



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

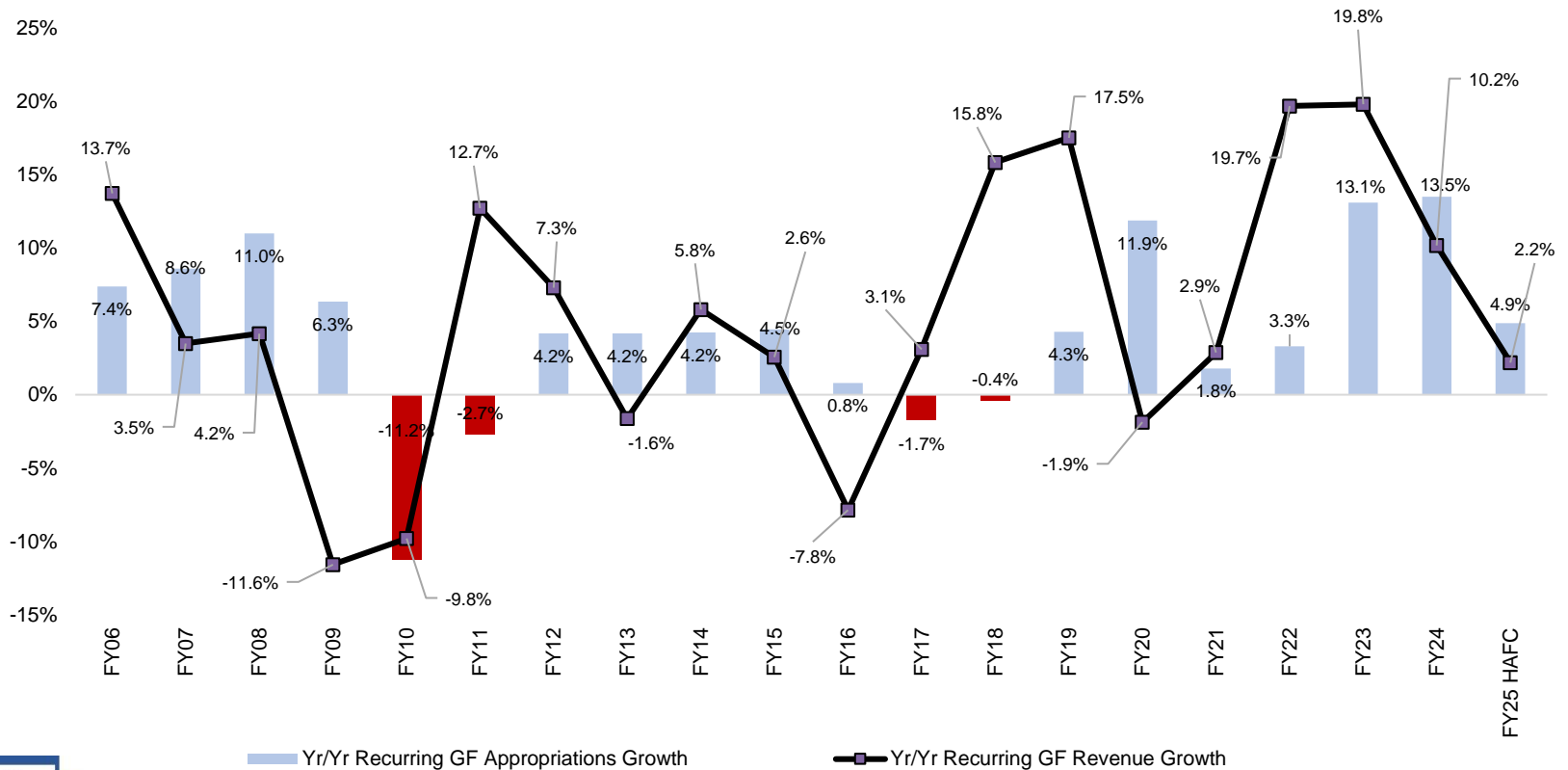
LFC Legislative Update

Charles Sallee, Director
Legislative Finance Committee

February 2, 2024

New Mexico's Actual General Fund Roller Coaster

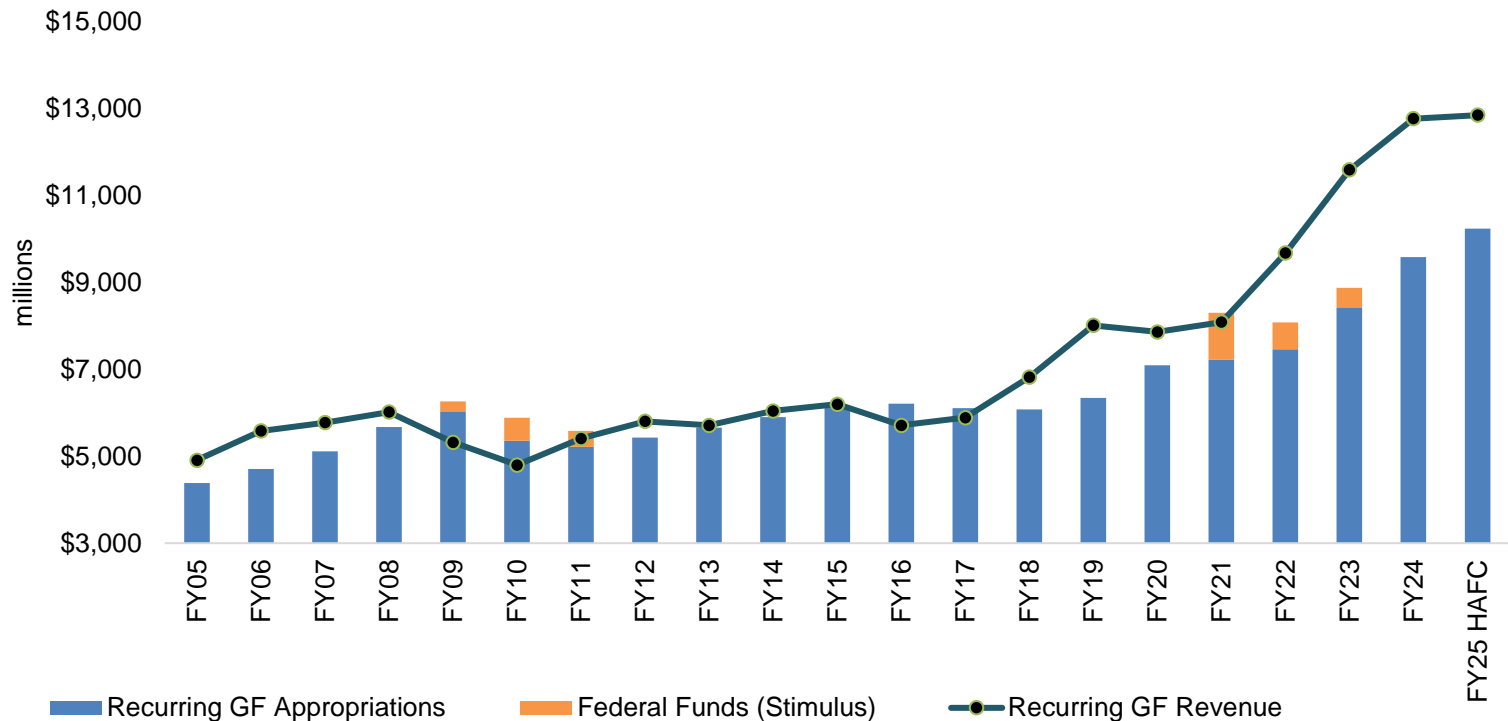
Recurring General Fund Revenue & Appropriation Annual Growth



Source: LFC Files

A record-high revenue forecast in December 2022 led the Legislature to pass the largest budget in state history for FY24

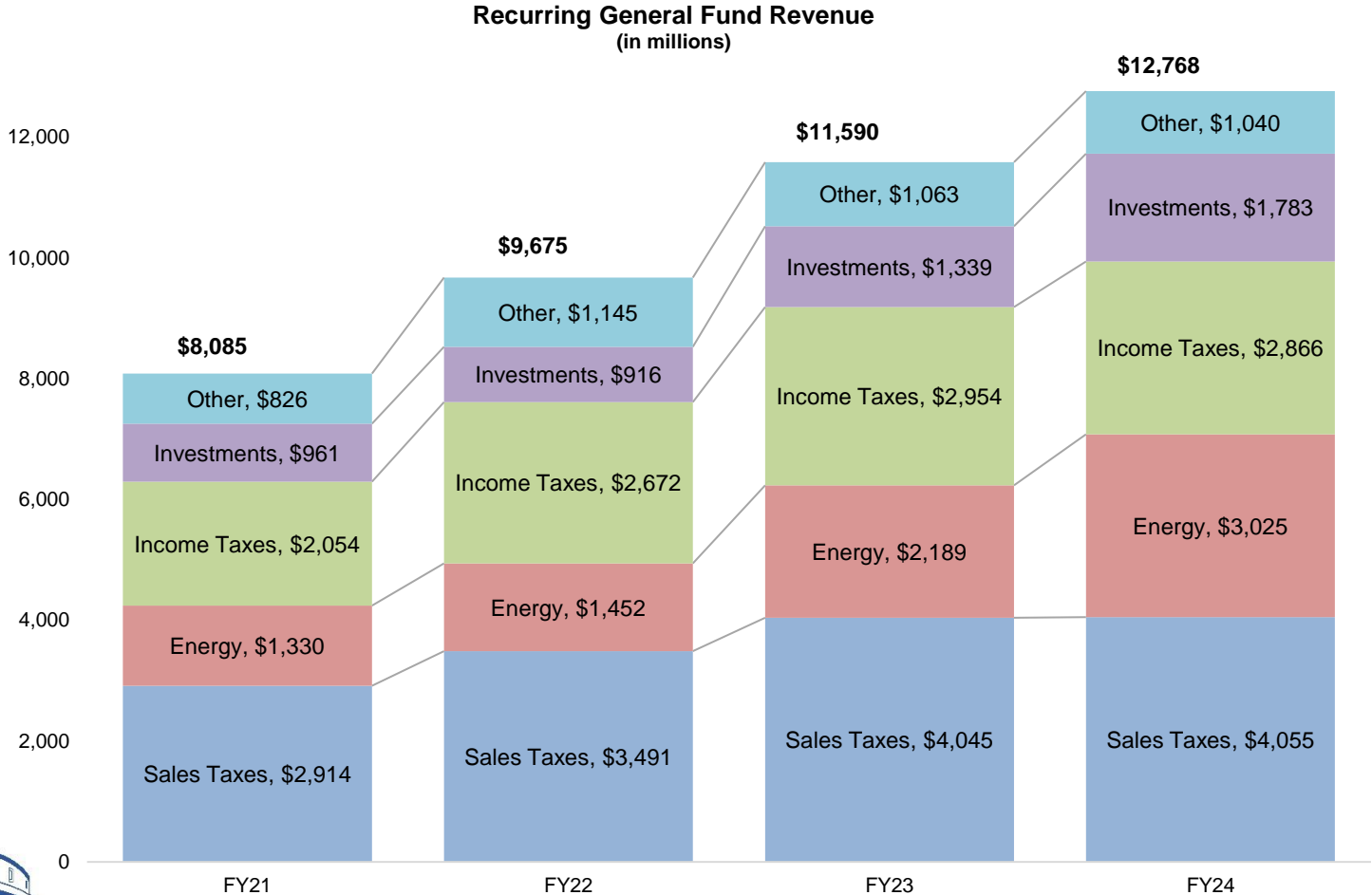
**Recurring General Fund Revenues & Appropriations
(including Great Recession & Covid-19 pandemic federal stimulus offsets)**



Source: LFC Files



Energy revenues have driven most of the growth in total revenue to the general fund

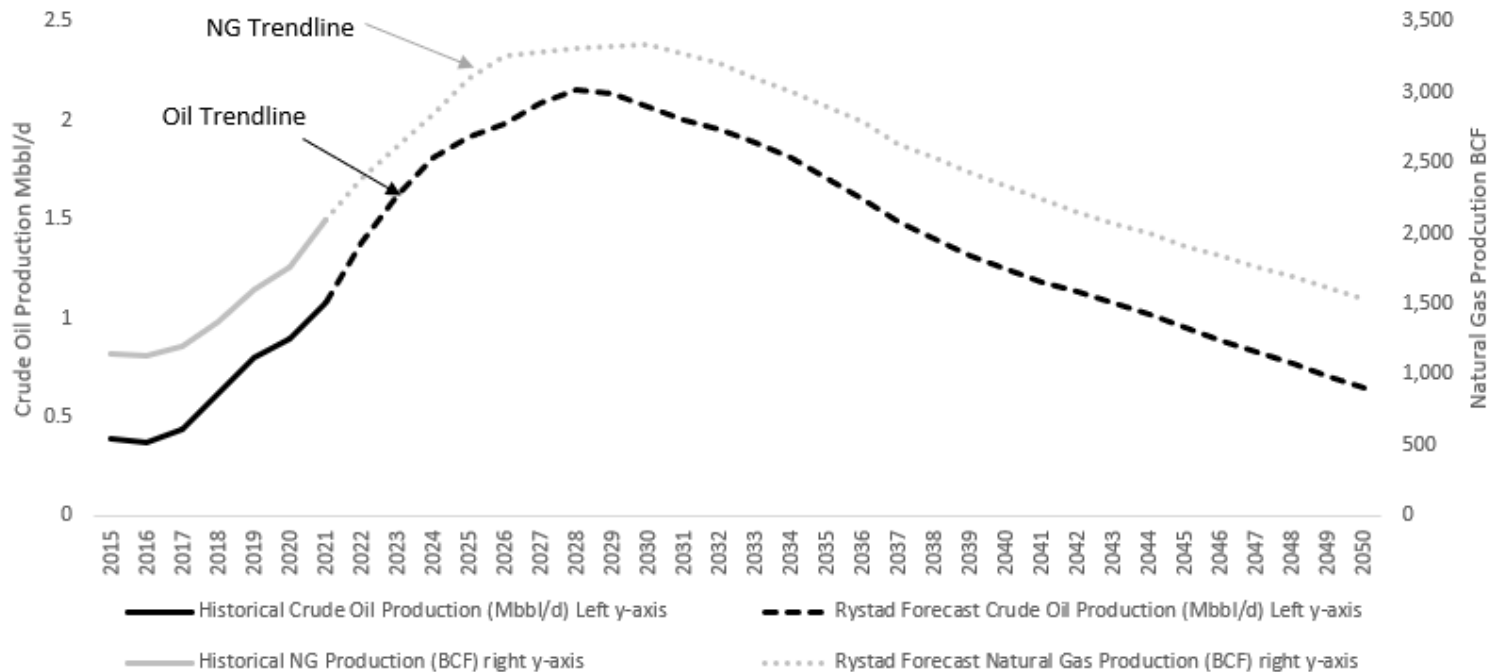


Source: December 2023
CREG Estimate

Long term industry projections suggest peak oil production sooner than later

NM Crude Oil Production Forecast (CY 2022 to 2050)

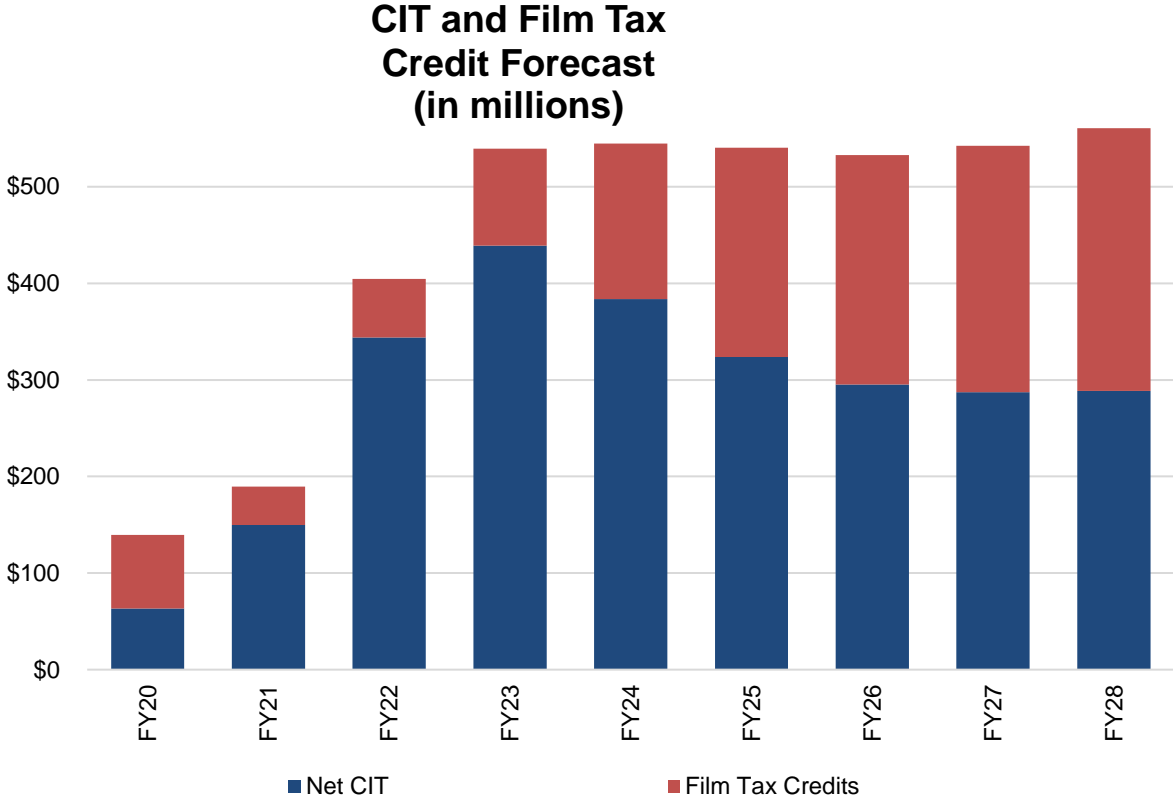
NM Natural Gas Forecast (CY 2022 to 2040)



Source: Rystad Energy



Recent tax changes create headwinds for various taxes and slowing general fund growth

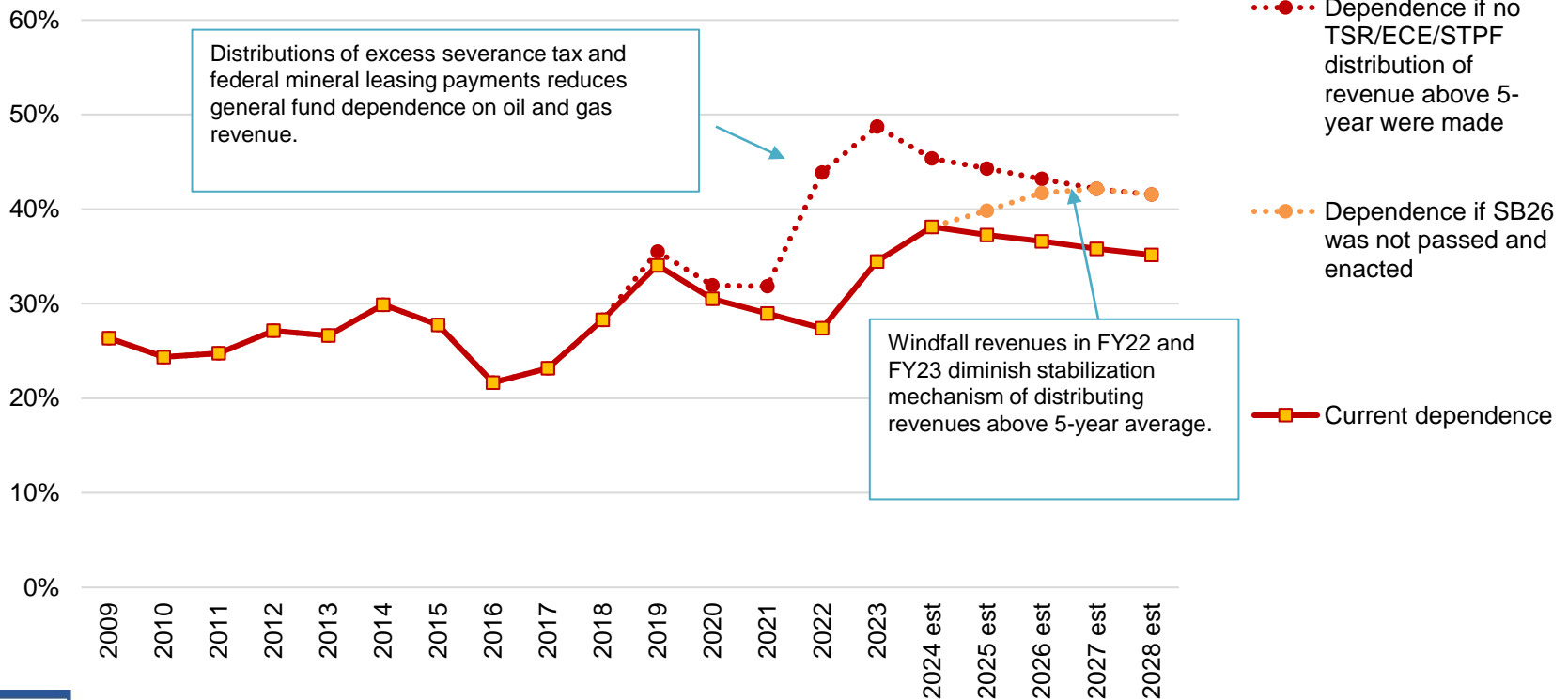


Source: December 2023 CREG



Fiscal and tax policy in some cases conflict with goal of reducing reliance on direct energy revenues

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



Source: December 2023 CREG



The latest December 2023 forecast showed slowing revenue growth

December 2023 Consensus General Fund Recurring Revenue Estimate

(in millions)

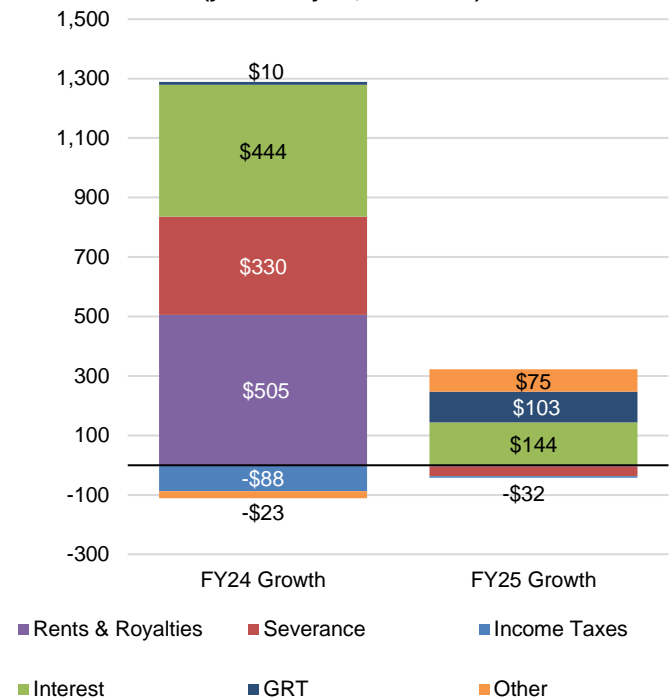
	<u>FY23</u>	<u>FY24</u>	<u>FY25</u>
August 2023 Consensus	\$11,641.1	\$12,611.0	\$13,051.0
December 2023 Adjustments	(\$51.5)	\$156.9	(\$3.2)
December 2023 Consensus	\$11,589.7	\$12,767.8	\$13,047.8
Annual amount change	\$1,914.4	\$1,178.1	\$280.0
Annual percent change	19.8%	10.2%	2.2%



The December 2023 forecast for FY25 is over \$13 billion

- “New Money” = \$3.482 billion for FY25, 36.4% growth from the FY24 budget and up from the December forecast.
- Growth in FY24 is driven primarily by oil and gas revenue, even after large distributions to the early childhood trust fund.
- Interest earnings, thanks to growing distributions from the permanent funds and a record year for earnings on the general fund, are contributing a large share of revenue growth in FY24 and the largest share in FY25.

Change in Recurring General Fund Revenue
(year-over-year, in millions)

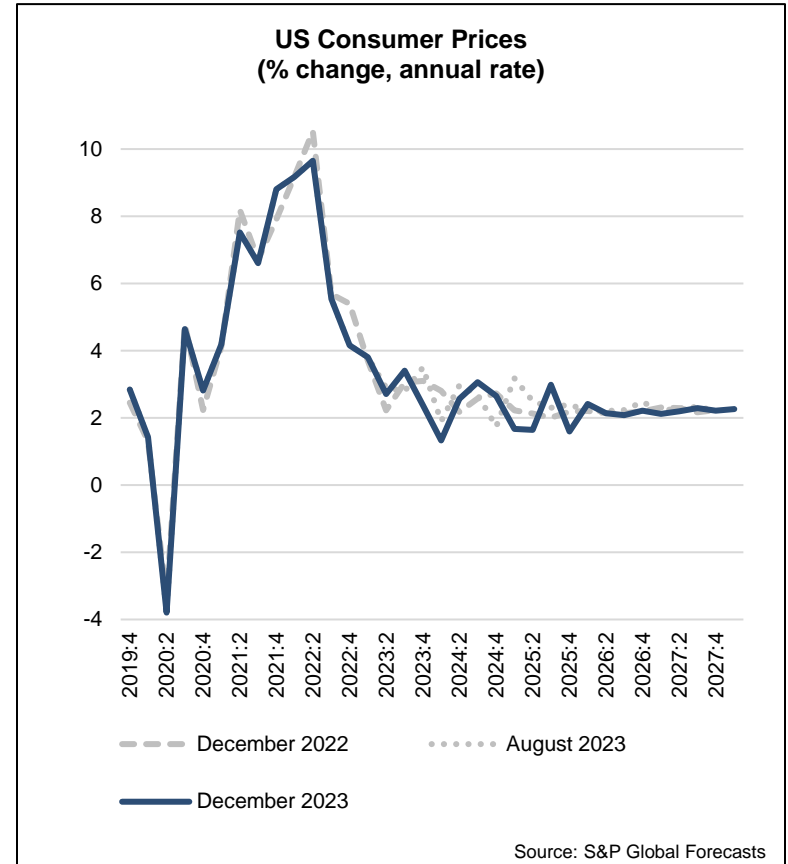
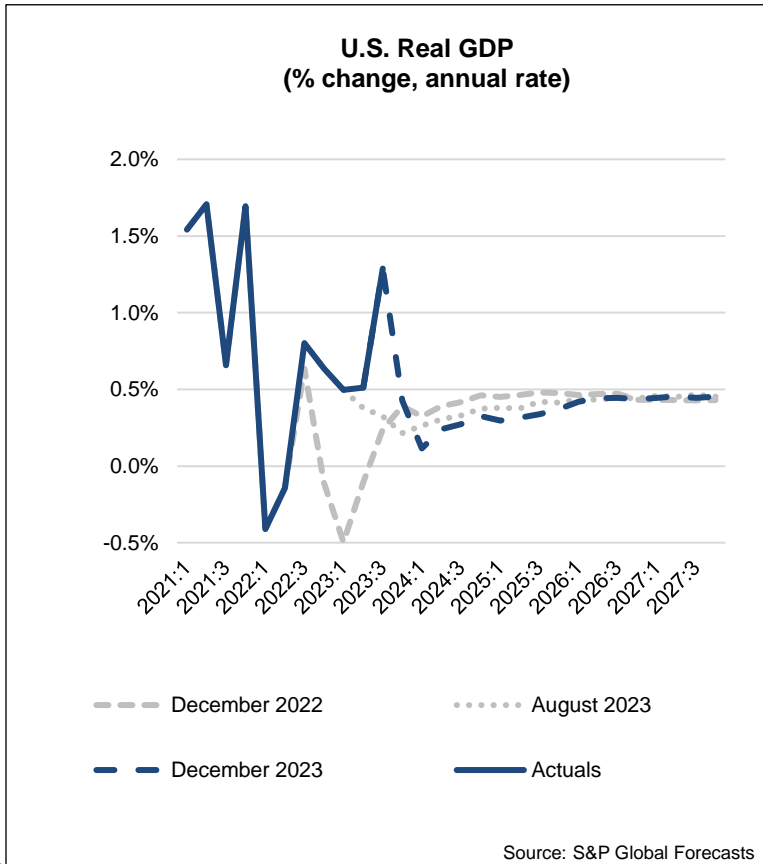


*Severance tax and royalty amounts exclude distributions to the tax stabilization reserve and early childhood trust fund.

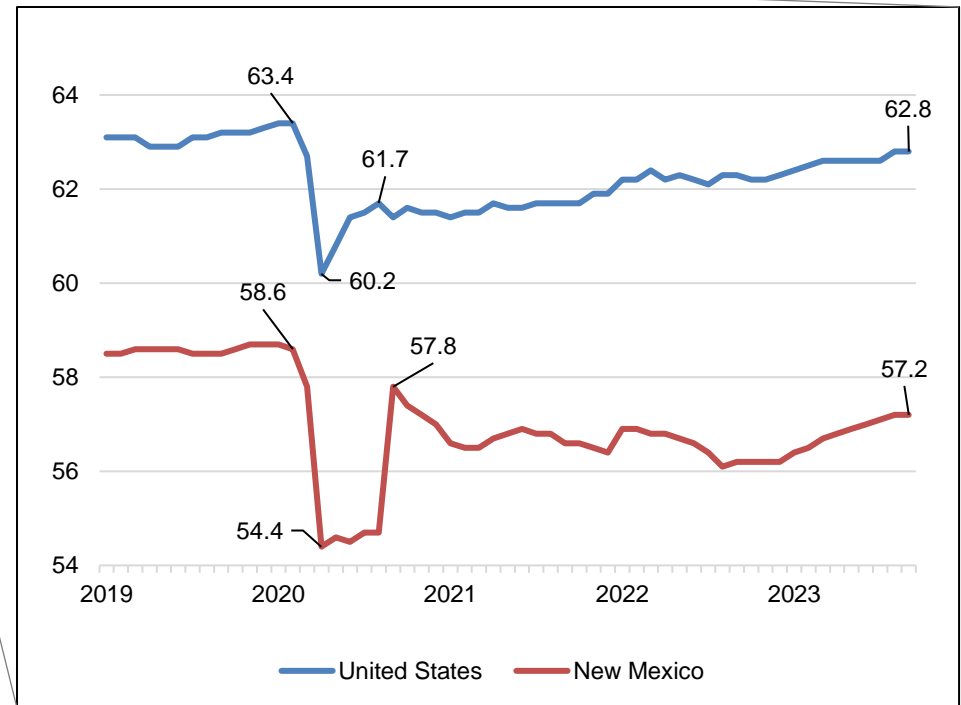
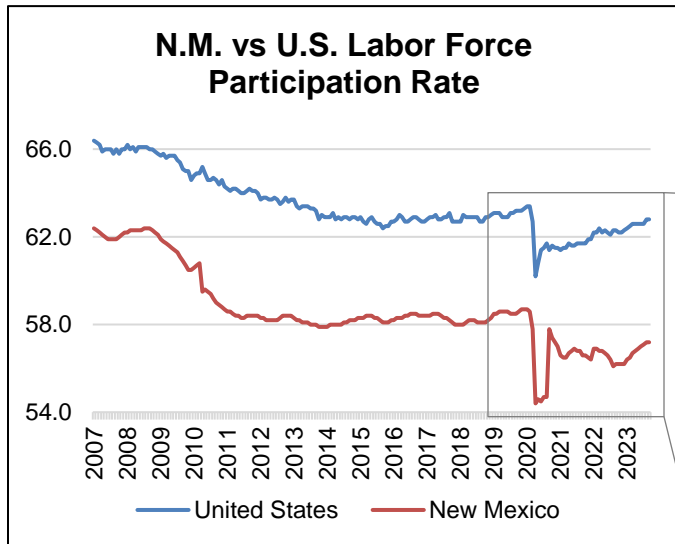
Source: December 2023 CREG



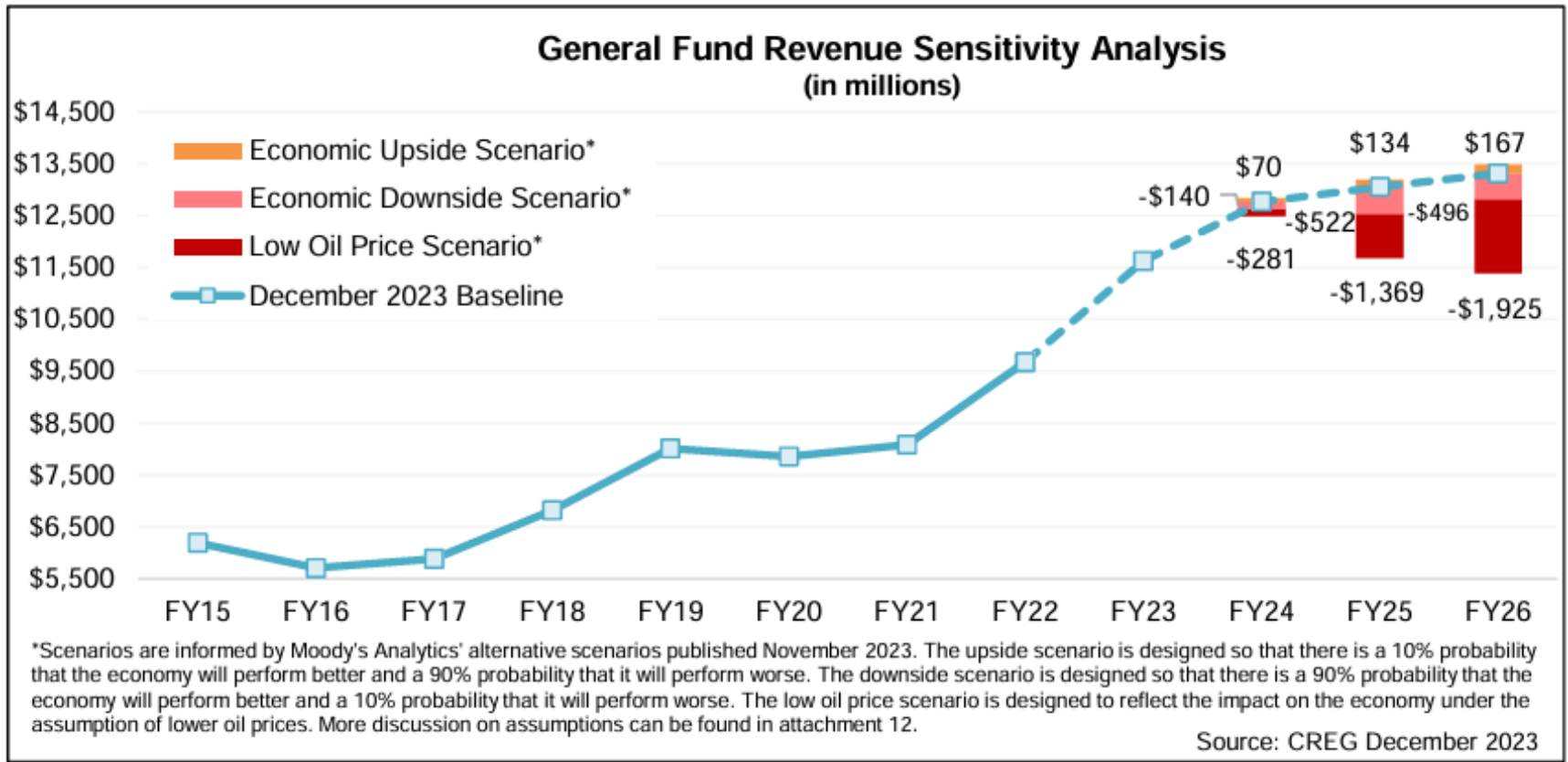
The national economy is stabilizing and returning to pre-pandemic growth



New Mexico's labor force participation is improving but still lags the rest of the country

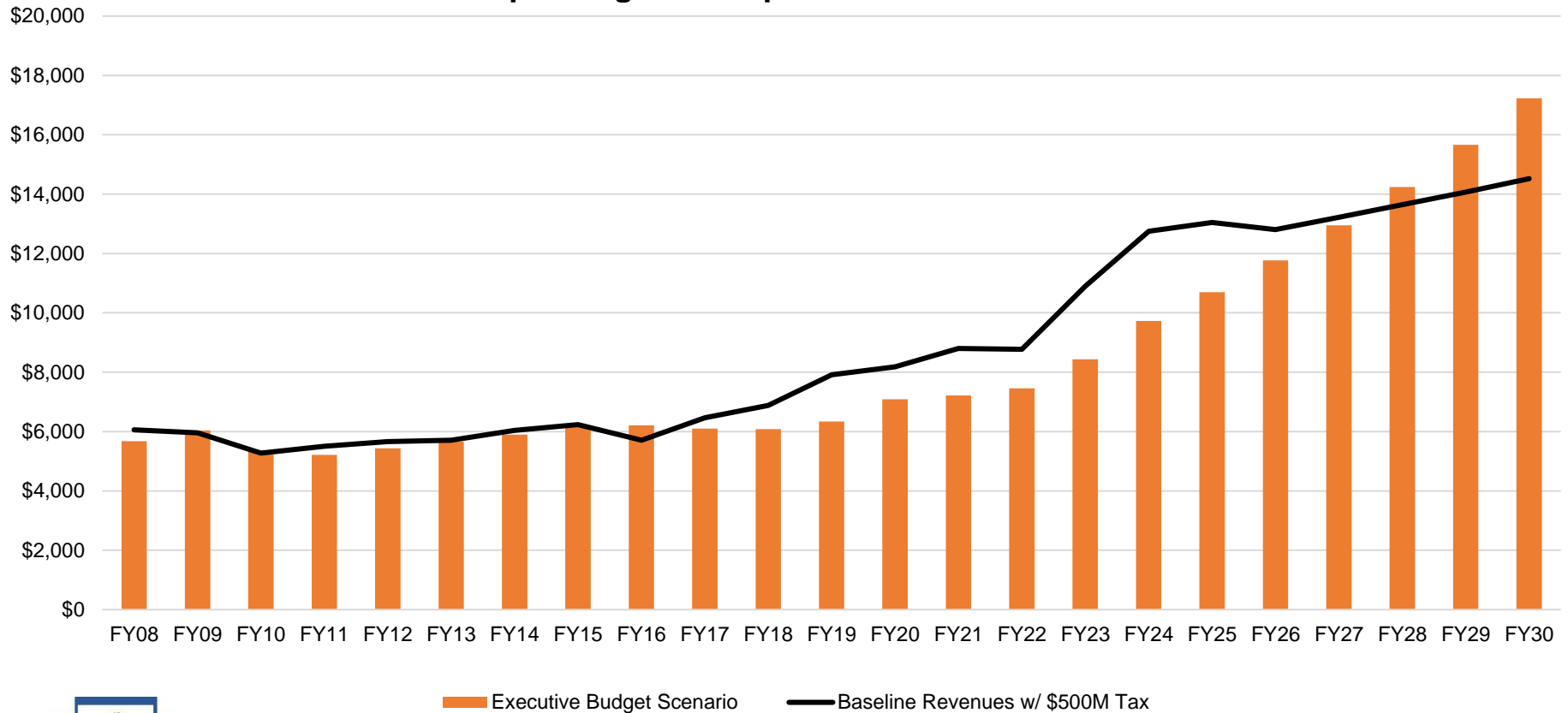


Stress tests help understand the realm of possibility



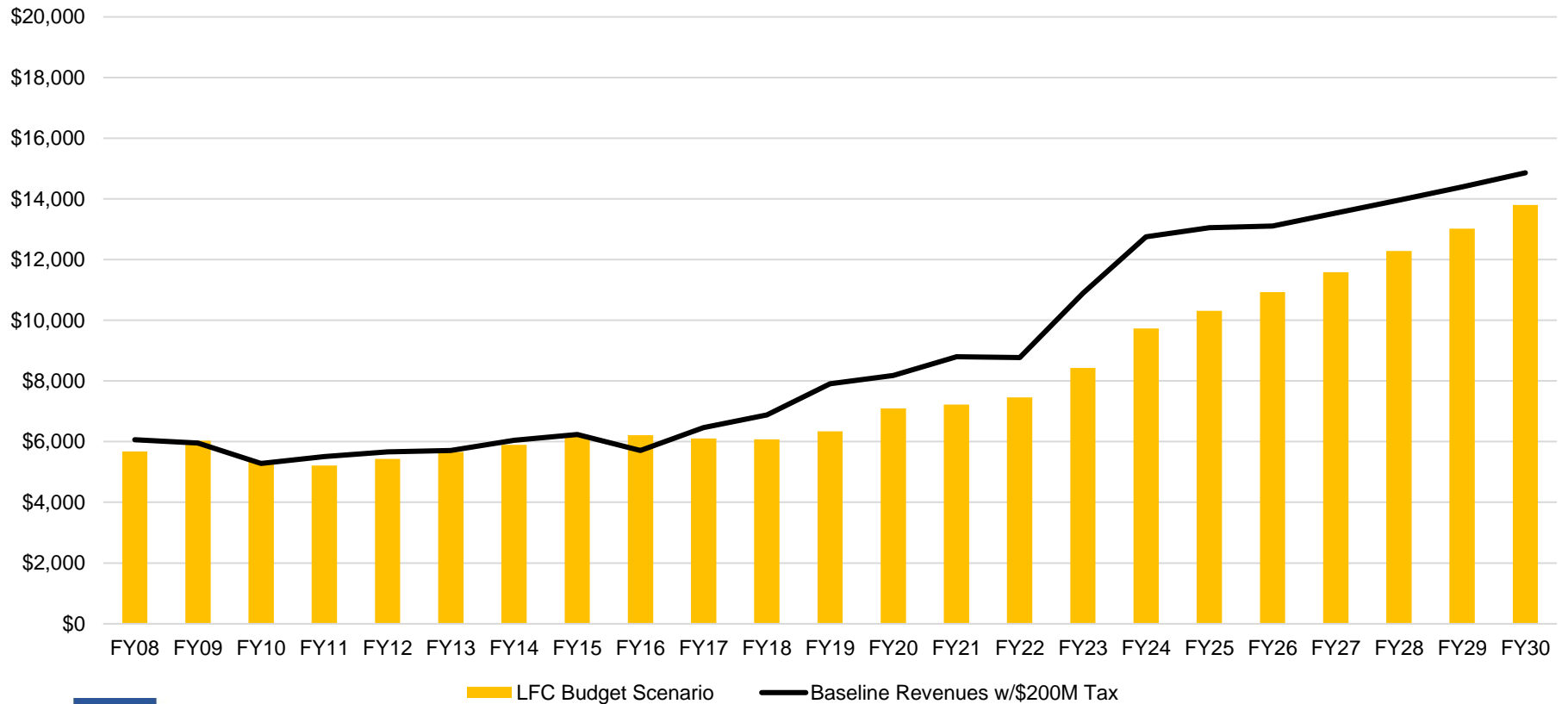
Continued large spending increases (10%-15%) unaffordable

Scenario - 10% Spending Growth per Year and \$500M Tax/Reductions to GF



Budget doesn't have huge cost pressures, so spreading surplus out with more manageable increases and targeting effective interventions is key

Scenario – 6% Spending Growth per Year and \$200M Tax/Reductions to GF



Near term investments need to “make it count” for long term sustainability of government finances

- Foster economic growth to beat current expectations. Investments today need to result in transformational impacts on revenues tomorrow.
- Resist spending all recurring revenues on recurring uses, now and in the future.
- Invest short-term, peak production revenues for future use. E.g., endowments and trust funds.
- Extend five-year average protections on oil and gas related-revenues to delay declines.
- Use short-term, peak production revenues for nonrecurring uses.



House Bill 2: Overview

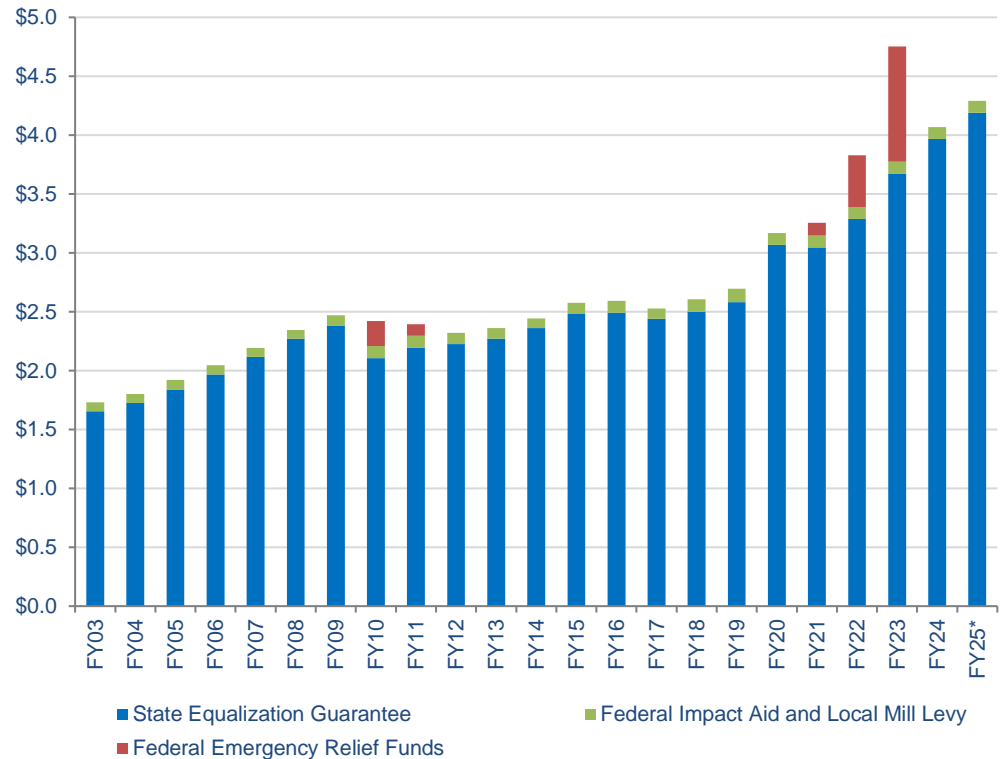
- FY25 budget (HB 2) passed the House at \$10.18 billion, a 6.5% increase over FY24.
 - \$1.96 billion to the new Healthcare Authority
 - Nearly \$20 million increase for early childhood
 - \$180 million increase for Medicaid
 - 12% increase for fire fighting, state parks, and OGAS regulating
 - Increases for judicial and public safety staffing boosts
- HB 2 also includes \$1.3 billion in nonrecurring appropriations
 - \$100 million for water trust board projects
 - \$80 million for rural health care expansions



HB 2: Public Schools Overview

- Public schools represent about 44% of general fund appropriations
- Recurring appropriations have increased 49% between FY19 (*Martinez-Yazzie* ruling) and FY24
- House Bill 2 currently increases SEG for FY25 by \$223 million, or 5.6%

Operational Funding for Public Schools
(in billions)



*HAFC Substitute for House Bill 2
Source: LFC Files



HB 2: Public Schools Overview

- Recurring public school support funding increase is currently \$253 million (6.1%)
- Includes a 2% salary increase and 2% average salary increase for all personnel (total 4%)
- Flexible funding in SEG of \$60 million for learning time and \$20 million for reforms
- Language prohibiting PED enforcement of 180-day rule

Section	FY24 OpBud (in thousands)	FY25 HB2/HAFCS
State equalization guarantee	\$3,969,002.1	\$4,191,856.0
Categorical appropriations (Transportation, IEF, etc.)	\$157,183.8	\$165,682.5
PED Recurring “below-the-line” programs	\$25,946.6	\$47,350.0
PED Nonrecurring (general fund)	\$36,600.0	\$140,126.1
PED Nonrecurring (public education reform fund)	\$183,250.0	\$54,500.0
Government Accountability Expendable Trust (new)		\$75,000.0
Total	\$4,395,571.6	\$4,698,455.2



A more educated population at all levels appears necessary for a prosperous and sustainable future

New Mexico Education Sufficiency Lawsuit:



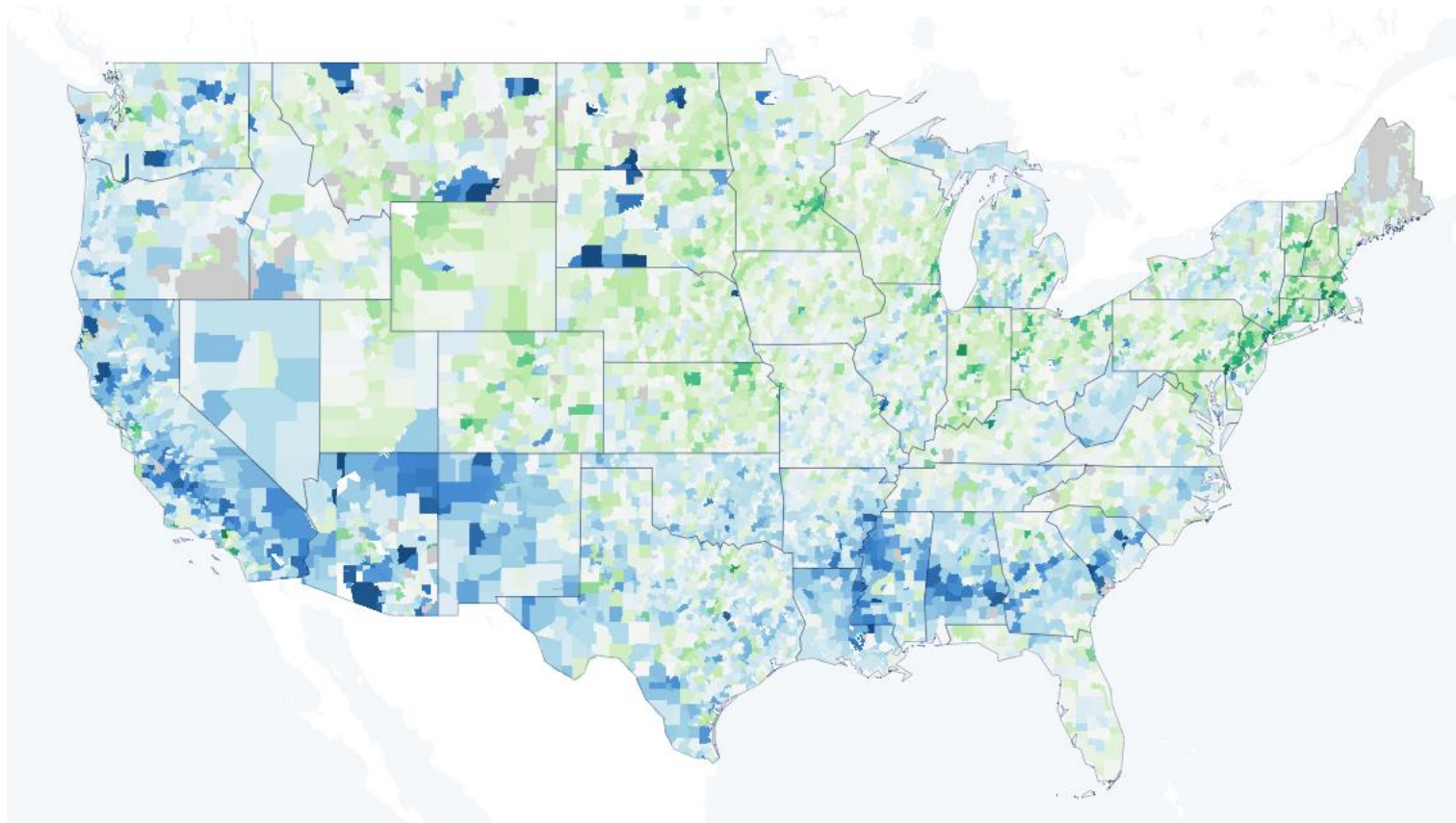
Martinez and Yazzie v. State of New Mexico

- The plaintiffs alleged that New Mexico is not meeting its constitutional obligation to provide sufficient funding and programming for at-risk public school students.

- In 2019, the District Court ruled that:
 - 1) Outputs are “dismal” and therefore...
 - 2) Inputs (funding/programming) must be insufficient; and
 - 3) Oversight over public education should be enhanced.



National Student Average Test Scores, Grades 3-8, 2009-2018 (Green = Positive, Blue = Negative)



Average Test Scores By School District
in grade levels, relative to the U.S. average

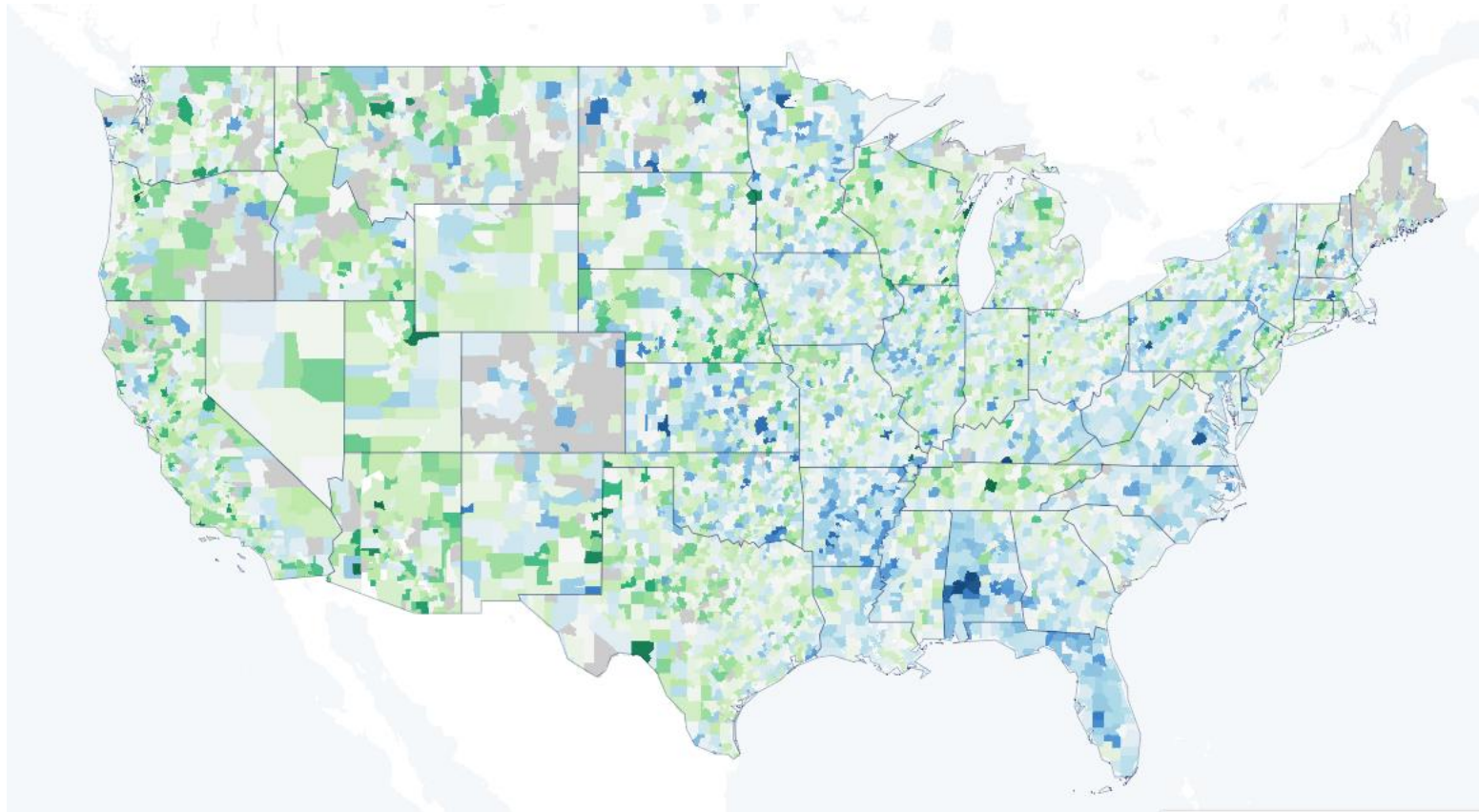


-3.5 U.S. average 3.5

Colors show students' scores, in grade levels, relative to the national average (grades 3-8, 2009-2018).
Source: The Educational Opportunity Project at Stanford University



Learning Rates Compared to National Average Grades 3-8, 2009-2018 (Green = Positive, Blue = Negative)



Learning Rates By School District
amount learned per grade, relative to
U.S. average

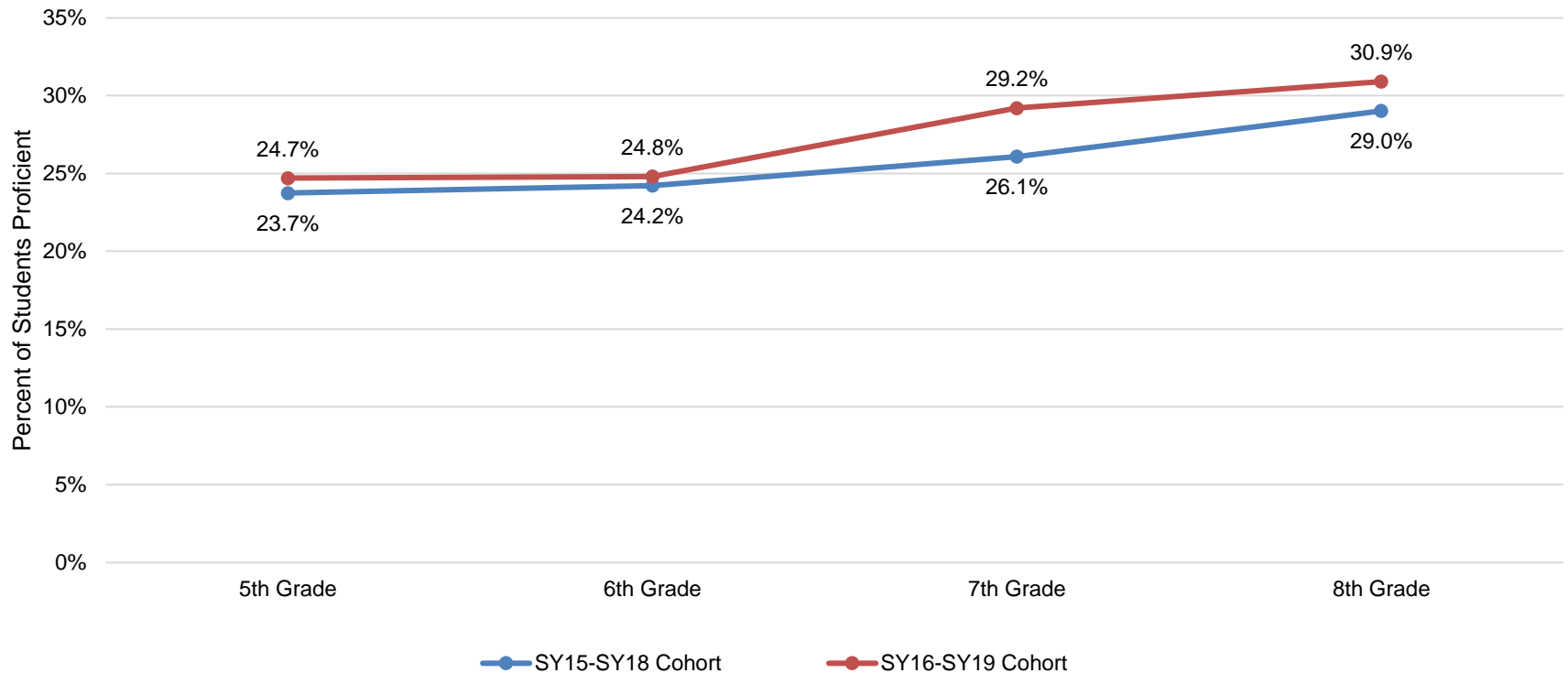


Colors show how much students learn each year relative to the national average (grades 3-8, 2009-2018).
Source: The Educational Opportunity Project at Stanford University



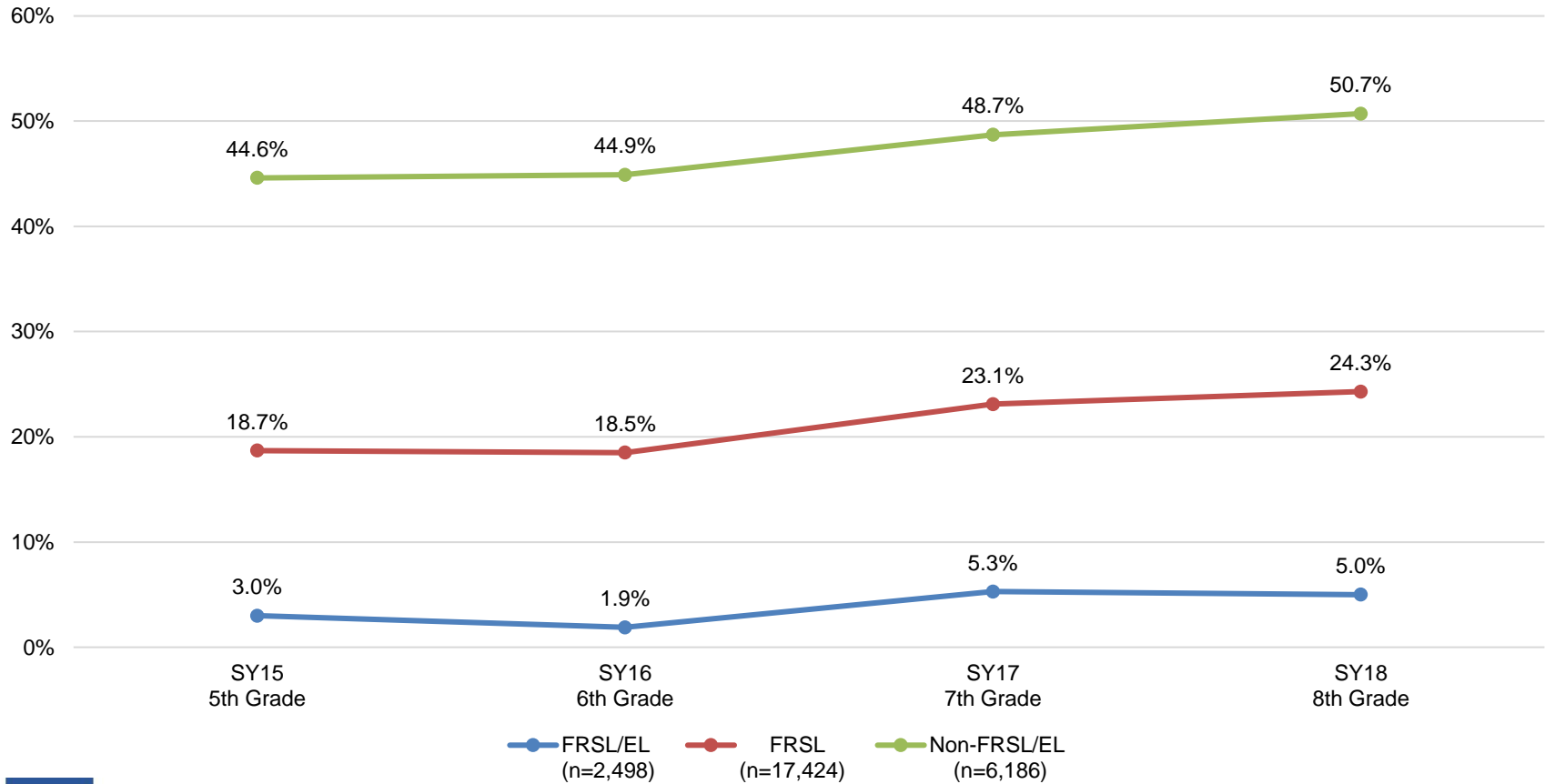
LFC analysis of New Mexico data consistently finds when students attend school and experience more learning time, including longer school year, achievement improves

**Reading Proficiency on PARCC Test from Fifth through Eighth Grade,
SY15-SY18 (N = 23,696 Students), SY16-SY19 (N = 24,011)**



Achievement gaps are largest based on income and language status

Percent Proficient Reading (n = 23,610)



“What if” scenarios help break down performance challenges into manageable amounts

- What if New Mexico were to achieve the national average for...
 - High school graduation?
 - 2,200 more students would need to graduate on time. Totals would be 40-50 students for larger high schools and much less for smaller high schools.
 - Graduation with a bachelor’s degree (in 6 years!)?
 - Less than 1,000 students spread across multiple institutions.



Conclusion

- New Mexico has booming revenues, ongoing education litigation, growing early childhood systems, and large Medicaid costs.
- New Mexico needs to strategically target funding to what works, ensure effective implementation, and monitor spending and changes in outcomes.



QUESTIONS?

For More Information:

<https://www.nmlegis.gov/LFC>

Publications on:

- Budgets
- Revenues
- Performance Report Cards
- Program Evaluations and more!

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