



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

# New Mexico State Government Finances Legislative Update

Charles Sallee, Director

# Overview

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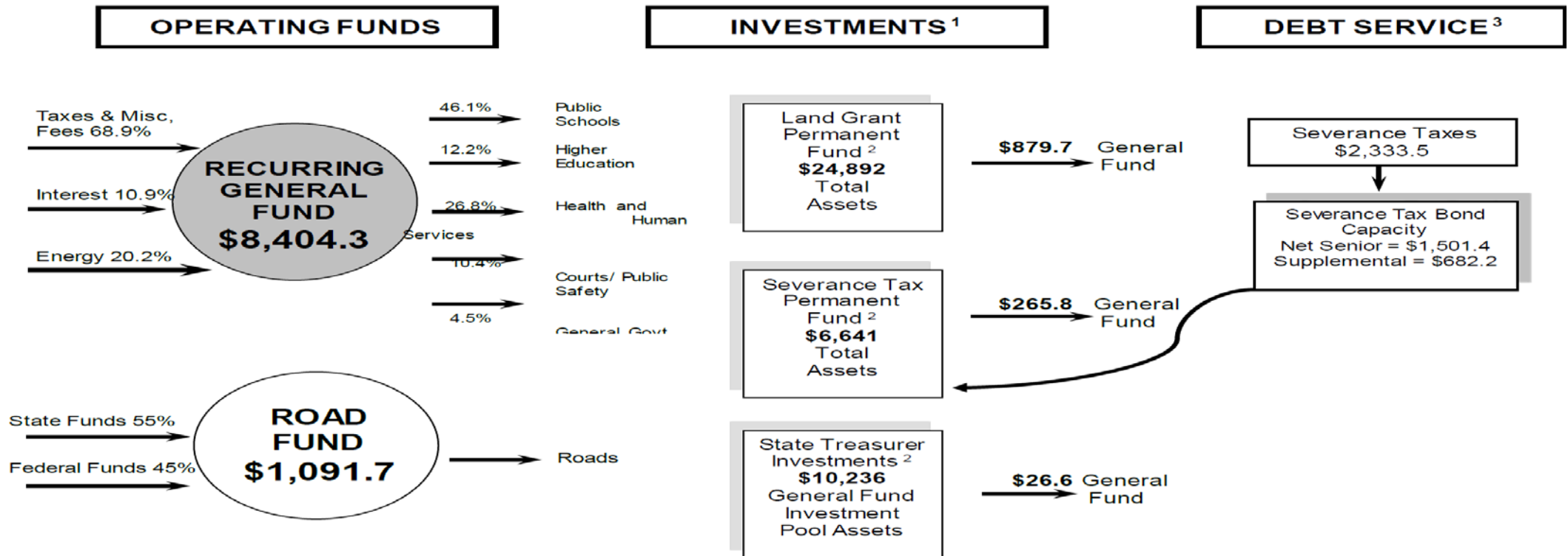


- State Government Fiscal Overview
- Appropriations Process & Legislating for Results
- Fiscal Outlook
- Legislative Session Update



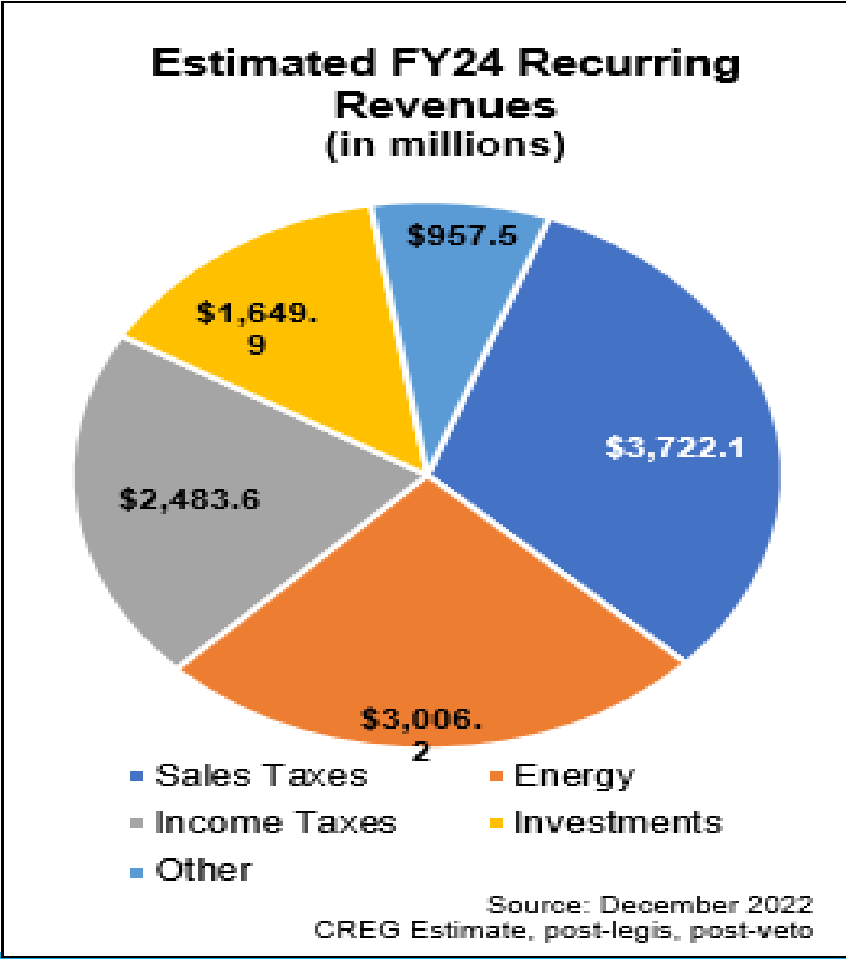
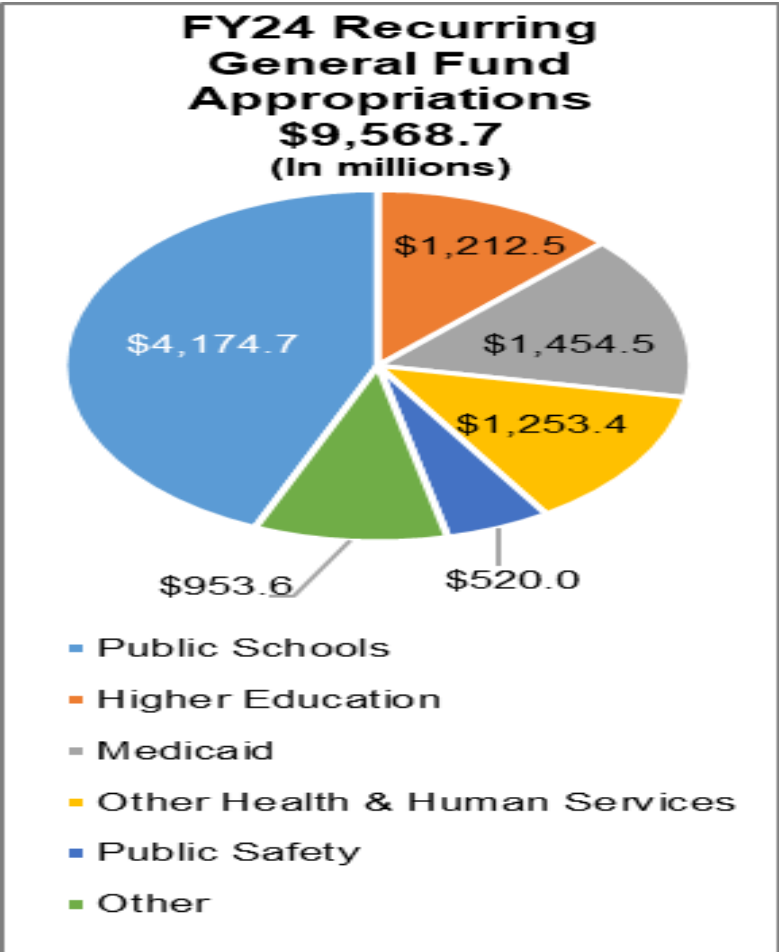
# State Government Fiscal Overview

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

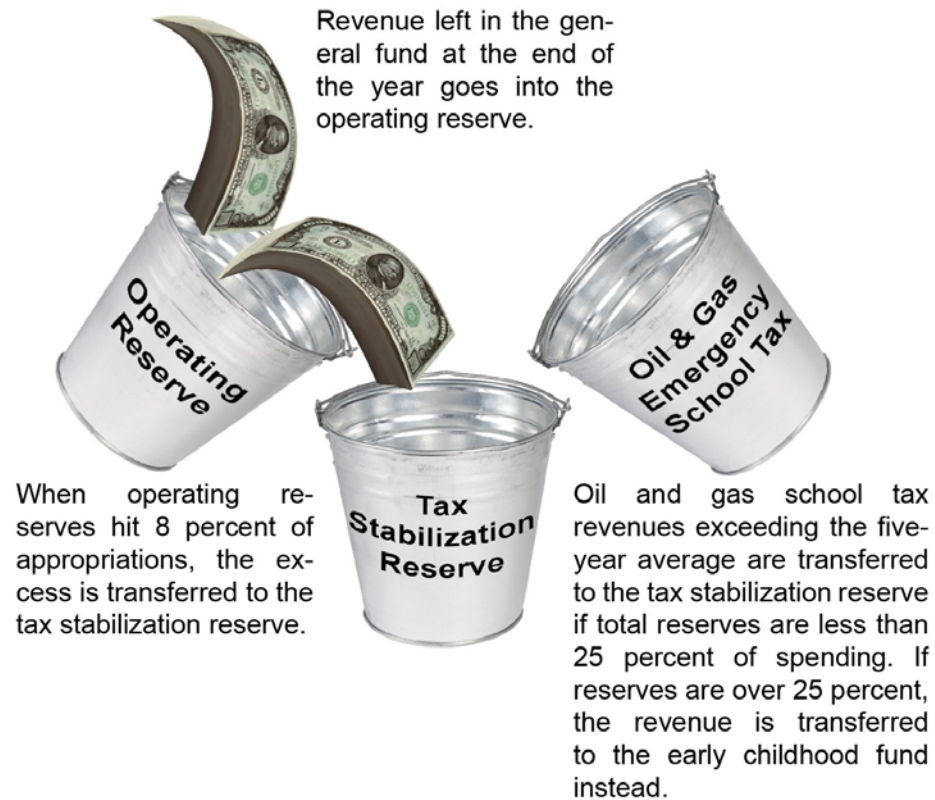


1 Investments exclude retirement funds  
 2 As of October 2022; excludes federal relief funds  
 3 Includes only state debt service

# State Government Fiscal Overview

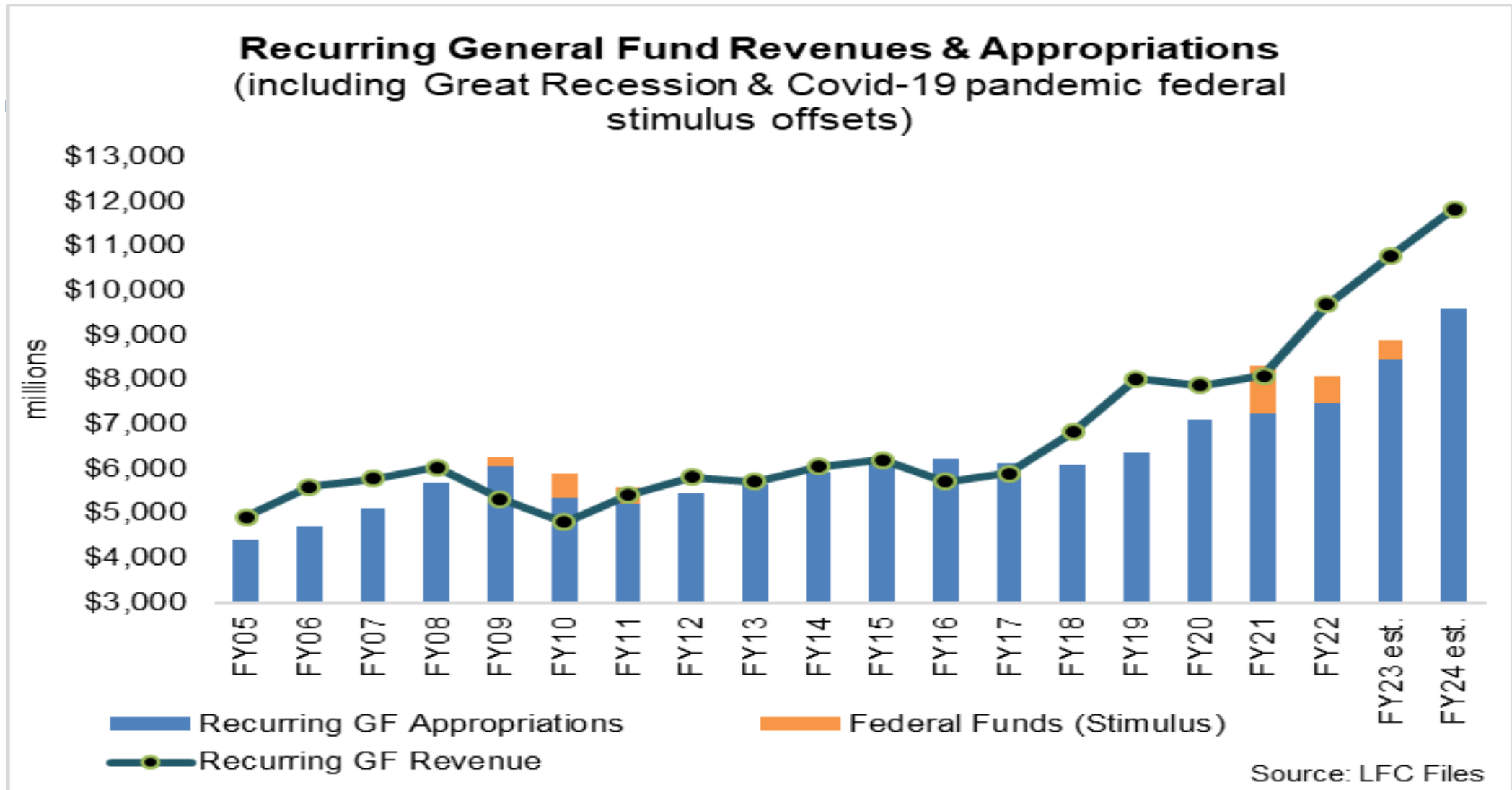


# State Government Reserves

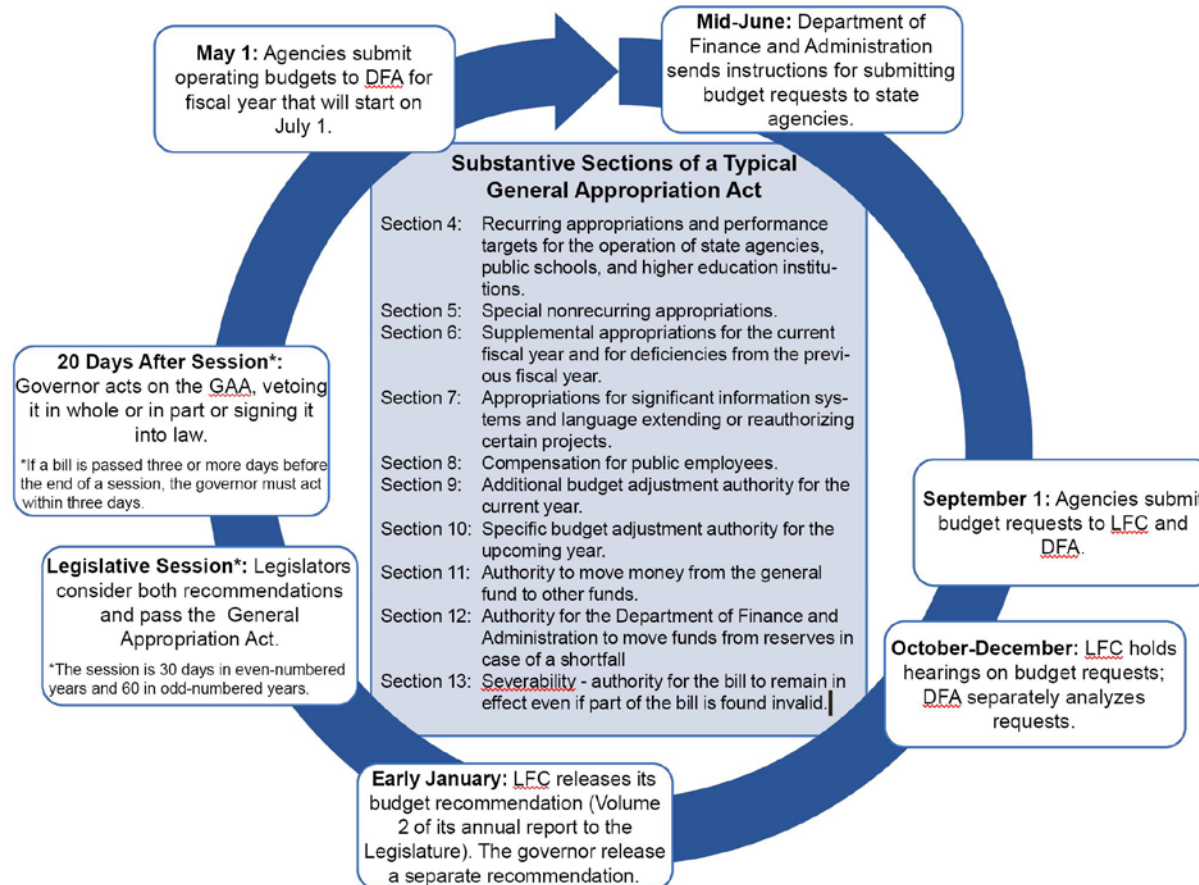


- LFC Fiscal Policy has reserve target of 30 percent of recurring spending.
- Many reserve accounts – some transfer money between accounts others receive excess oil and gas revenue
- Appropriation Contingency fund mainly used for disaster funding, but APRA state relief funding was put there to keep separate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





# LFC's *Legislating for Results* Framework: Evidence-Based Policy and Budgeting

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- Identify priority areas and performance,
- Review programs and performance,
- Budget development,
- Implementation oversight, and
- Outcome monitoring



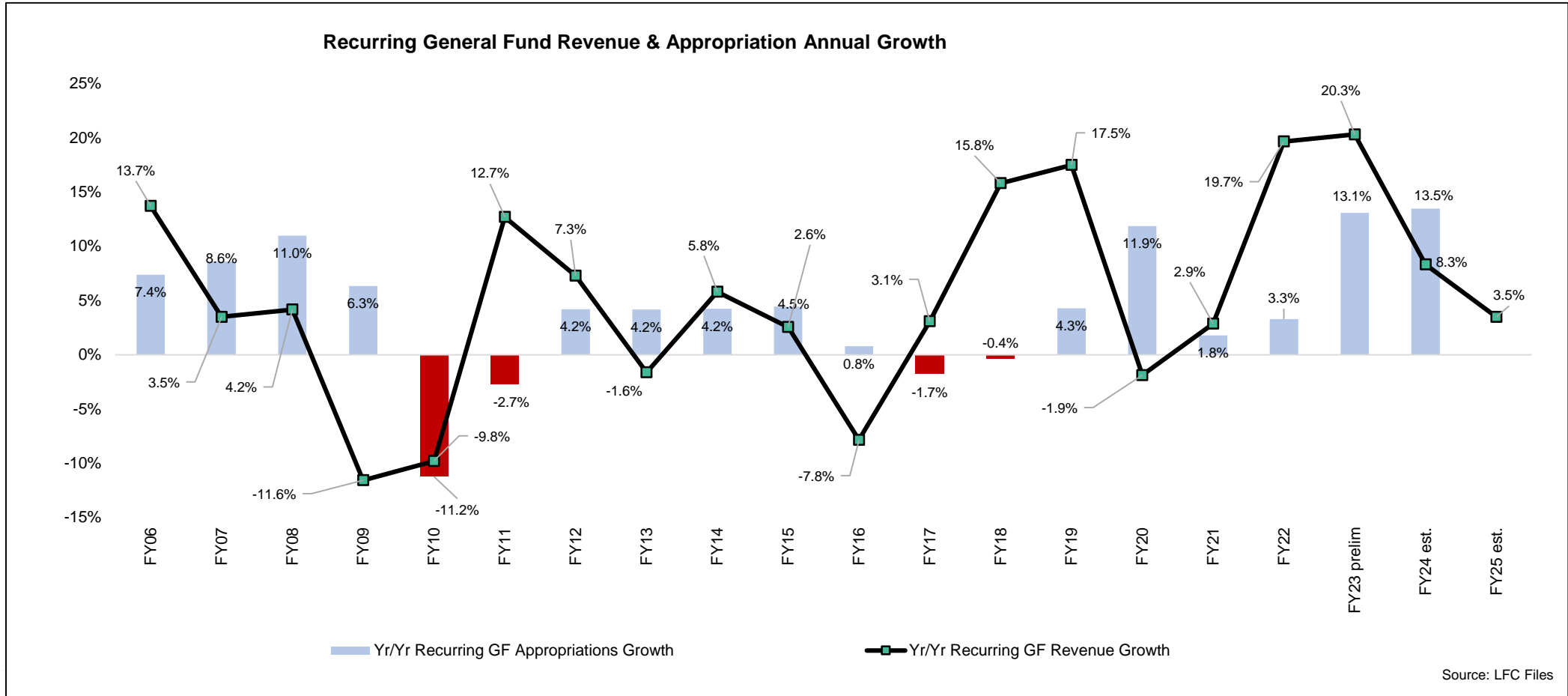


# Fiscal Outlook: Roller Coasters Aren't Always Fun

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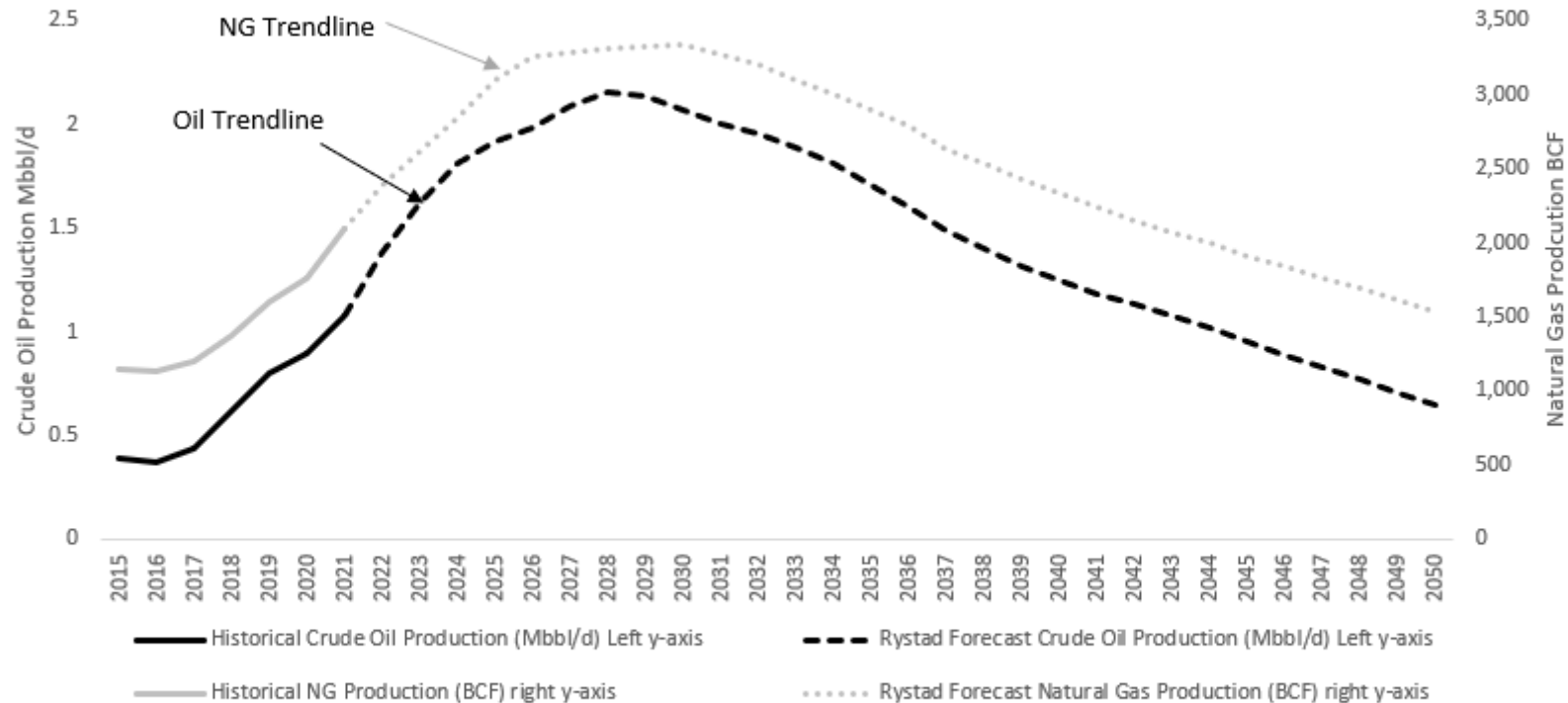
# Actual General Fund Roller Coaster



# 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

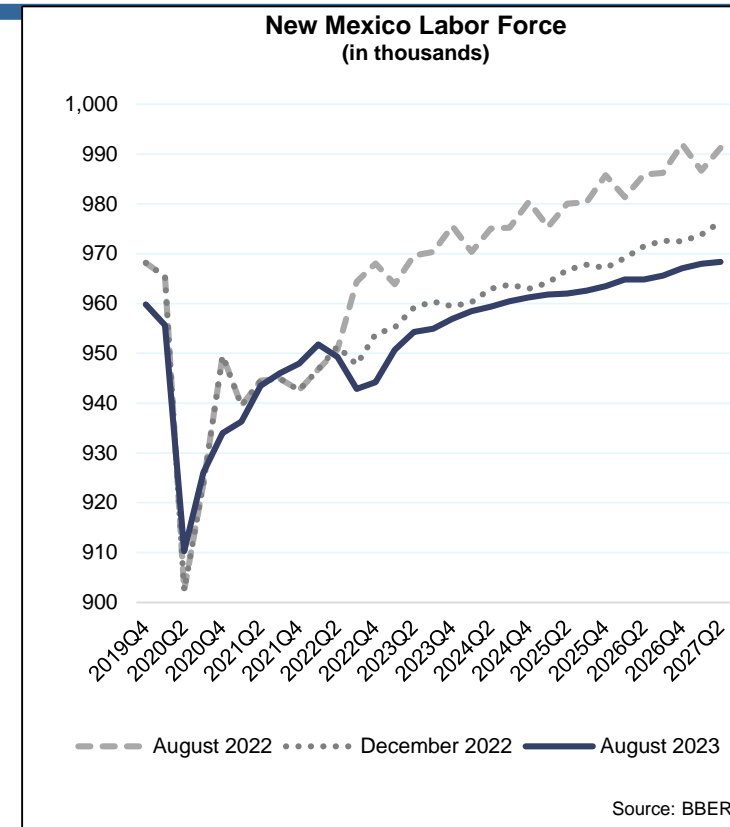
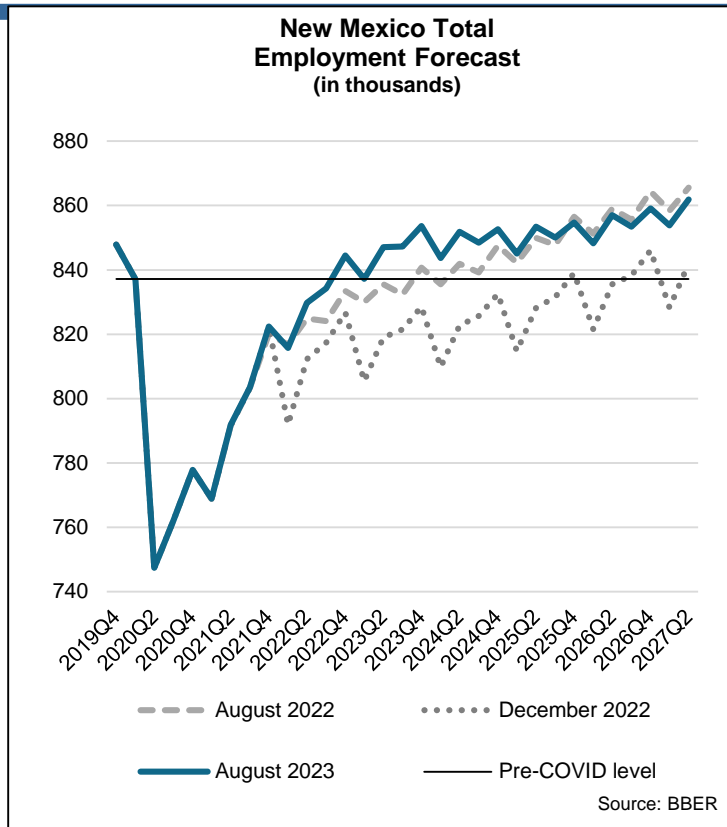
- NM specific forecast of oil and natural gas production falls in line with national expectations

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

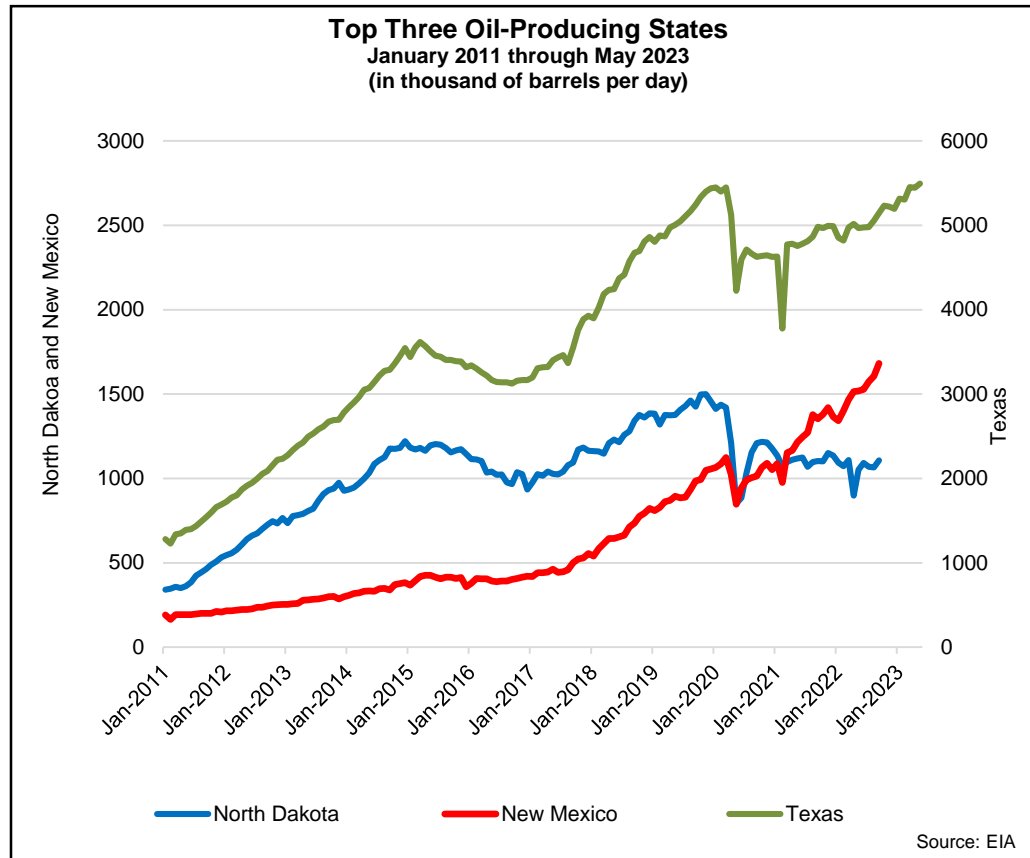
<b>August 2023 Consensus General Fund Recurring Revenue Estimate</b>			
	(in millions)		
	<b><u>FY23</u></b>	<b><u>FY24</u></b>	<b><u>FY25</u></b>
December 2022 Consensus	\$10,774.9	\$11,820.3	\$12,143.4
August 2023 Adjustments	\$866.2	\$790.7	\$907.6
<b>August 2023 Consensus</b>	<b>\$11,641.1</b>	<b>\$12,611.0</b>	<b>\$13,051.0</b>
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 pre-pandemic peak. However, labor force participation rate has stalled at low levels.



# Oil and gas production continues to power state revenues.



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

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

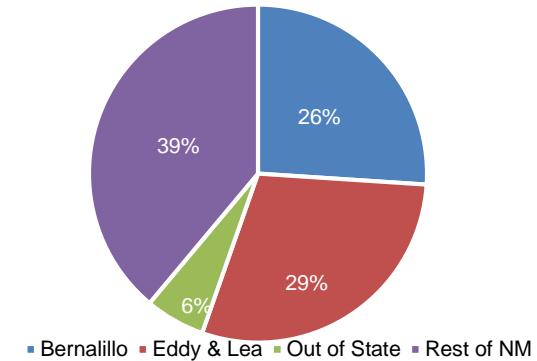


# Along with oil and gas, the economic recovery has been strong across industries.

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%
<b>Total</b>	<b>\$94,289,754,149</b>	<b>\$12,024,071,414</b>	<b>14.6%</b>

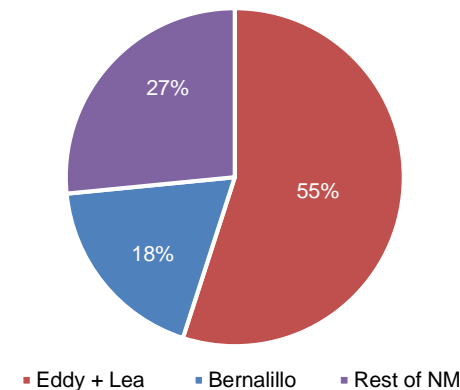
Source: RP500

Share of Total FY25 MTGR Forecasted by County



Source: LFC Files

Share of Total FY25 MTGR Growth Forecasted by County

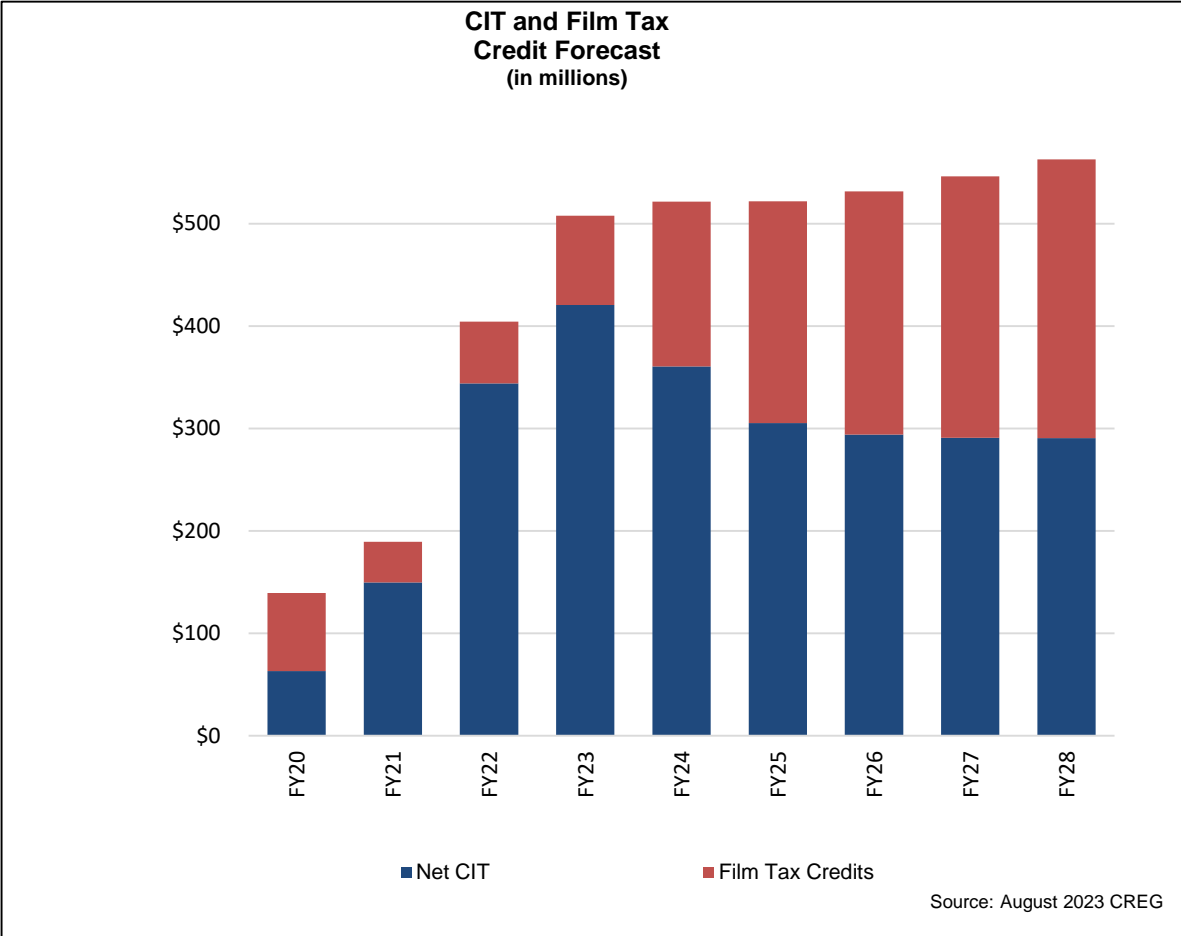


Source: LFC Files

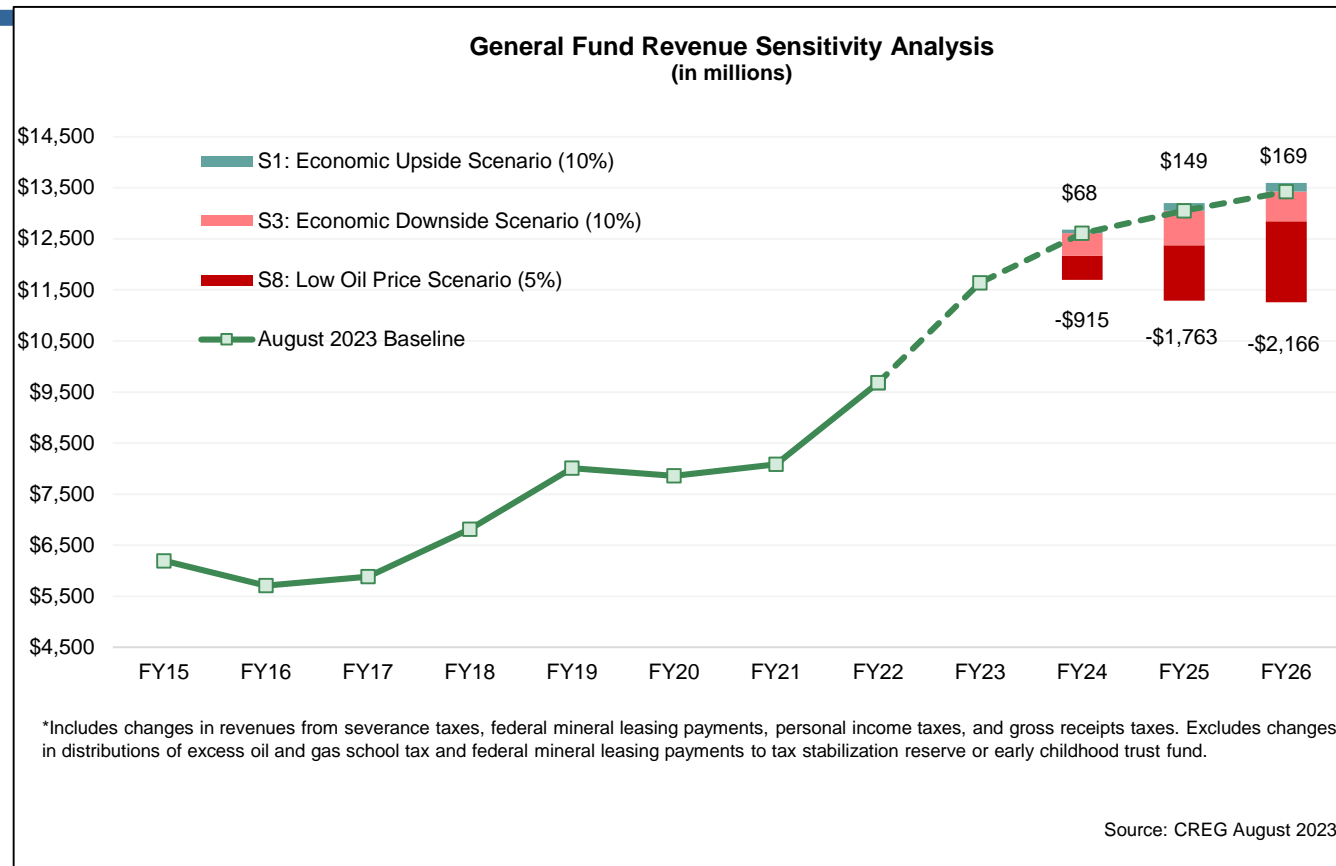




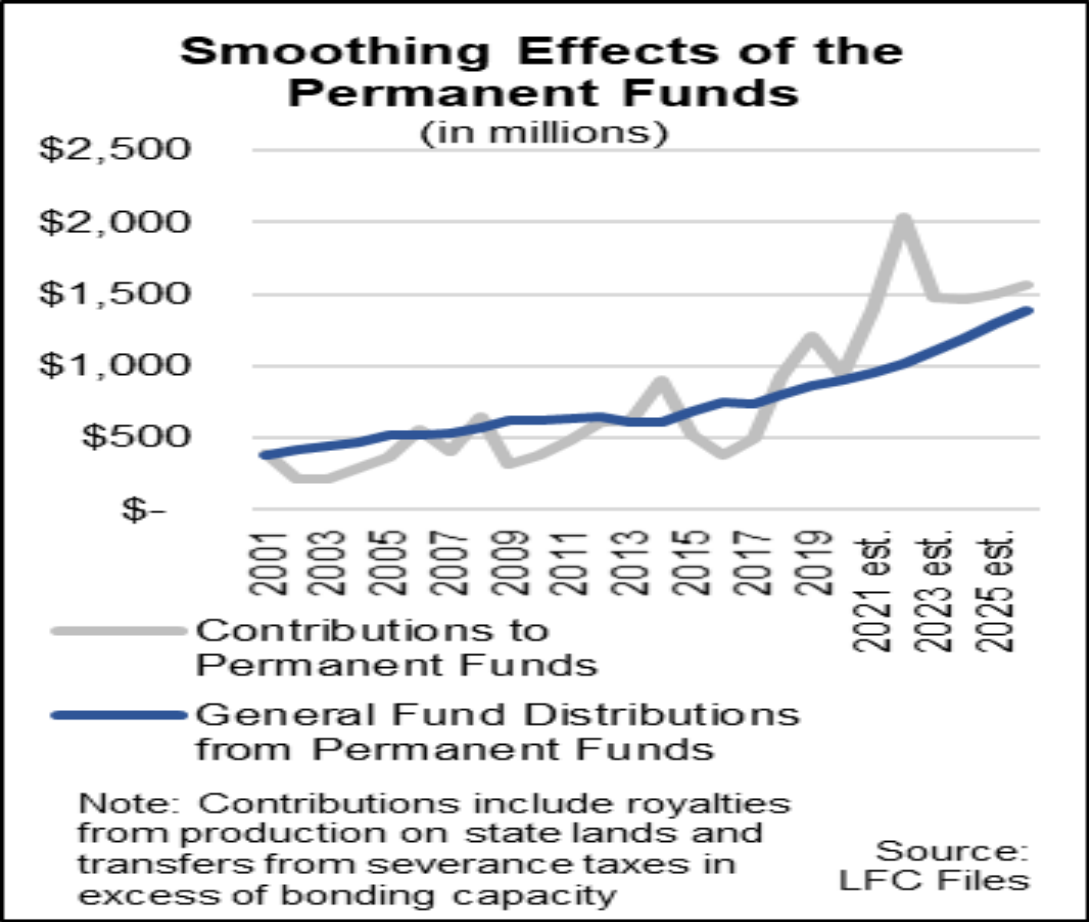
# Corporate income tax revenues are growing, but growing film tax credit distributions are eating into growth.



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

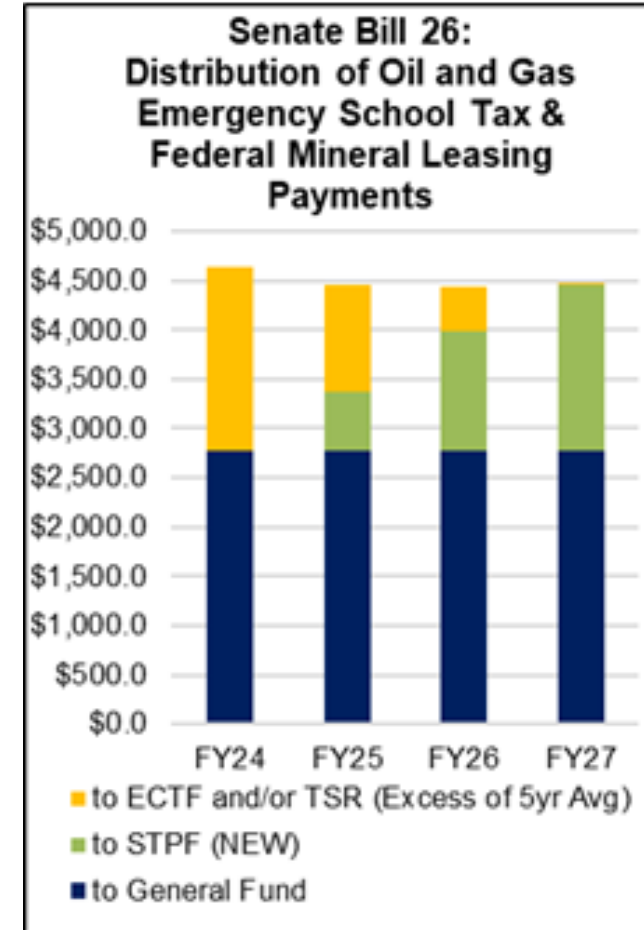


# Permanent Funds Smooth Volatility and Deliver Increased Funding



# 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.

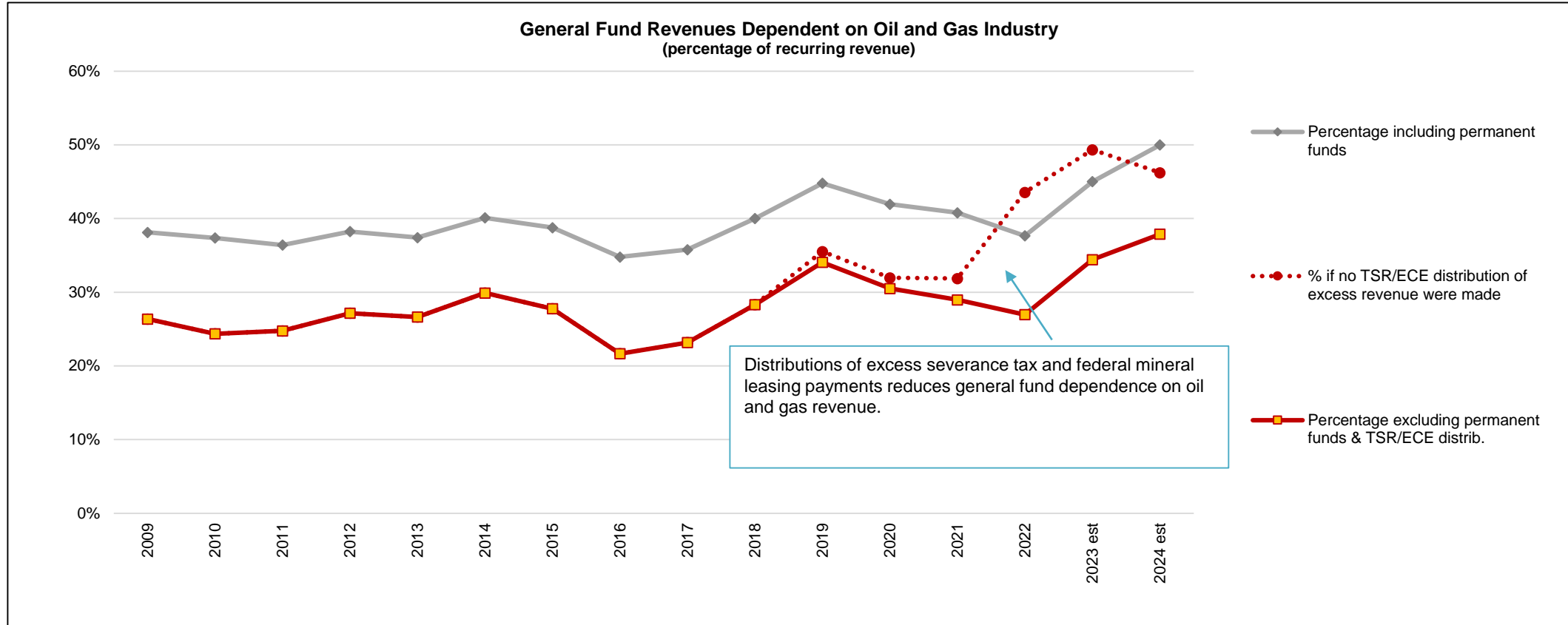
- Oil and gas revenues increased 162% y-o-y in FY22 and are projected to reach over \$5b in FY23
  - \$1.9b to general fund
  - \$3.2b to early childhood trust fund or tax stabilization reserve
- The early childhood trust fund will exceed \$5 billion this year.



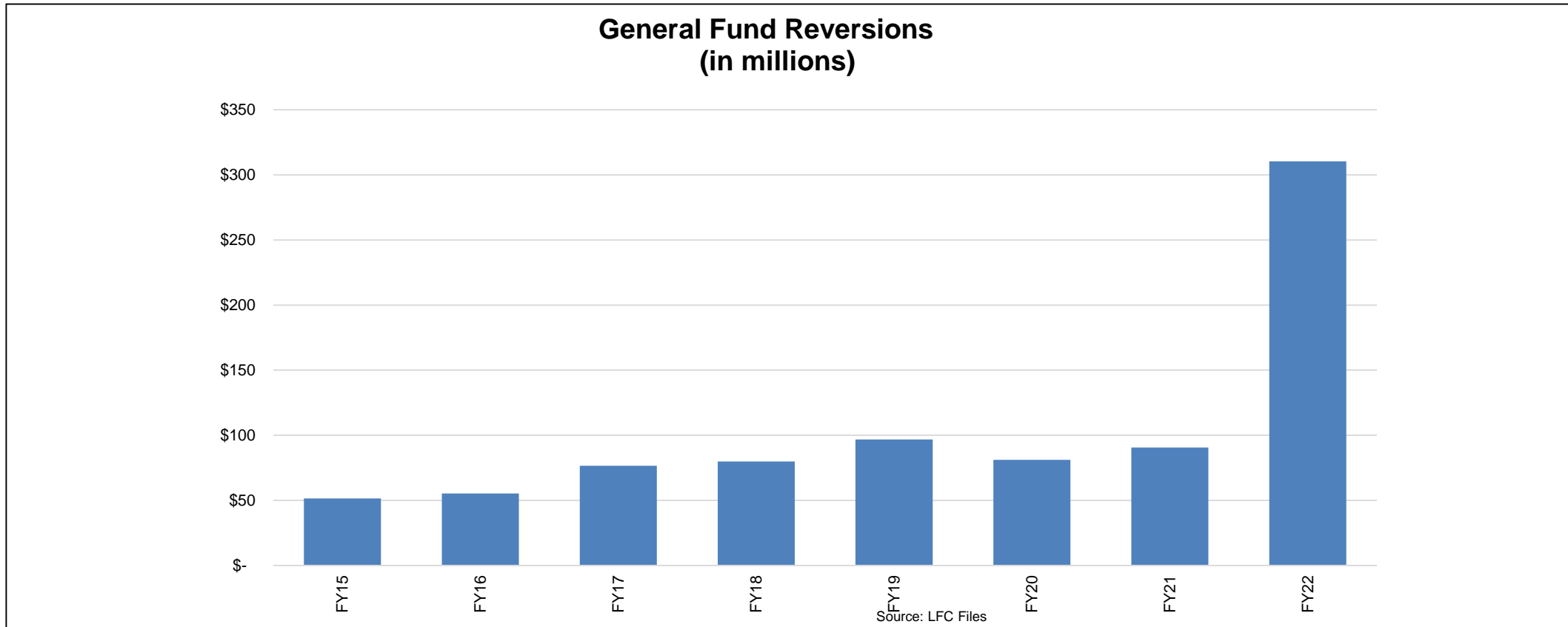
# The Early Childhood Trust Fund is Projected to Hit \$5.5 Billion By the End of this Calendar Year, Greatly Outpacing Expectations.

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 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

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- 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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