded in the 2019 session at an estimated additional cost of about \$40 million per year. The WFTC was further expanded in the 2021 session at an estimated additional cost of \$25 million/year in FY22 and \$49 million/year in FY24.

\*\*The film tax credit was expanded in the 2019 session and is estimated to reach a cost of \$145 million annually by FY23.

\*\*\*The low-income comprehensive tax rebate was expanded in the 2021 session at an estimated additional cost of \$49 million per year. The current 5-year average cost for LICTR is about \$18 million.

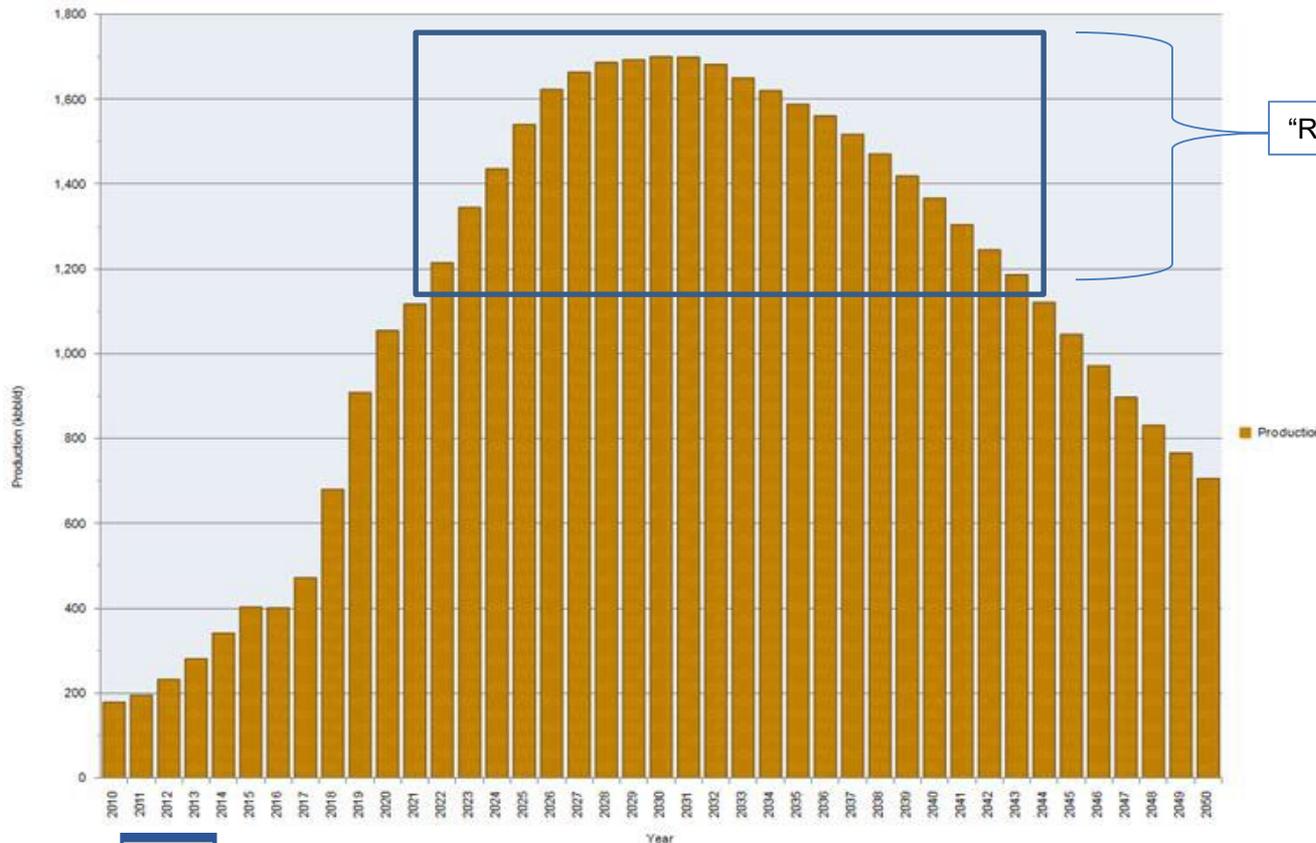


New Mexico's state budget remains heavily dependent on revenues from the oil and gas industry. In FY21, about 38 percent of state revenues are attributable to oil and gas activity.



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”?

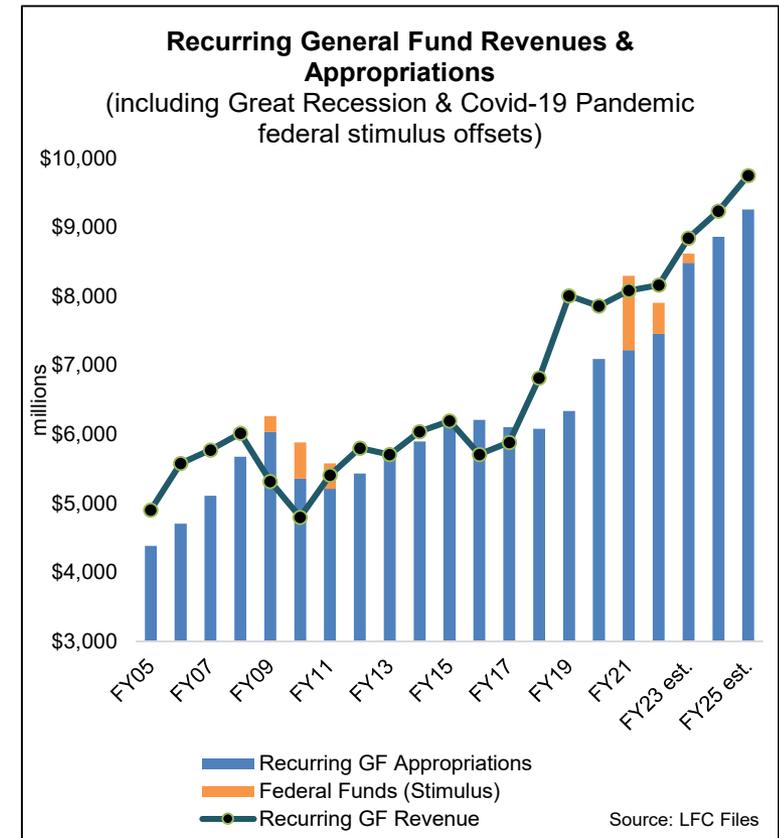
- The state will face tough choices in deciding how to treat general fund revenue growth from oil and gas revenues moving forward, particularly when growing recurring budgets
- Focus on diversifying and stabilizing state revenues



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

# The state's budget needs are expected to grow.

- Base expectations in LFC's general fund appropriation outlook projects recurring budget growth of 14 percent in FY23 and 4.5 percent in FY24 and FY25, pre-adjustment.
  - Assumes public education spending will increase 4.5 percent, other state agency budgets will grow 2.5 percent to 3 percent, and Medicaid expenditures will grow 8 percent.
- The adjustment scenario shows an additional \$266.3 million of recurring budget needs in FY24. Adjustments include replacing federal funds and covering unfunded budget obligations based on 2022 legislation.
  - Funding the Opportunity Scholarship (\$115 million)
  - Replace TANF Fund Balance for Pre-K (\$17 million)
  - Nursing Program Enhancement (\$15 million)
  - Hospital and Nursing Home Costs – ARPA Backfilling (\$18 million)
  - Public Family Income Index (\$15 million)
  - Teacher Residency (\$15.5 million)
  - Additional Increase to ERB Contributions (\$26 million)
  - SB48 Junior Bill (\$26.3 million)



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**QUESTIONS?**

