

### New Mexico State Government Finances Legislative Update

Charles Sallee, Director

### Overview



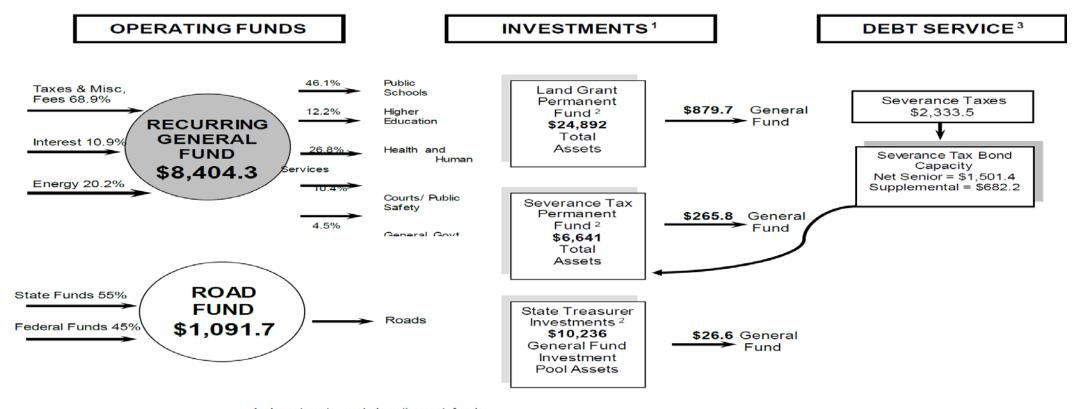
- State Government Fiscal Overview
- Appropriations Process & Legislating for Results
- ☐ Fiscal Outlook
- Legislative Session Update



### State Government Fiscal Overview

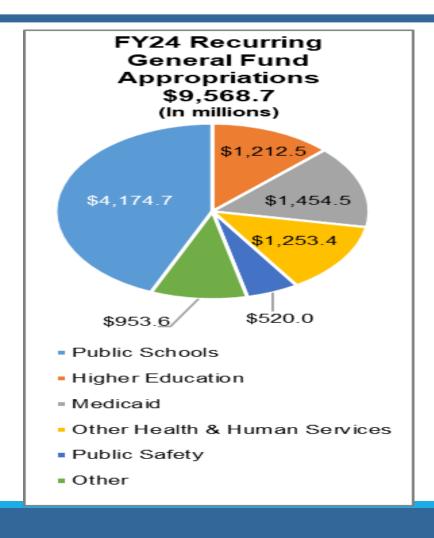
#### **OVERVIEW OF NEW MEXICO FINANCES: FY23 OPERATING BUDGET**

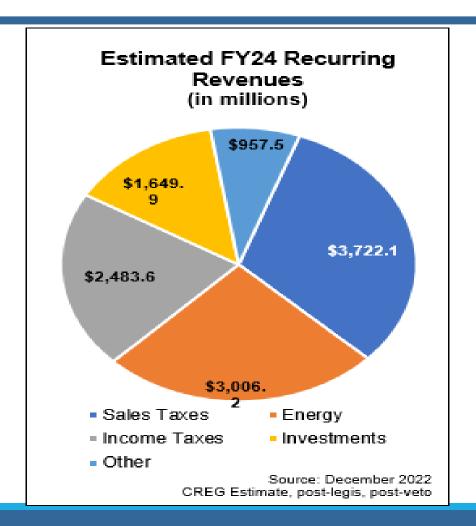
(in millions of dollars)



- 1 Investments exclude retirement funds
- 2 As of October 2022; excludes federal relief funds
- 3 Includes only state debt service

### State Government Fiscal Overview





### State Government Reserves



Reserve

appropriations, the ex-

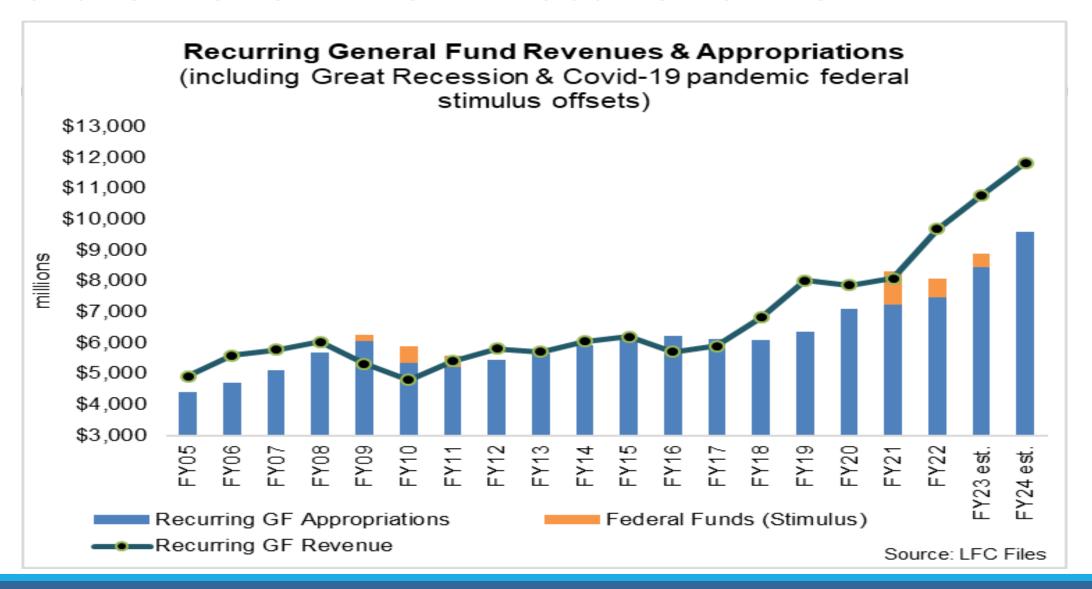
cess is transferred to the

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.

- 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.

### State Government Fiscal Overview



### **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.

#### 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 LFC and DFA.

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

#### 20 Days After Session\*:

Governor acts on the <u>GAA</u>, 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 60 in odd-numbered years.

Early January: LFC releases its budget recommendation (Volume 2 of its annual report to the Legislature). The governor release 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

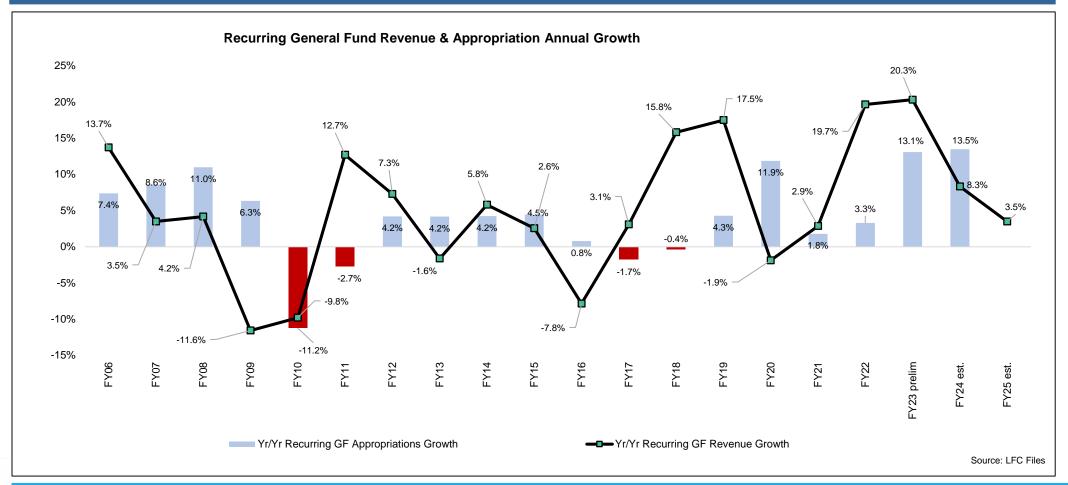


# Fiscal Outlook: Roller Coasters Aren't Always Fun





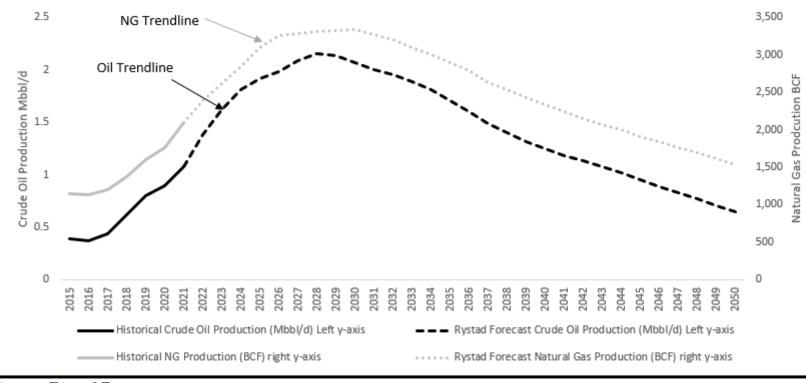
### Actual General Fund Roller Coaster





### NM Oil Production Long-Term Forecast

NM Crude Oil Production Forecast (CY 2022 to 2050) NM Natural Gas Forecast (CY 2022 to 2040)



Source: Rystad Energy

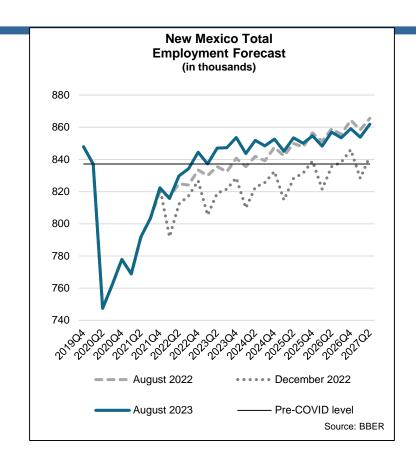
➤ NM specific forecast of oil and natural gas production falls in line with national expectations

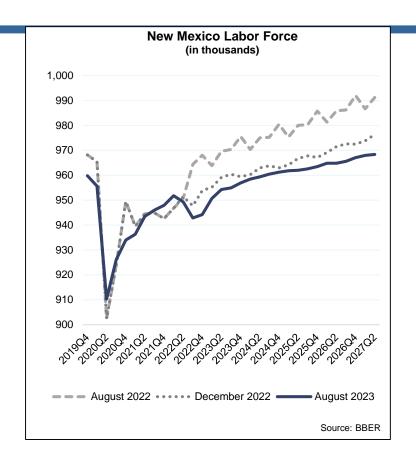
## The August estimate predicts \$3.482 billion in new money for FY25.

August 2023 Consensus General Fund Recurring Revenue Estimate									
(in millions)									
	<u>FY23</u>	<u>FY24</u>	FY25						
December 2022 Consensus	\$10,774.9	\$11,820.3	\$12,143.4						
August 2023 Adjustments	\$866.2	\$790.7	\$907.6						
August 2023 Consensus	\$11,641.1	\$12,611.0	\$13,051.0						
Annual amount change	\$1,965.8	\$969.8	\$440.1						
Annual percent change	20.3%	8.3%	3.5%						



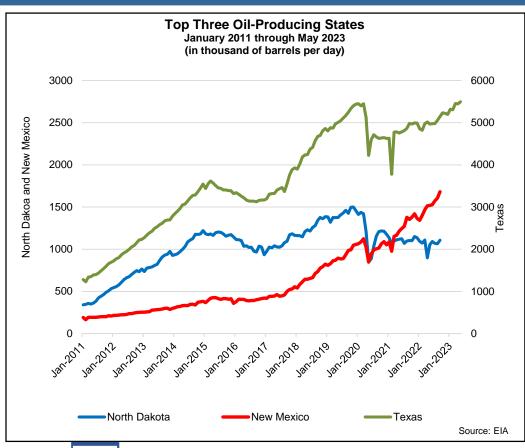
### By June 2023, total employment is up 11.3 thousand jobs, or 1.3 percent, from the prepandemic peak. However, labor force participation rate has stalled at low levels.







## Oil and gas production continues to power state revenues.



2023	2024	2025	
Forecast	Forecast	Forecast	
\$80.50	\$74.50	\$73.00	
659	695	725	
1.8	1.9	2.0	
\$5.65	\$3.60	\$3.95	
\$4.28	\$2.49	\$2.78	
3,230	3,410	3,555	
8.8	9.3	9.7	
	\$80.50 659 1.8 \$5.65 \$4.28 3,230 8.8	Forecast         Forecast           \$80.50         \$74.50           659         695           1.8         1.9           \$5.65         \$3.60           \$4.28         \$2.49           3,230         3,410	

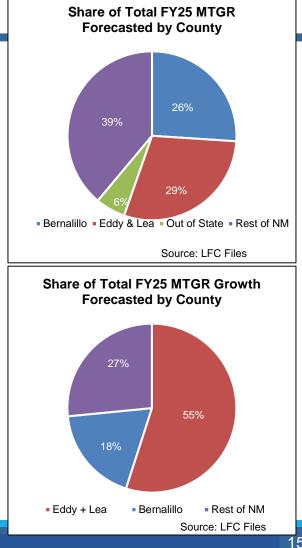
<sup>\*</sup> Net prices are based on the taxable value of the product after deductions for transportation, processing, and royalties



## Along with oil and gas, the economic recovery has been strong across industries.

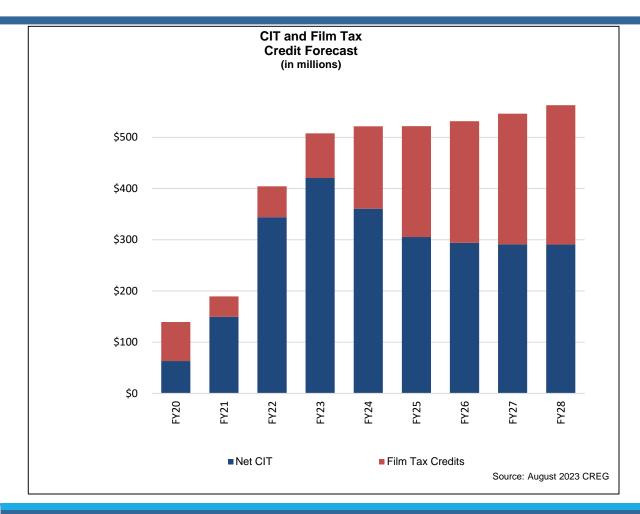
Matched Taxable Gross Receipts by Industry - FY23 vs FY22							
Industry	Matched Taxable Gross Receipts	Year-over-Year Growth	Year-over- Year Change				
Mining, Quarrying, and Oil and Gas Extraction	\$11,337,803,009	\$3,449,174,195	43.7%				
Utilities	\$3,363,180,194	\$333,879,976	11.0%				
Construction	\$11,282,618,587	\$1,088,558,387	10.7%				
Manufacturing	\$3,216,705,008	\$453,813,155	16.4%				
Wholesale Trade	\$4,981,041,174	\$965,279,207	24.0%				
Retail Trade	\$20,218,115,403	\$1,442,208,955	7.7%				
Transportation and Warehousing	\$1,600,970,298	\$461,785,474	40.5%				
Information	\$2,323,534,972	\$133,122,334	6.1%				
Real Estate and Rental and Leasing	\$2,538,431,246	\$172,239,530	7.3%				
Professional, Scientific, and Technical Services	\$8,391,524,867	\$1,210,250,404	16.9%				
Administrative/Support & Waste Management/Remediation	\$4,609,101,946	\$824,297,925	21.8%				
Health Care and Social Assistance	\$4,498,089,927	\$172,320,511	4.0%				
Leisure and Hospitality Services	\$6,510,127,331	\$560,754,623	41.9%				
Other Industries	\$9,418,510,189	\$756,386,738	8.7%				
Total	\$94,289,754,149	\$12,024,071,414	14.6%				

Source: RP500



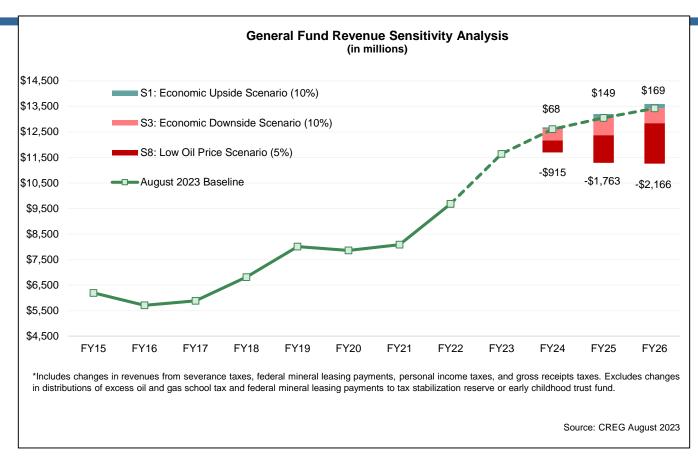


### Corporate income tax revenues are growing, but growing film tax credit distributions are eating into growth.



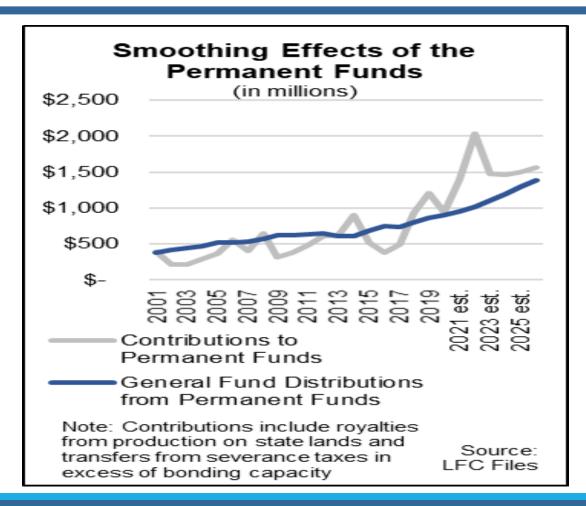


## SB26 has insulated the general fund and reduced the potential losses on the downside. However, prolonged oil and gas declines remains a significant risk.



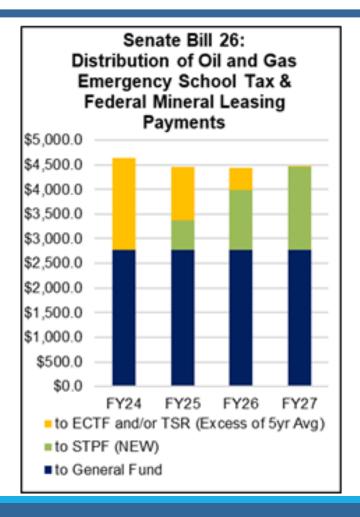


# Permanent Funds Smooth Volatility and Deliver Increased Funding



# 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% yo-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.

Early Childhood Trust Fund Forecast - August 2023									
(in millions)									
Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual	Actual	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Beginning Balance	\$300.0	\$300.0	\$314.1	\$3,462.0	\$5,523.6	\$7,769.6	\$9,071.3	\$9,909.5	\$10,177.7
Gains & Losses	\$6.1	\$34.1	(\$6.4)	\$138.5	\$220.9	\$310.8	\$362.9	\$396.4	\$407.1
Excess Federal Mineral Leasing	\$0.0	\$0.0	\$1,501.5	\$2,073.1	\$999.1	\$647.8	\$381.5	\$51.6	\$0.0
Excess OGAS School Tax*	\$0.0	\$0.0	\$1,682.8	\$0.0	\$1,181.0	\$622.4	\$466.7	\$266.1	\$58.9
Distribution to ECE Program Fund	\$0.0	(\$20.0)	(\$30.0)	(\$150.0)	(\$155.0)	(\$279.3)	(\$372.7)	(\$445.8)	(\$486.0)
Ending Balance	\$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
*Excess OGAS School Tay distributed to Early Childhood Trust Fund if general fund reserves are at least 25% throughout forecast period, and distributions									

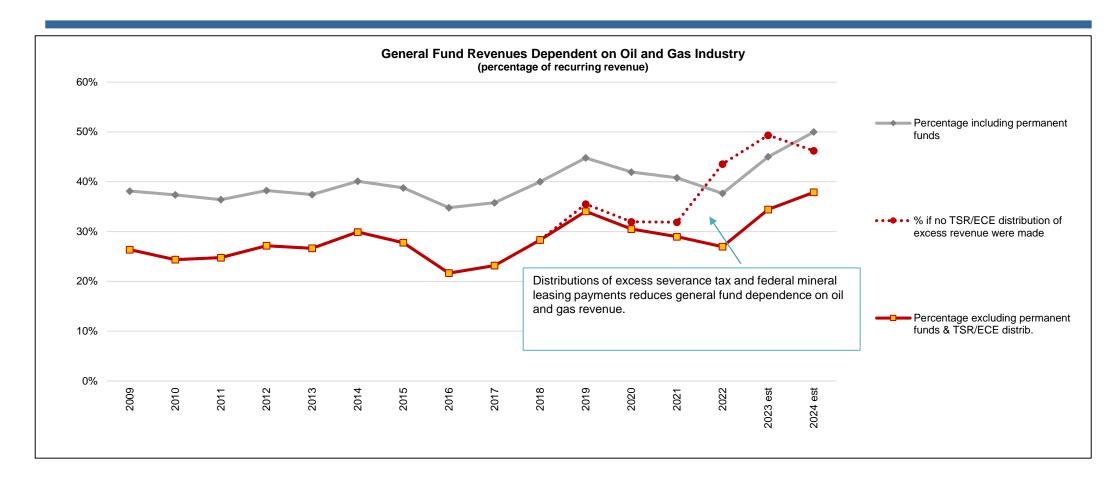
<sup>\*</sup>Excess OGAS School Tax distributed to Early Childhood Trust Fund if general fund reserves are at least 25% throughout forecast period, and distributions occur for prior fiscal year in January of the following calendar year.

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

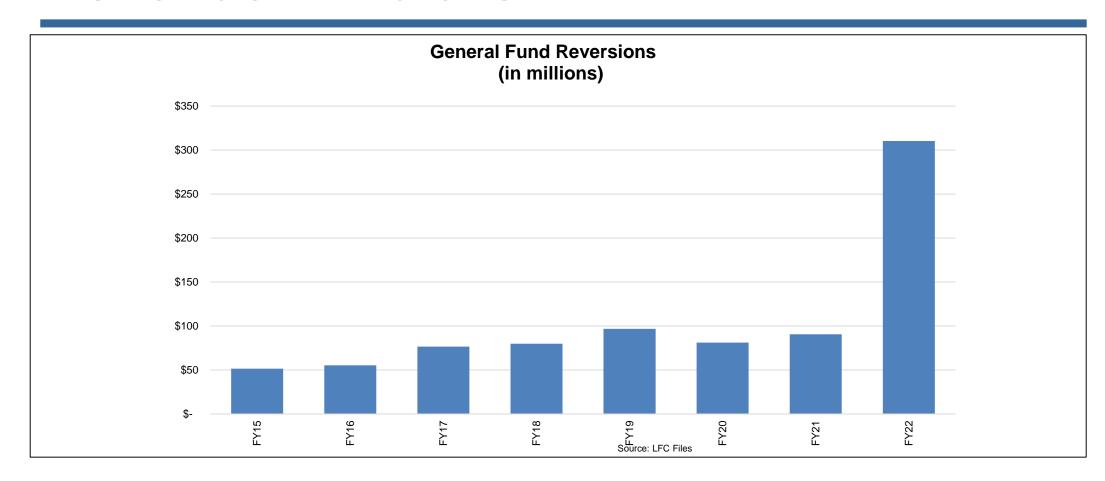
	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Distribution to ECE Program Fund	\$0.00	\$20.00	\$30.00	\$150.00	\$154.99	\$279.25	\$372.74	\$445.84

Source: August 2023 Consensus Revenue Forecast

## Oil Revenue as a Share of Total General Fund Revenues



# Capacity Limits and Best Use of Revenue Windfalls



#### 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

- http://www.nmlegis.gov/lcs/lfc/lfcdefault.aspx
  - Session Publications Budgets
    - Performance Report Cards
      - Program Evaluations

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