Balancing Mid- to Long-Term Revenues and Expenditures

September 17, 2024
Presentation to the Legislative Finance Committee

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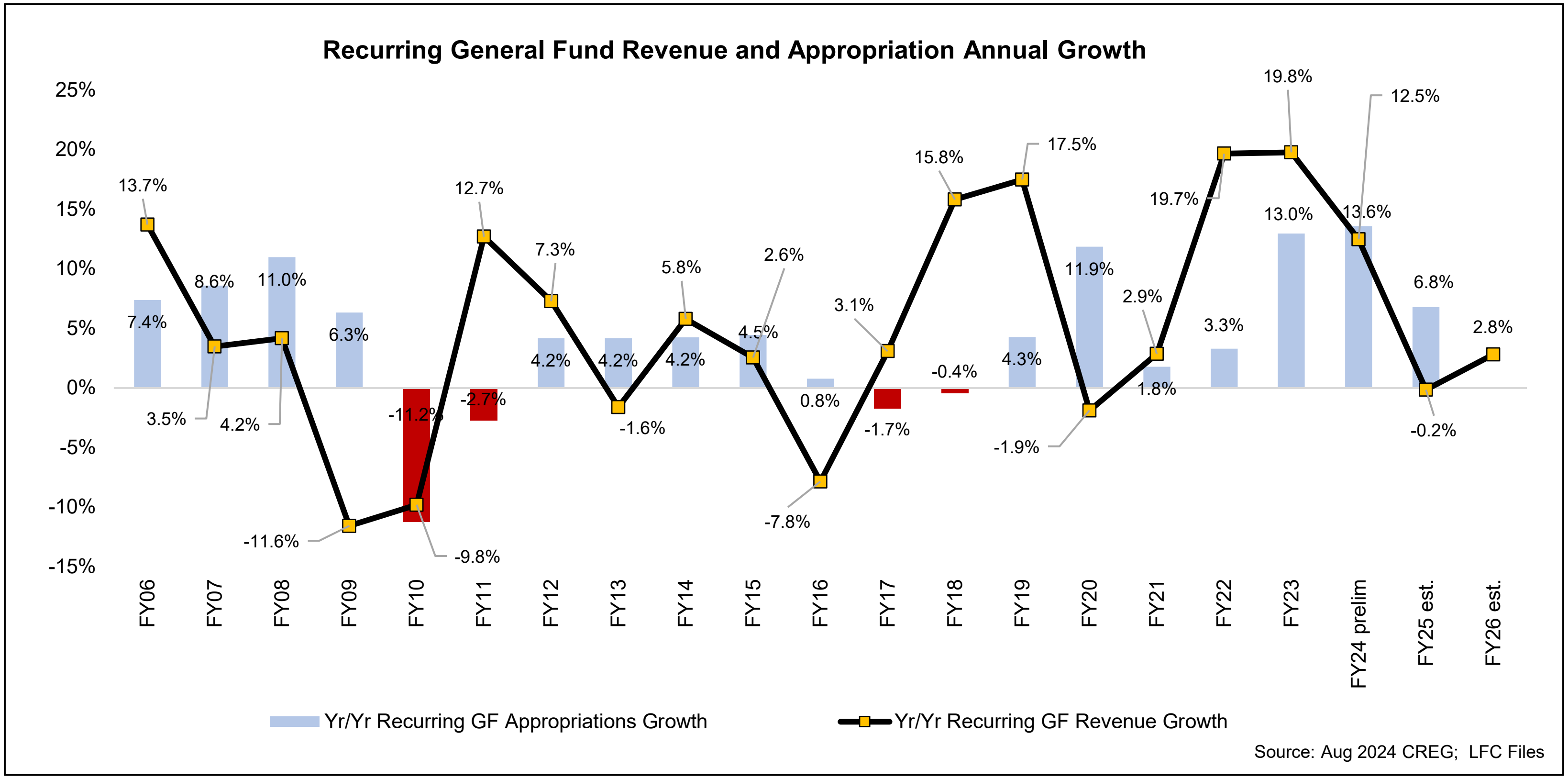
Long-term planning is a best fiscal practice for states, and New Mexico leads with the current approach.

- Organizations such as the Pew Charitable Trusts, State Fiscal Health project, and the Government Finance Officers Association, encourage states to engage in more long-term financial planning.
- Why engage in long term planning for an annual budget cycle?
  - Avoid budgeting by crises and surprises
  - Strategically implement services or tax changes
  - Avoid committing to unsustainable spending
  - Understand full scope of upcoming liabilities and competing budget priorities
  - Prompts key questions that are integral to solving fiscal problems
    - Is the budget balanced now and in the future?
    - What does changing our trajectory look like and require?

Significant volatility in revenues hampers consistent investments, challenging the state's ability to plan and execute stable budgeting.



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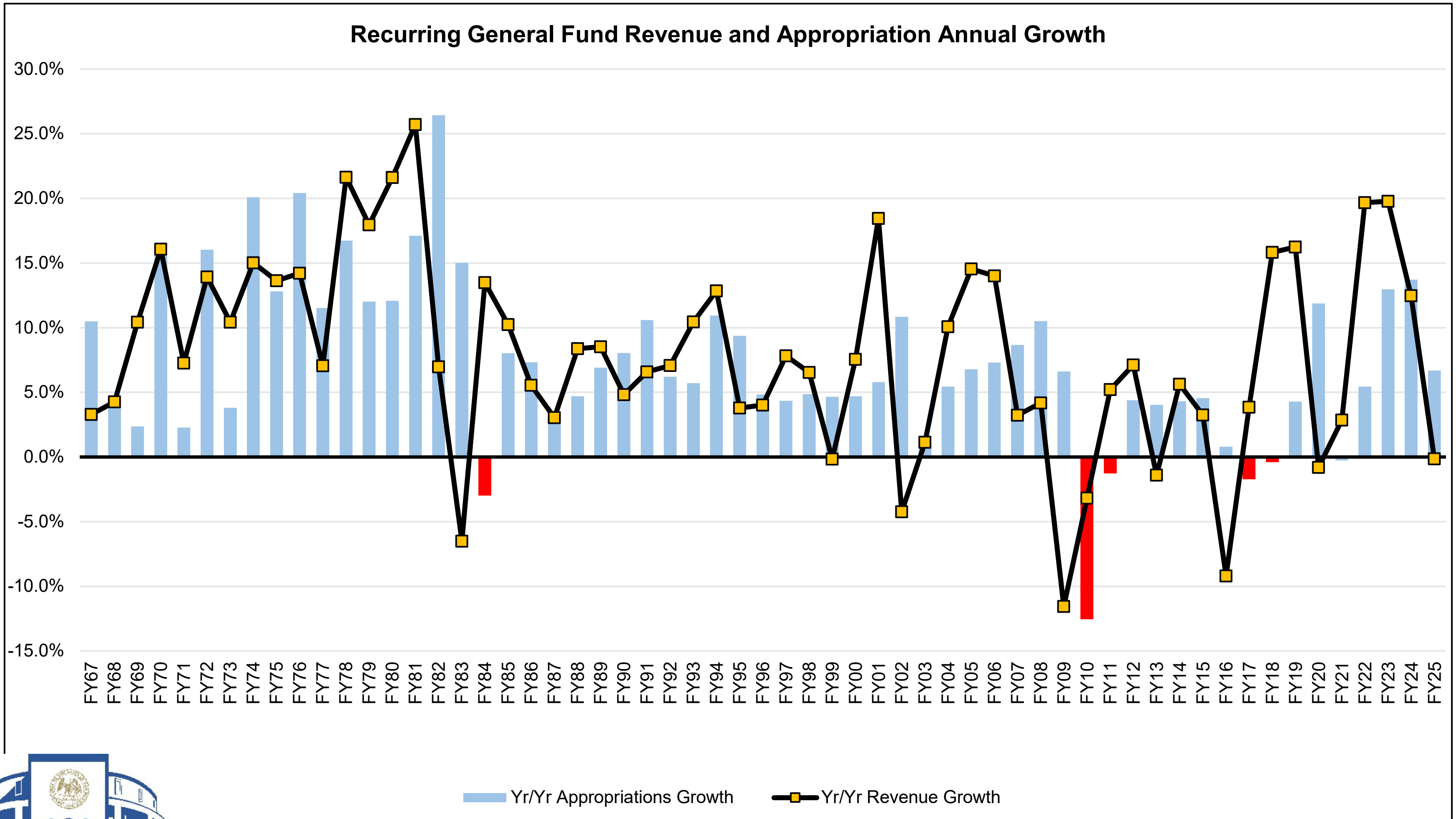
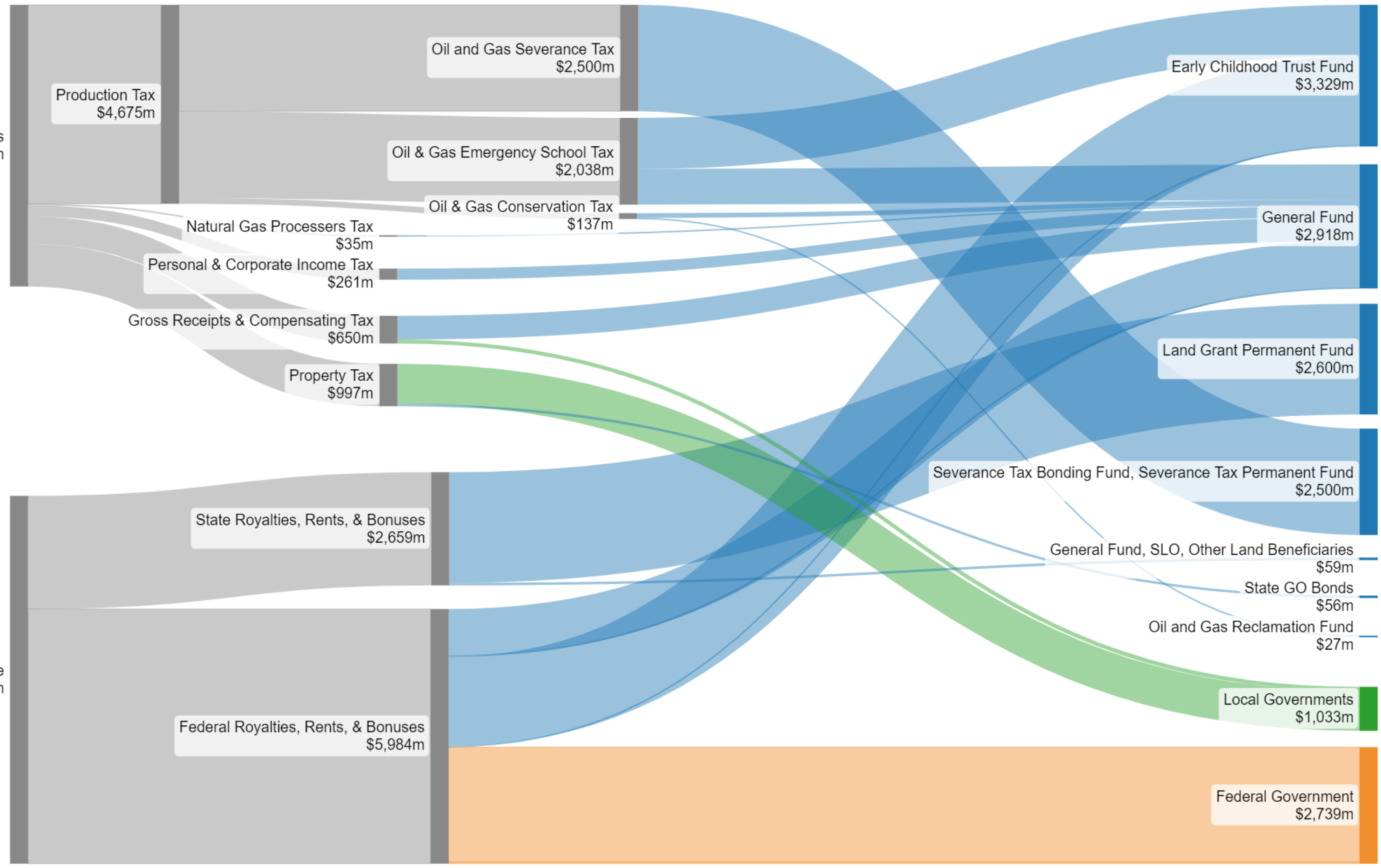
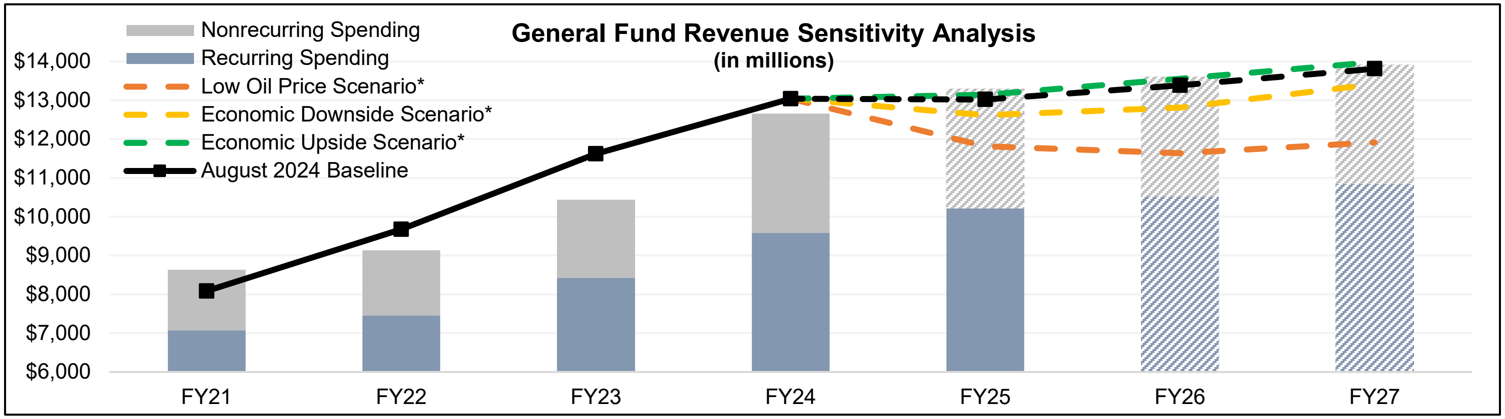


FY2023 Oil and Gas Revenue Flow - $15.2 Billion



General fund reserves have enough money to cover "worst-case" stress test scenario.



	S8: Low Oil Price			S3: Economic Downside			S1: Economic Upside		
Scenario	**FY25**	**FY26**	**FY27**	**FY25**	**FY26**	**FY27**	**FY25**	**FY26**	**FY27**
Severance Taxes to GF	-$368	-$418	-$417	-$35	-$44	-$26	$4	$5	$13
Federal Mineral Leasing to GF	-$155	-$443	-$466	$0	$0	$0	$0	$0	$0
Gross Receipts Taxes	-$499	-$649	-$743	-$228	-$341	-$265	$91	$115	$108
Corporate Income Taxes	-$28	-$44	-$48	-$31	-$57	$0	$5	$7	$8
Personal Income Taxes	-$151	-$192	-$220	-$109	-$135	-$104	$20	$40	$42
General Fund Difference from Baseline	-$1,201	-$1,747	-$1,893	-$403	-$576	-$396	$120	$167	$171
General Fund Percent of Total Impact	*38%*	*45%*	*46%*	*27%*	*27%*	*24%*	*44%*	*41%*	*49%*
Severance Taxes to TSR or ECE	-$517	-$345	-$123	-$482	-$345	-$123	$65	$88	$38
Severance Taxes to STPF	-255	-$527	-$778	-7	-$326	-$390	0	$12	$31
Federal Mineral Leasing to ECE	-$882	-$548	-$175	-$616	-$548	-$175	$85	$127	$60
Federal Mineral Leasing to STPF	-$334	-$742	-$1,167	$0	-$372	-$596	$0	$17	$46
TSR/ECE Transfers Diff. from Baseline	-$1,988	-$2,162	-$2,243	-$1,106	-$1,590	-$1,285	$151	$244	$176
TSR/ECE/STPF Transfers Percent of Total Impact	*62%*	*55%*	*54%*	*73%*	*73%*	*76%*	*56%*	*59%*	*51%*
Total Difference from Baseline	-$3,188	-$3,909	-$4,136	-$1,509	-$2,166	-$1,680	$270	$411	$347

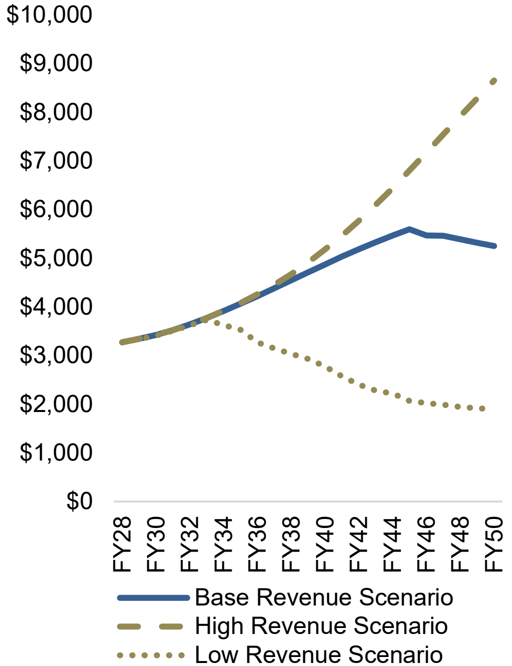
Note: in millions

Fiscal Challenge "Playbook"

- Some form of federal fiscal relief.
- Cancel fund transfers
- Swap revenues and sweep cash balances strategies.
- Cancel stalled or out-year appropriations.
- Tap operating reserve, then the GRO which backs up the operating reserve, before need to tap rainy day fund.
- Lots of "on-the-shelf" information on government efficiency (funded vacant positions and half empty but open prisons as examples)
- No need for "slash and burn" agency cuts, nor for across the board cuts or layoffs if State maintains preparedness.
- Lot's of performance and evidence-based information to prioritize and protect high priority investments.

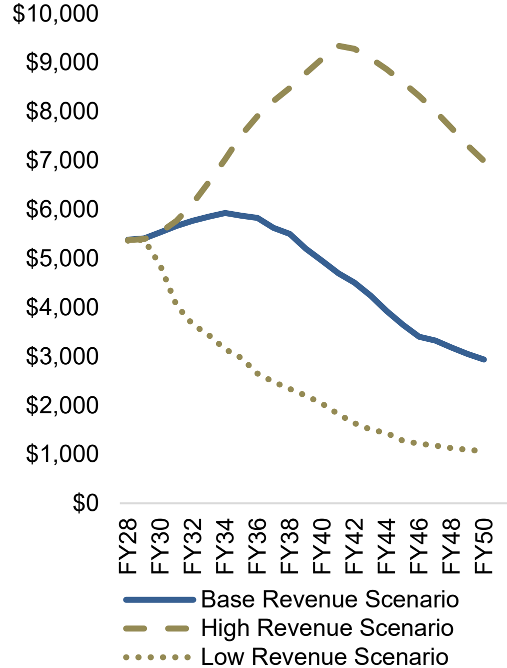
Long-term planning such as diverting excess OGAS revenue to permanent funds, endowing programs, using cash and endowments for capital, and bolstering permanent funds with appropriations has already improved outyear prospects.

Outlook: School Tax, FML, and STPF Distributions to the General Fund
(in millions)



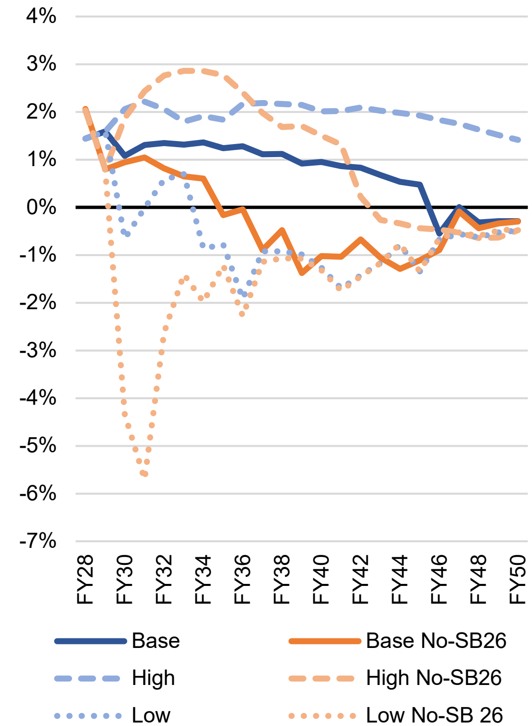
Source: 2024 CREG Long-Term

Counterfactual, No Diversion to STPF: School Tax, FML, and STPF Distributions to the General Fund
(in millions)



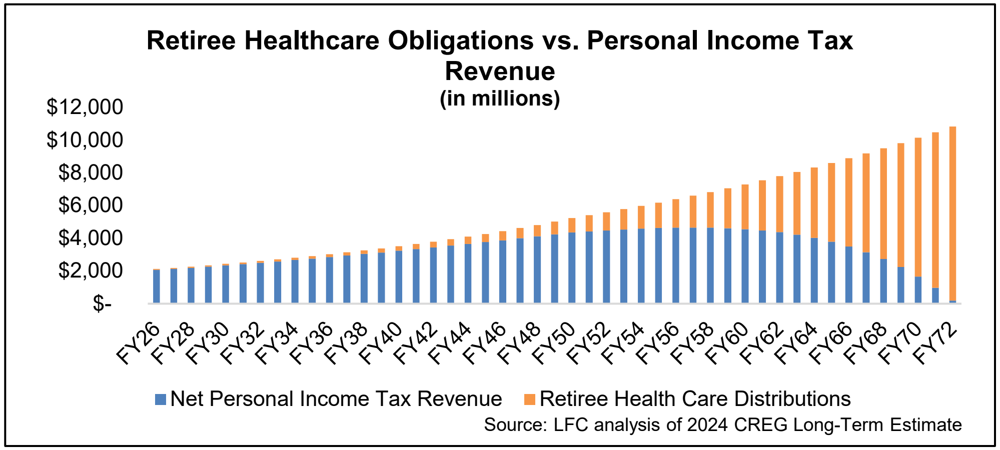
Source: 2024 CREG Long-Term

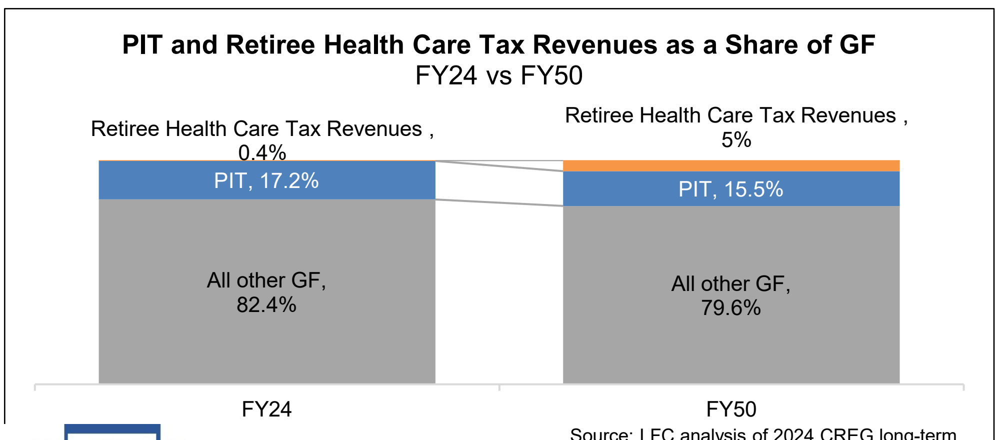
Real General Fund Growth
(adjusted for inflation)



Source: 2024 CREG Long-Term

Identified in the process is the erosion of personal income tax by retiree healthcare distributions.



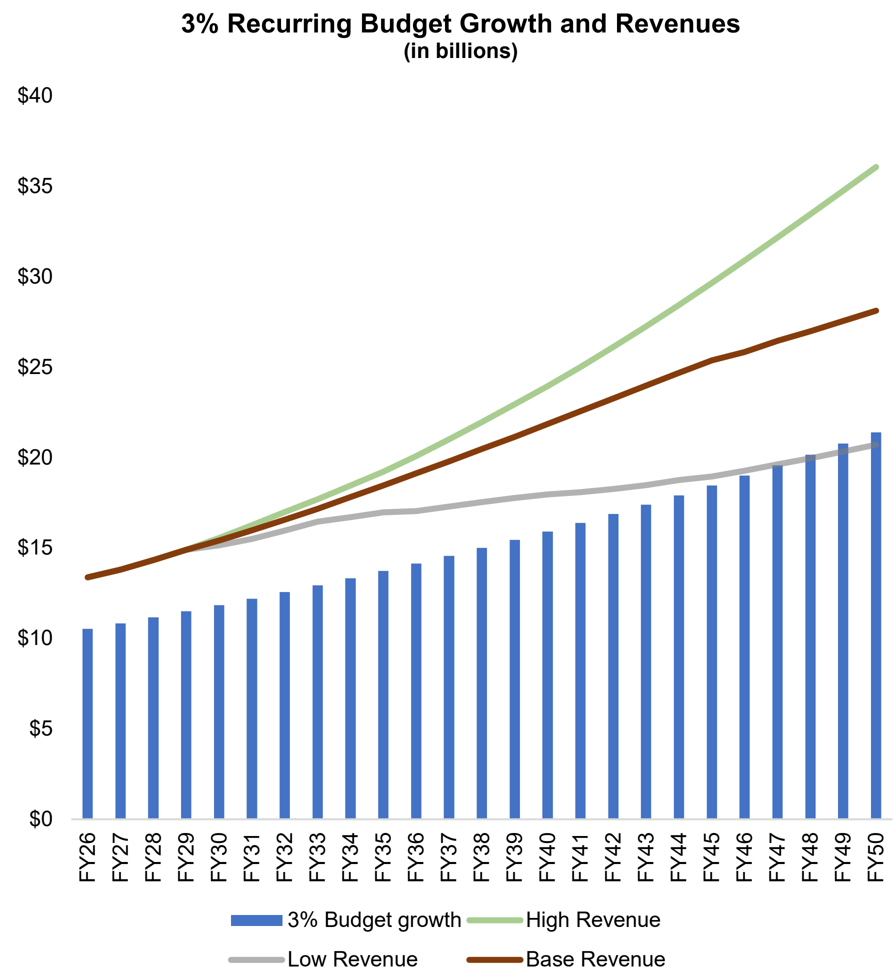


- PIT distributions to the retiree healthcare fund grow at 3x to 6x the rate of PIT revenues.
- PIT distributions to the retiree health care fund grow to 5 percent of the general fund by FY50.
- By FY73, PIT distributions to the retiree health care fund are expected to surpass total PIT collections.

Budget Scenarios and the Revenue Outlook

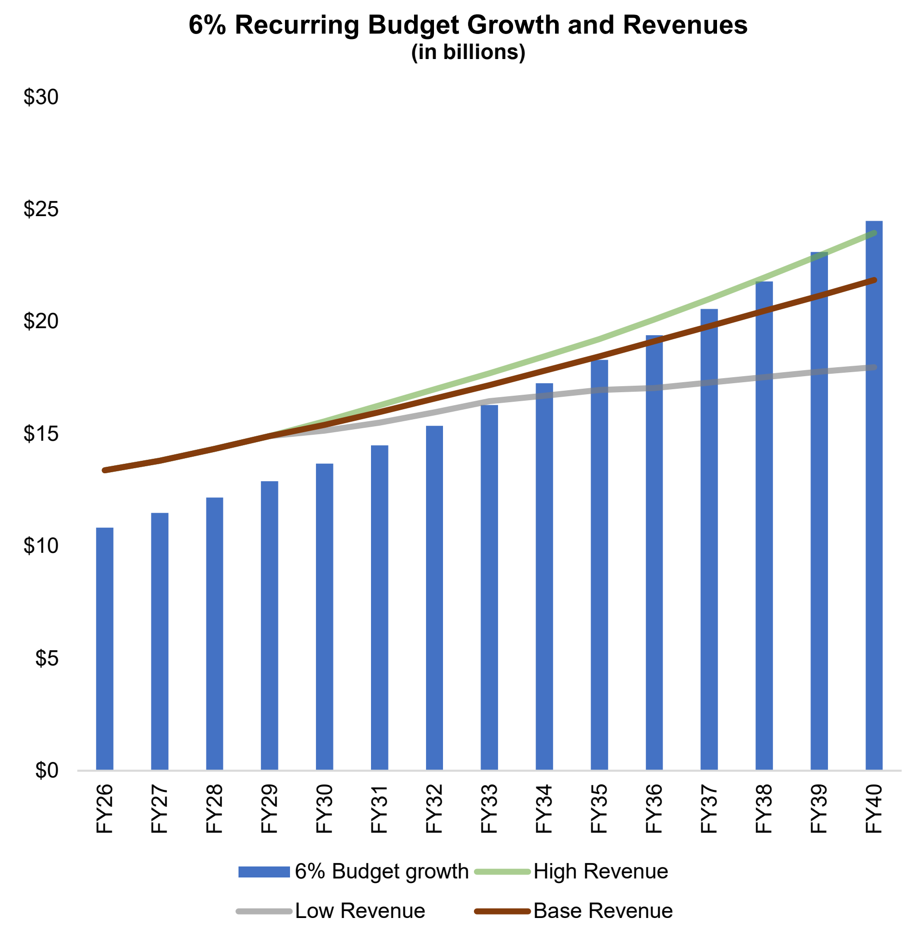
Scenario 1: 3% Budget Growth

- Because estimated baseline and high scenario revenues grow faster than 3% throughout most of the forecast, 3% budget growth allows for a growing surplus, creating more room for nonrecurring spending, investing, and creating endowments.
- In the low-revenue scenario, 3% budget growth is sustainable until FY48.



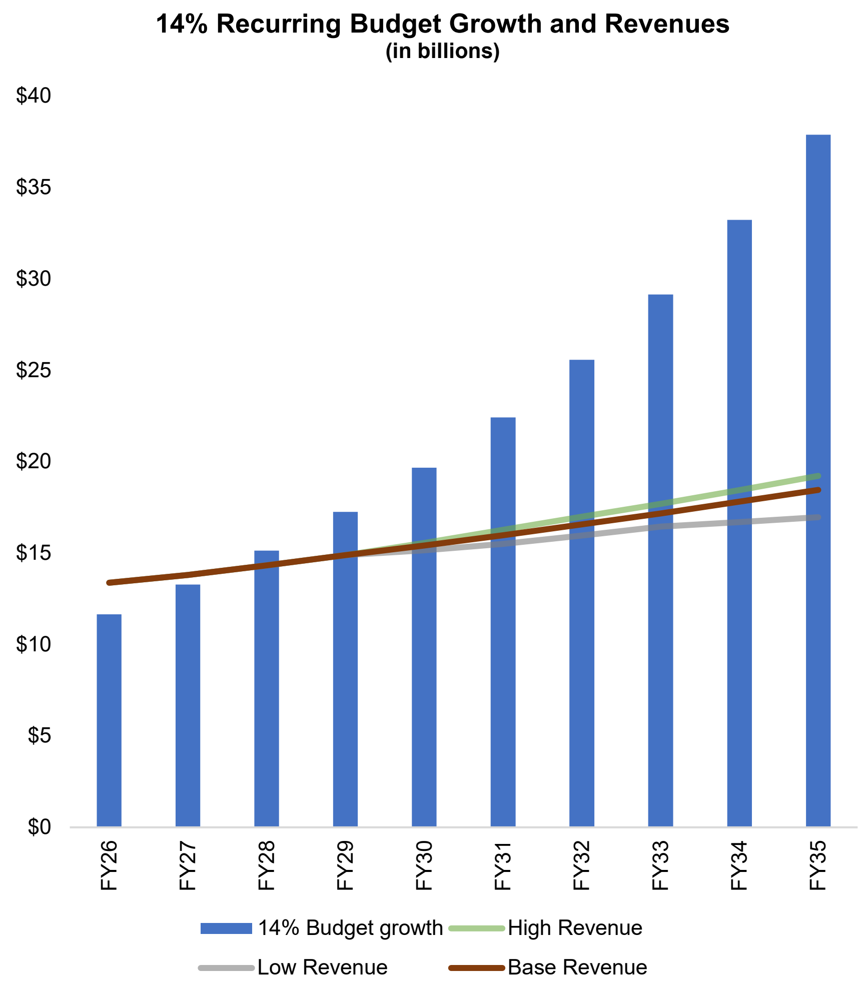
Scenario 2: 6% Budget Growth

- 6% budget growth outpaces revenue growth in the baseline forecast, reducing surpluses until they dip negative in FY36.
- In the low-revenue scenario, 6% budget growth is sustainable until FY33.
- In the high revenue scenario, 6% budget growth surpluses diminish by FY39.

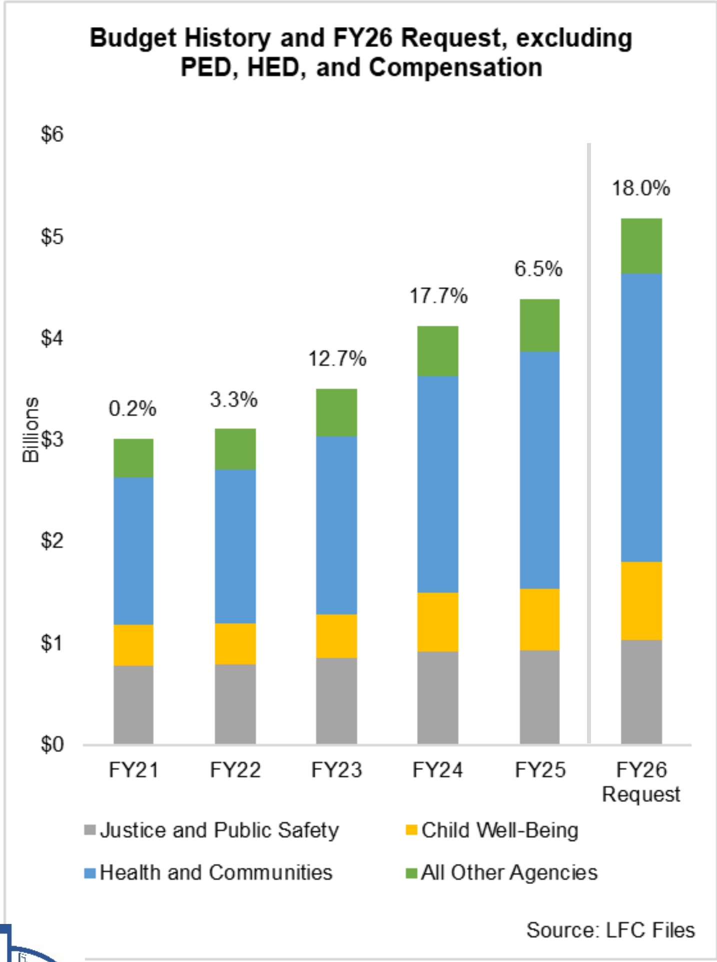


Scenario 3: 14% Budget Growth

- 14% budget growth outpaces revenue growth in all revenue scenarios, eroding all surpluses and nonrecurring spending by FY28.



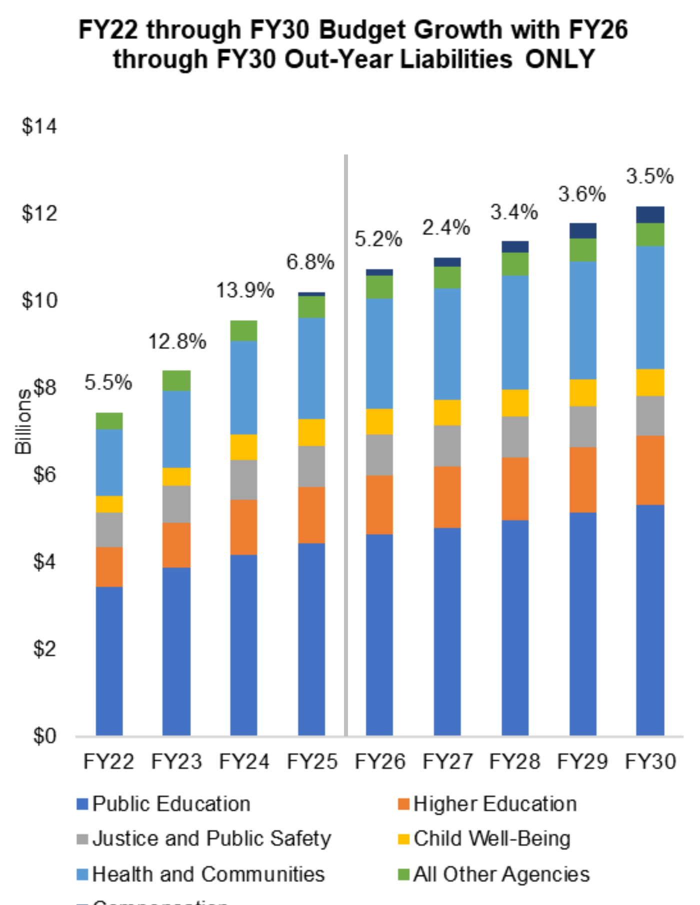
So far, agencies have requested 18% budget growth, without PED or HED requests.



General Fund FY25 Op Bud and FY26 Requests
(as of Sept. 3, 2024, in millions)

	FY25 Op Bud	FY26 Request	Increase	Percent Change
Judicial	$ 442.5	$ 496.9	$ 54.4	12.3%
General Control	$ 212.3	$ 227.7	$ 15.5	7.3%
Commerce and Industry	$ 102.1	$ 115.4	$ 13.4	13.1%
Ag, Energy, Natural Resources	$ 124.3	$ 148.9	$ 24.7	19.9%
Health Care and Communities	$ 2,968.2	$ 3,605.5	$ 637.3	21.5%
Public Safety	$ 550.2	$ 595.0	$ 44.8	8.1%
Total	**$ 4,399.6**	**$ 5,189.5**	**$ 790.0**	**18.0%**

Current budget obligations and liabilities are projected to commit 5.2% of budget growth over FY25 in FY26, limiting opportunity for new initiatives, nonrecurring priorities, base budget growth, or other investments.



Source: LFC Files

Example Out-Year Liabilities and Cost Estimates FY26 through FY30 (in millions)					
Liability	**General Cost Estimate Over FY25 Levels**				
	FY26	**FY27**	**FY28**	**FY29**	**FY30**
State Agency Compensation + Benefits	47.0	93.5	143.3	199.1	255.0
State Agency GSD Medical	9.9	20.7	32.7	45.9	60.3
New State Employee Pay Plan	20.0	20.8	21.6	22.5	23.4
Higher Education Compensation	47.0	93.4	143.2	199.0	254.9
Public Schools Compensation + Benefits	121.6	241.9	370.8	515.1	659.8
PED Medical/Insurance	25.7	53.9	85.0	119.1	156.7
K12 Plus	60.0	70.4	75.8	81.4	87.2
AOC Pilots	1.0	1.3	1.7	2.0	2.4
DD Waiver Rate Increase	21.8	22.7	23.6	24.6	25.5
Eliminate DD Waiver Wait List / Utilization	40.1	20.6	31.6	42.9	54.7
Aging Network	1.8	3.8	5.7	7.8	10.0
BHSD Staffing CCBHC	3.4	3.4	3.4	3.4	3.4
Medicaid FMAP Decrease and Medical Inflation	79.8	157.9	235.5	315.3	395.3
Medicaid Indexing to Medicare	50.0	51.4	52.8	54.3	55.8
OFRA Multi-Disciplinary Team Pilots	-	-	2.6	5.2	5.4
Backfill Apprenticeships	-	2.0	2.0	2.0	2.0
GRO Pilots Adopted into Recurring Budgets			36.0	36.0	36.0
Total Obligations over FY25	**529.1**	**857.7**	**1,267.3**	**1,675.4**	**2,087.9**

How can the state improve the long-term revenue outlook?

- 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.

- Use short-term, peak production revenues for nonrecurring uses.

- Invest short-term, peak production revenues for future use. Set aside surplus in GRO to spread out more sustainable, predictable, and more accountable spending.

QUESTIONS?

For More Information:
https://www.nmlegis.gov/LFC
Publications on:

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

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Appendix: Early Childhood and Education Trust Fund

Early Childhood Trust Fund Forecast - August 2024

(in millions)

Calendar Year	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual	Actual	Actual	*Estimated*	*Estimated*	*Estimated*	*Estimated*	*Estimated*	*Estimated*
Beginning Balance	$300.0	$314.1	*$3,462.0*	*$5,721.2*	*$8,077.4*	*$9,758.6*	*$10,918.2*	*$11,504.3*	*$11,739.1*
Gains & Losses	$34.1	*($6.4)*	*$336.1*	*$286.1*	*$403.9*	*$487.9*	*$545.9*	*$575.2*	*$587.0*
Excess Federal Mineral Leasing	$0.0	$1,501.5	*$2,073.0*	*$1,170.4*	*$881.2*	*$547.0*	*$174.7*	*$73.1*	*$162.0*
Excess OGAS School Tax*	$0.0	$1,682.80	*$0.0*	*$1,149.8*	*$683.8*	*$517.3*	*$344.7*	*$122.8*	*$116.7*
Distribution to ECE Program Fund	($20.0)	($30.0)	*($150.0)*	*($250.0)*	*($287.7)*	*($392.6)*	*($479.2)*	*($536.4)*	*($569.4)*
Ending Balance	**$314.1**	**$3,462.0**	**$5,721.2**	***$8,077.4***	***$9,758.6***	***$10,918.2***	***$11,504.3***	***$11,739.1***	***$12,035.3***

*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	FY29
Distribution to ECE Program Fund	$0.00	$20.00	$30.00	$150.00	$250.00	$287.68	$392.62	$479.24	$536.35

Appendix: Other Funds Investment Earnings and Contributions

Conservation Legacy Permanent Fund (CLPF)	FY24	FY25	FY26	FY27	FY28	FY29
Beginning Balance	$ 50,000.00	$353,663.40	$358,663.40	$363,663.40	$368,663.40	$373,663.40
Gains & Losses	$ 3,663.40	$ 26,524.76	$ 26,899.76	$ 27,274.76	$ 27,649.76	$ 28,024.76
Distribution to LELF		$ 21,524.76	$ 21,899.76	$ 22,274.76	$ 22,649.76	$ 23,024.76
Ending Balance	$ 53,663.40	$358,663.40	$363,663.40	$368,663.40	$373,663.40	$378,663.40

Land of Enchantment Legacy Fund (LELF)	FY24	FY25	FY26	FY27	FY28	FY29
Beginning Balance	$ 50,000.00	$ 37,813.34	$ 45,212.57	$ 51,181.98	$ 56,052.21	$ 60,077.45
Inflow from CLPF	$ -	$ 21,524.76	$ 21,899.76	$ 22,274.76	$ 22,649.76	$ 23,024.76
Gains & Losses	$ 417.78	$ 945.33	$ 1,130.31	$ 1,279.55	$ 1,401.31	$ 1,501.94
Balance After Inflows	$ 50,417.78	$ 60,283.42	$ 68,242.64	$ 74,736.28	$ 80,103.27	$ 84,604.15
Distribution from LELF to Agencies	$ 12,604.45	$ 15,070.86	$ 17,060.66	$ 18,684.07	$ 20,025.82	$ 21,151.04
Ending Balance	$ 37,813.34	$ 45,212.57	$ 51,181.98	$ 56,052.21	$ 60,077.45	$ 63,453.11

Share	Distributions to Agencies	FY24	FY25	Estimated FY26	Estimated FY27	Estimated FY28	Estimated FY29
22.5%	EMNRD: 50% to the Forestry Division		$ 1,418.00	$ 1,695.47	$ 1,919.32	$ 2,101.96	$ 2,252.90
	EMNRD: 50% for the National Heritage Conservation Act		$ 1,418.00	$ 1,695.47	$ 1,919.32	$ 2,101.96	$ 2,252.90
22.5%	NMDA: Noxious Weed Mgt, Healthy Soil Act, and Soil/Water Conservation District		$ 2,836.00	$ 3,390.94	$ 3,838.65	$ 4,203.92	$ 4,505.81
22.0%	DGF: Projects and programs for the propogation and protection of game and fish		$ 2,772.98	$ 3,315.59	$ 3,753.35	$ 4,110.50	$ 4,405.68
15.0%	EDD: 75% for outdoor recreation division special projects and infrastructure		$ 1,418.00	$ 1,695.47	$ 1,919.32	$ 2,101.96	$ 2,252.90
	EDD: 25% for the outdoor equity grant program		$ 472.67	$ 565.16	$ 639.77	$ 700.65	$ 750.97
10.0%	NMED: Water quality and river habitat projects		$ 1,260.44	$ 1,507.09	$ 1,706.07	$ 1,868.41	$ 2,002.58
8.0%	DCA: For the Cultural Properties Protection Act		$ 1,008.36	$ 1,205.67	$ 1,364.85	$ 1,494.73	$ 1,602.07
100.0%	TOTAL Distributions		$ 12,604.45	$ 15,070.86	$ 17,060.66	$ 18,684.07	$ 20,025.82

Appendix: Higher Education Trust Fund

Analysis of Higher Education Trust Fund

(assuming 3.5% average annual growth rate for tuition and enrollment increases)

	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
SOURCES								
Trust Fund Beg. Bal.	**959,000.0**	**943,098.0**	**978,094.9**	**1,009,325.6**	**1,024,870.8**	**1,036,158.2**	**1,047,155.1**	**1,058,181.3**
Investment Return (1)	-	56,585.9	58,685.7	60,559.5	61,492.2	62,169.5	62,829.3	63,490.9
Avail for Transfer to Prog Fund (2)	**47,950.0**	**47,154.9**	**48,029.8**	**48,842.0**	**50,204.9**	**51,172.6**	**51,803.1**	**52,358.2**
USES								
Lottery Scholarship Fund Balance	110,823.8	84,647.9	55,615.2	23,604.4	-	-	-	-
Lottery Scholarship Revenue	47,219.1	46,931.1	46,611.8	46,259.6	46,000.0	46,000.0	46,000.0	46,000.0
Lottery Cost (3)	73,395.0	75,963.8	78,622.6	81,374.3	84,222.5	87,170.2	90,221.2	93,378.9
Lottery Need, Additional	-	-	-	*11,510.3*	*38,222.5*	*41,170.2*	*44,221.2*	*47,378.9*
Opportunity Appropriations	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0	146,000.0
Opportunity Use (4)	161,902.0	167,589.0	173,455.0	179,504.0	185,786.6	192,289.2	199,019.3	205,985.0
Opportunity Need, Additional	*15,902.0*	*21,589.0*	*27,455.0*	*33,504.0*	*39,786.6*	*46,289.2*	*53,019.3*	*59,985.0*
Total Financial Aid Need	**15,902.0**	**21,589.0**	**27,455.0**	**45,014.3**	**78,009.1**	**87,459.4**	**97,240.5**	**107,363.9**
Trust Fund Use	**15,902.0**	**21,589.0**	**27,455.0**	**45,014.3**	**50,204.9**	**51,172.6**	**51,803.1**	**52,358.2**
Reversion to Trust Fund/(Gap)	32,048.0	25,565.9	20,574.8	3,827.7	(27,804.2)	(36,286.8)	(45,437.4)	(55,005.7)
Trust Fund Ending Balance	**943,098.0**	**978,094.9**	**1,009,325.6**	**1,024,870.8**	**1,036,158.2**	**1,047,155.1**	**1,058,181.3**	**1,069,314.0**

Notes:
1. Investment return of 6% based on STPF 10-year return
2. statute allows for 5% of 3-year average
3. Based on 5% growth FY25 and 3.5% after FY25