New Mexico State Government Finances
Legislative Update

Charles Sallee, Director
Overview

- State Government Fiscal Overview
- Appropriations Process & Legislating for Results
- Fiscal Outlook
- Legislative Session Update
State Government Fiscal Overview

OVERVIEW OF NEW MEXICO FINANCES: FY23 OPERATING BUDGET
(in millions of dollars)

OPERATING FUNDS
- Recurring General Fund: $8,404.3
- State Funds 55%
- Federal Funds 45%
- Taxes & Misc. Fees 68.9%
- Interest 10.9%
- Energy 20.2%

INVESTMENTS
- Land Grant Permanent Fund: $24,892
- Total Assets
- Severance Tax Permanent Fund: $6,641
- Total Assets
- State Treasurer Investments: $10,236

DEBT SERVICE
- Severance Taxes: $2,333.5
- Severance Tax Bond Capacity: Net Senior = $1,501.4
- Supplemental = $682.2

Source: LFC Files

1. Investments exclude retirement funds
2. As of October 2022; excludes federal relief funds
3. Includes only state debt service
State Government Fiscal Overview

FY24 Recurring General Fund Appropriations
$9,568.7 (in millions)

- Public Schools: $4,174.7
- Higher Education: $1,212.5
- Medicaid: $1,454.5
- Other Health & Human Services: $1,253.4
- Public Safety: $953.6
- Other: $520.0

Estimated FY24 Recurring Revenues (in millions)

- Sales Taxes: $3,722.1
- Energy: $1,649.9
- Income Taxes: $957.5
- Investments: $3,006.2
- Other: $2,483.6

Source: December 2022
CREG Estimate, post-legis, post-veto
State Government Reserves

- LFC Fiscal Policy has reserve target of 30 percent of recurring spending.
- Many reserve accounts – some transfer money between accounts others receive excess oil and gas revenue.
- Appropriation Contingency fund mainly used for disaster funding, but APRA state relief funding was put there to keep separate from other general fund revenue for accountability.
- Tobacco Settlement Permanent fund is part of overall suite of reserve accounts.

Revenue left in the general fund at the end of the year goes into the operating reserve.

When operating reserves hit 8 percent of appropriations, the excess is transferred to the tax stabilization reserve.

Oil and gas school tax revenues exceeding the five-year average are transferred to the tax stabilization reserve if total reserves are less than 25 percent of spending. If reserves are over 25 percent, the revenue is transferred to the early childhood fund instead.
Appropriations Process

- **May 1:** Agencies submit operating budgets to DFA for fiscal year that will start on July 1.

- **Mid-June:** Department of Finance and Administration sends instructions for submitting budget requests to state agencies.

- **20 Days After Session:** Governor acts on the GAA, vetoing it in whole or in part or signing it into law.
  - If a bill is passed three or more days before the end of a session, the governor must act within three days.

- **Legislative Session:** Legislators consider both recommendations and pass the General Appropriation Act.
  - The session is 30 days in even-numbered years and 40 in odd-numbered years.

- **Substantive Sections of a Typical General Appropriation Act**:
  - Section 4: Recurring appropriations and performance targets for the operation of state agencies, public schools, and higher education institutions.
  - Section 5: Special nonrecurring appropriations.
  - Section 6: Supplemental appropriations for the current fiscal year and for deficiencies from the previous fiscal year.
  - Section 7: Appropriations for significant information systems and language extending or reauthorizing certain projects.
  - Section 8: Compensation for public employees.
  - Section 9: Additional budget adjustment authority for the current year.
  - Section 10: Specific budget adjustment authority for the upcoming year.
  - Section 11: Authority to move money from the general fund to other funds.
  - Section 12: Authority for the Department of Finance and Administration to move funds from reserves in case of a shortfall.
  - Section 13: Severability - authority for the bill to remain in effect even if part of the bill is found invalid.

- **September 1:** Agencies submit budget requests to LEC and DFA.

- **October-December:** LEC holds hearings on budget requests; DFA separately analyzes requests.

- **Early January:** LEC releases its budget recommendation (Volume 2 of its annual report to the Legislature). The governor releases a separate recommendation.
LFC’s *Legislating for Results* Framework: Evidence-Based Policy and Budgeting

- Identify priority areas and performance,
- Review programs and performance,
- Budget development,
- Implementation oversight, and
- Outcome monitoring
Fiscal Outlook: Roller Coasters Aren’t Always Fun
Actual General Fund Roller Coaster

Recurring General Fund Revenue & Appropriation Annual Growth

Source: LFC Files
NM specific forecast of oil and natural gas production falls in line with national expectations

Source: Rystad Energy
The August estimate predicts $3.482 billion in new money for FY25.

<table>
<thead>
<tr>
<th>August 2023 Consensus General Fund Recurring Revenue Estimate (in millions)</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2022 Consensus</td>
<td>$10,774.9</td>
<td>$11,820.3</td>
<td>$12,143.4</td>
</tr>
<tr>
<td>August 2023 Adjustments</td>
<td>$866.2</td>
<td>$790.7</td>
<td>$907.6</td>
</tr>
<tr>
<td><strong>August 2023 Consensus</strong></td>
<td><strong>$11,641.1</strong></td>
<td><strong>$12,611.0</strong></td>
<td><strong>$13,051.0</strong></td>
</tr>
<tr>
<td>Annual amount change</td>
<td>$1,965.8</td>
<td>$969.8</td>
<td>$440.1</td>
</tr>
<tr>
<td>Annual percent change</td>
<td>20.3%</td>
<td>8.3%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>
By June 2023, total employment is up 11.3 thousand jobs, or 1.3 percent, from the pre-pandemic peak. However, labor force participation rate has stalled at low levels.
Oil and gas production continues to power state revenues.

Top Three Oil-Producing States
January 2011 through May 2023
(in thousand of barrels per day)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Oil Price ($/bbl)</td>
<td>$80.50</td>
<td>$74.50</td>
<td>$73.00</td>
</tr>
<tr>
<td>Oil Volume (MMbbls)</td>
<td>659</td>
<td>695</td>
<td>725</td>
</tr>
<tr>
<td>Oil Volume (MMbbls/day)</td>
<td>1.8</td>
<td>1.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Gross Natural Gas Price ($/mcf)</td>
<td>$5.65</td>
<td>$3.60</td>
<td>$3.95</td>
</tr>
<tr>
<td>Net Natural Gas Price ($/mcf)*</td>
<td>$4.28</td>
<td>$2.49</td>
<td>$2.78</td>
</tr>
<tr>
<td>Natural Gas Volume (bcf)</td>
<td>3,230</td>
<td>3,410</td>
<td>3,555</td>
</tr>
<tr>
<td>Natural Gas Volume (bcf/day)</td>
<td>8.8</td>
<td>9.3</td>
<td>9.7</td>
</tr>
</tbody>
</table>

*Net prices are based on the taxable value of the product after deductions for transportation, processing, and royalties.

Source: EIA
Along with oil and gas, the economic recovery has been strong across industries.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Matched Taxable Gross Receipts</th>
<th>Year-over-Year Growth</th>
<th>Year-over-Year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining, Quarrying, and Oil and Gas Extraction</td>
<td>$11,337,803,009</td>
<td>$3,449,174,195</td>
<td>43.7%</td>
</tr>
<tr>
<td>Utilities</td>
<td>$3,363,180,194</td>
<td>$333,879,976</td>
<td>11.0%</td>
</tr>
<tr>
<td>Construction</td>
<td>$11,282,618,587</td>
<td>$1,088,558,387</td>
<td>10.7%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>$3,216,705,008</td>
<td>$453,813,155</td>
<td>16.4%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>$4,981,041,174</td>
<td>$965,279,207</td>
<td>24.0%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>$20,218,115,403</td>
<td>$1,442,208,955</td>
<td>7.7%</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>$1,600,970,298</td>
<td>$461,785,474</td>
<td>40.5%</td>
</tr>
<tr>
<td>Information</td>
<td>$2,323,534,972</td>
<td>$133,122,334</td>
<td>6.1%</td>
</tr>
<tr>
<td>Real Estate and Rental and Leasing</td>
<td>$2,538,431,246</td>
<td>$172,239,530</td>
<td>7.3%</td>
</tr>
<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>$8,391,524,867</td>
<td>$1,210,250,404</td>
<td>16.9%</td>
</tr>
<tr>
<td>Administrative/Support &amp; Waste Management/Remediation</td>
<td>$4,609,101,946</td>
<td>$824,297,925</td>
<td>21.8%</td>
</tr>
<tr>
<td>Health Care and Social Assistance</td>
<td>$4,496,089,927</td>
<td>$172,320,511</td>
<td>4.0%</td>
</tr>
<tr>
<td>Leisure and Hospitality Services</td>
<td>$6,510,127,331</td>
<td>$560,754,623</td>
<td>41.9%</td>
</tr>
<tr>
<td>Other Industries</td>
<td>$9,418,510,189</td>
<td>$756,386,738</td>
<td>8.7%</td>
</tr>
<tr>
<td>Total</td>
<td>$94,289,754,149</td>
<td>$12,024,071,414</td>
<td>14.6%</td>
</tr>
</tbody>
</table>

Source: RP500

**Share of Total FY25 MTGR Forecasted by County**
- Bernalillo - Eddy & Lea - Out of State - Rest of NM

Source: LFC Files

**Share of Total FY25 MTGR Growth Forecasted by County**
- Eddy + Lea - Bernalillo - Rest of NM

Source: LFC Files
Corporate income tax revenues are growing, but growing film tax credit distributions are eating into growth.
SB26 has insulated the general fund and reduced the potential losses on the downside. However, prolonged oil and gas declines remains a significant risk.

*Includes changes in revenues from severance taxes, federal mineral leasing payments, personal income taxes, and gross receipts taxes. Excludes changes in distributions of excess oil and gas school tax and federal mineral leasing payments to tax stabilization reserve or early childhood trust fund.

Source: CREG August 2023
Permanent Funds Smooth Volatility and Deliver Increased Funding

**Diagram: Smoothing Effects of the Permanent Funds**

- **Contributions to Permanent Funds**
- **General Fund Distributions from Permanent Funds**

Note: Contributions include royalties from production on state lands and transfers from severance taxes in excess of bonding capacity. 

Source: LFC Files
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 are projected to reach over $5b in FY23
  - $1.9b to general fund
  - $3.2b to early childhood trust fund or tax stabilization reserve
- The early childhood trust fund will exceed $5 billion this year.
The Early Childhood Trust Fund is Projected to Hit $5.5 Billion By the End of this Calendar Year, Greatly Outpacing Expectations.

<table>
<thead>
<tr>
<th>Early Childhood Trust Fund Forecast - August 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in millions)</td>
</tr>
<tr>
<td>Calendar Year</td>
</tr>
<tr>
<td>Beginning Balance</td>
</tr>
<tr>
<td>$300.0 $300.0 $314.1 $3,462.0 $5,523.6 $7,769.6 $9,071.3 $9,909.5 $10,177.7</td>
</tr>
<tr>
<td>Gains &amp; Losses</td>
</tr>
<tr>
<td>$6.1 $34.1 ($6.4) $138.5 $220.9 $310.8 $362.9 $396.4 $407.1</td>
</tr>
<tr>
<td>Excess Federal Mineral Leasing</td>
</tr>
<tr>
<td>$0.0 $0.0 $1,501.5 $2,073.1 $999.1 $647.8 $381.5 $51.6 $0.0</td>
</tr>
<tr>
<td>Excess OGAS School Tax*</td>
</tr>
<tr>
<td>$0.0 $0.0 $1,682.8 $0.0 $1,181.0 $622.4 $466.7 $266.1 $58.9</td>
</tr>
<tr>
<td>Distribution to ECE Program Fund</td>
</tr>
<tr>
<td>$0.0 ($20.0) ($30.0) ($150.0) ($155.0) ($279.3) ($372.7) ($445.8) ($486.0)</td>
</tr>
<tr>
<td>Ending Balance</td>
</tr>
<tr>
<td>$306.1 $314.1 $3,462.0 $5,523.6 $7,769.6 $9,071.3 $9,909.5 $10,177.7 $10,157.7</td>
</tr>
</tbody>
</table>

*Excess OGAS School Tax distributed to Early Childhood Trust Fund if general fund reserves are at least 25% throughout forecast period, and distributions occur for prior fiscal year in January of the following calendar year.

Note: Investment return assumed at 4% and distributions occur on July 1, based on previous calendar year-ending balance.

<table>
<thead>
<tr>
<th>Distribution to ECE Program Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21 FY22 FY23 FY24 FY25 FY26 FY27 FY28</td>
</tr>
<tr>
<td>$0.00 $20.00 $30.00 $150.00 $154.99 $279.25 $372.74 $445.84</td>
</tr>
</tbody>
</table>

Source: August 2023 Consensus Revenue Forecast
Oil Revenue as a Share of Total General Fund Revenues

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

- % if no TSR/ECE distribution of excess revenue were made
- Percentage excluding permanent funds & TSR/ECE distr.

Distributions of excess severance tax and federal mineral leasing payments reduce general fund dependence on oil and gas revenue.
Capacity Limits and Best Use of Revenue Windfalls

General Fund Reversions (in millions)

Source: LFC Files
Conclusion

- New Mexico has booming revenues, ongoing education litigation, growing early childhood system and large Medicaid costs.

- New Mexico needs to strategically target funding to what works, ensure effective implementation and monitor spending and changes in outcomes.
For More Information

- Session Publications – Budgets
- Performance Report Cards
- Program Evaluations

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