



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

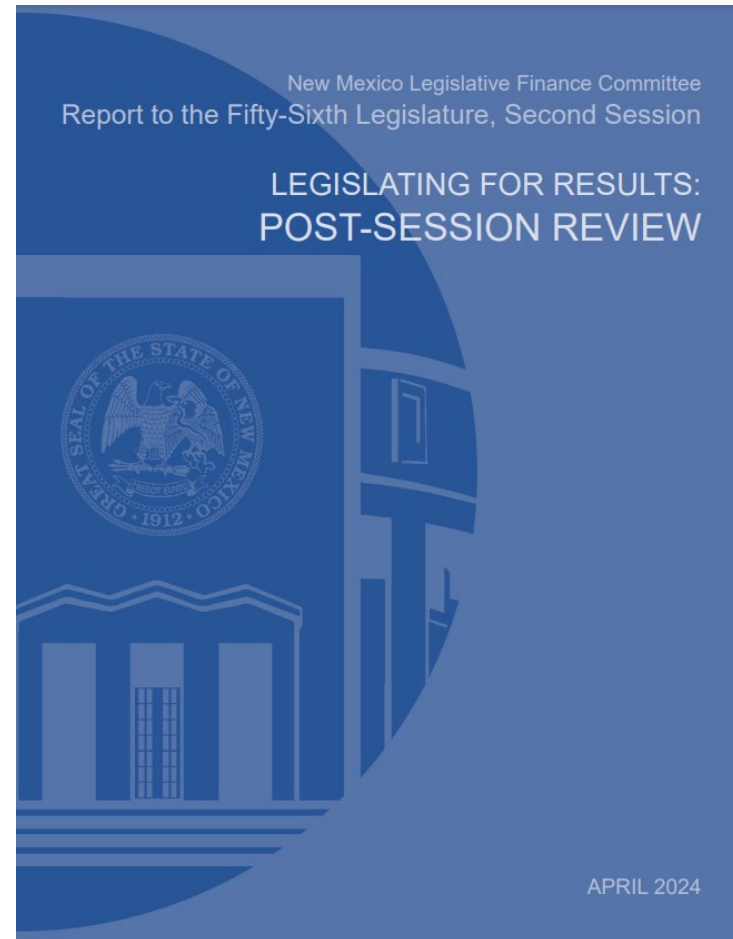
Post Session Review

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Legislative Finance Committee

May 28, 2024

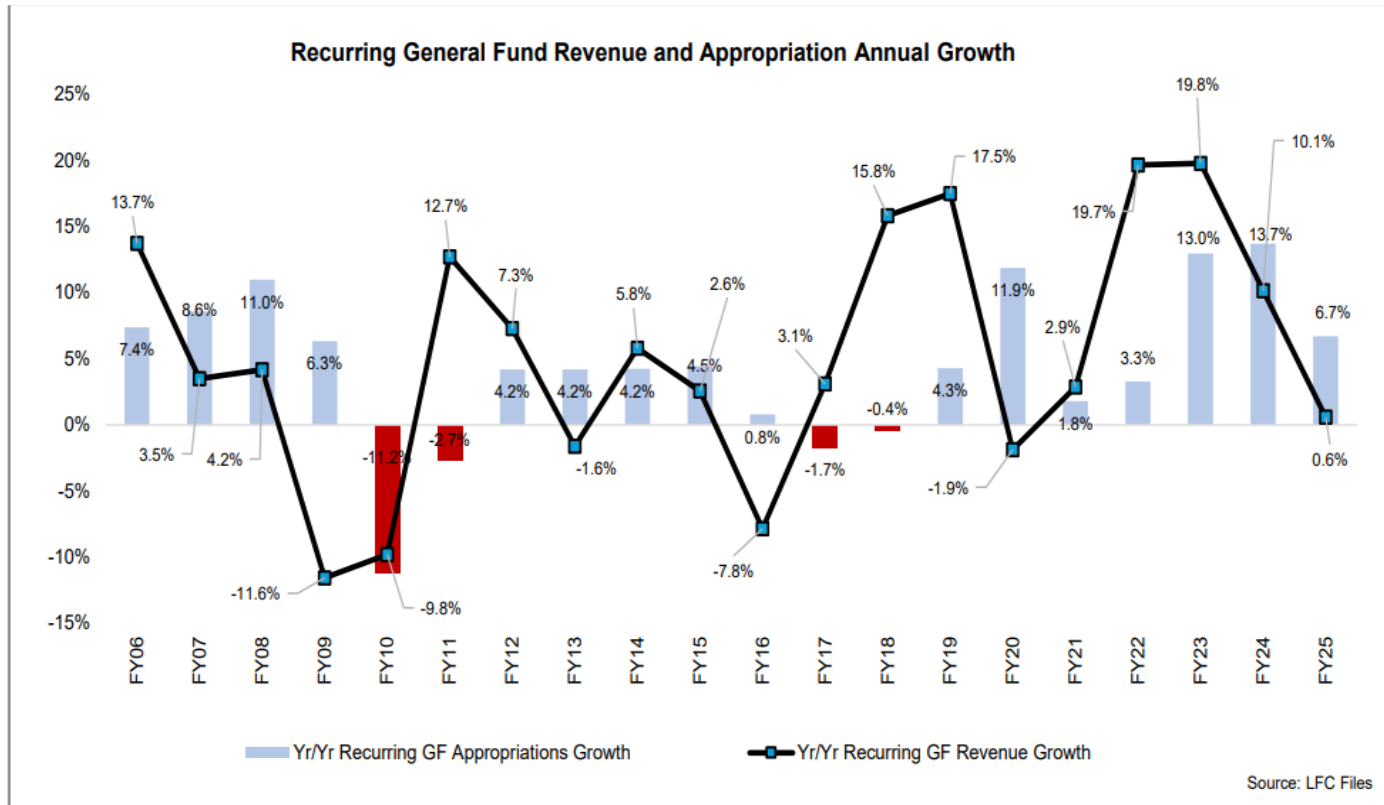
Summary

- Provide an overview of the signed FY2025 General Appropriations Act
- Provide an update of natural resource agencies FY25 budgets
- Note: LFC's post session review can be found online on the nmlegis.gov site

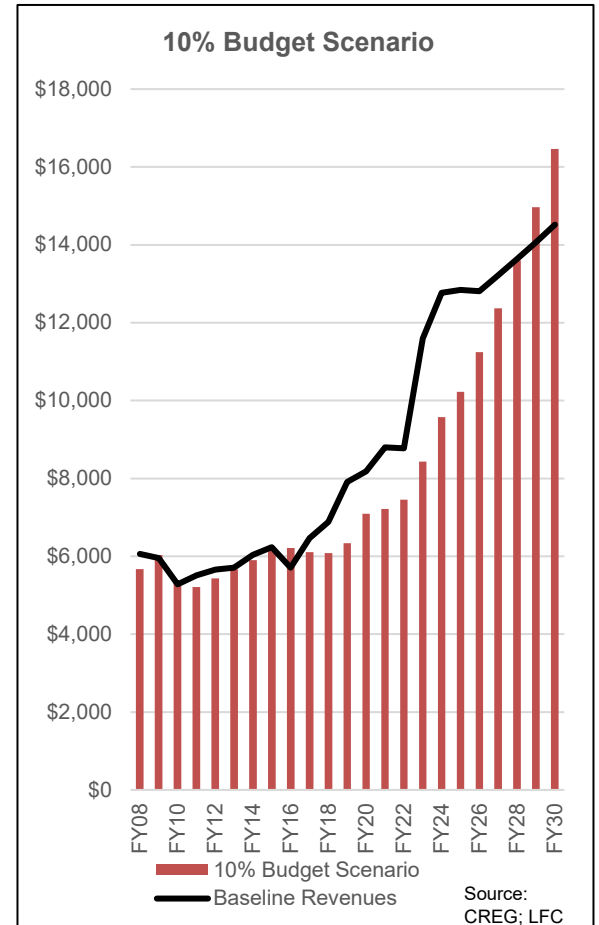
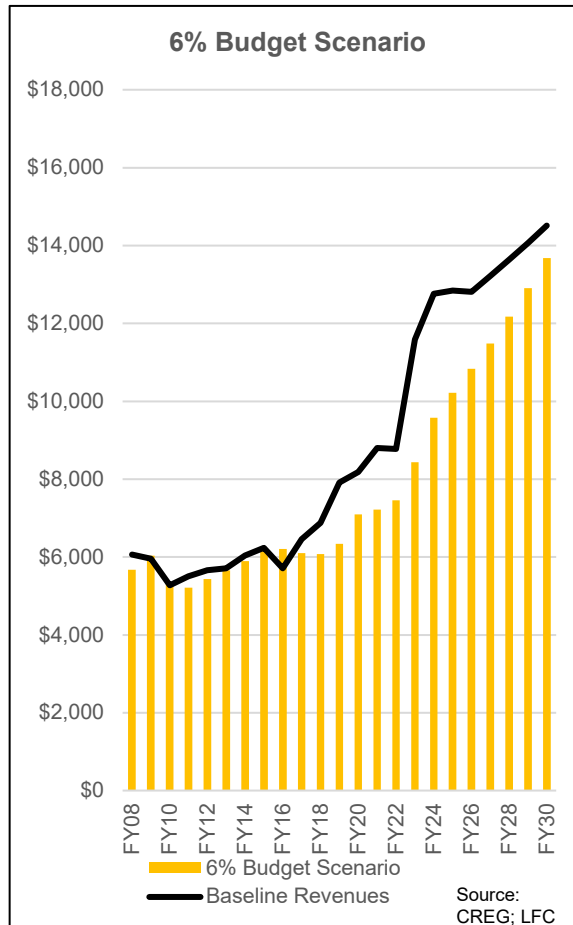
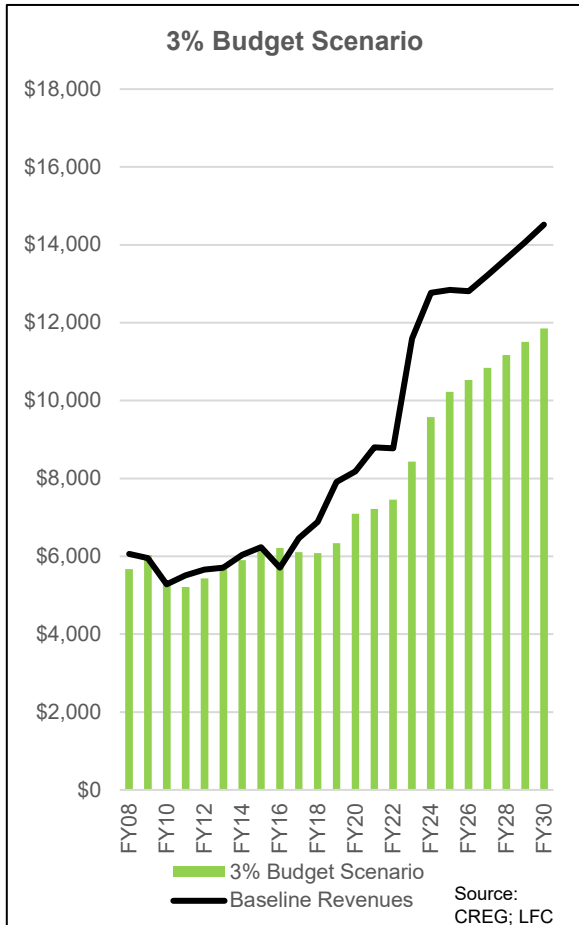


New Mexico's Revenue Roller Coaster

- After two years of large expansion (13%+), the legislature grew budgets by 6.7% for FY25



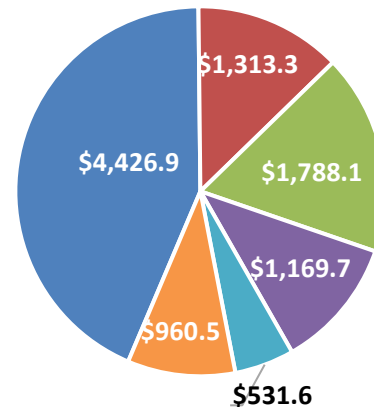
The state's budget needs are expected to grow, so balancing near-term and long-term needs is constant.



FY25 Budget=\$10.2 billion (6.7% growth)

- Includes 3% compensation increase
- Spending growth driven by health and human services and public education, each growing by over \$200 million for FY25
- For FY25 the Health Care Authority absorbs functions of HSD and divisions at some other agencies
 - HCA FY25 GF=\$2B
 - HCA FY25 Total Funds=\$12B

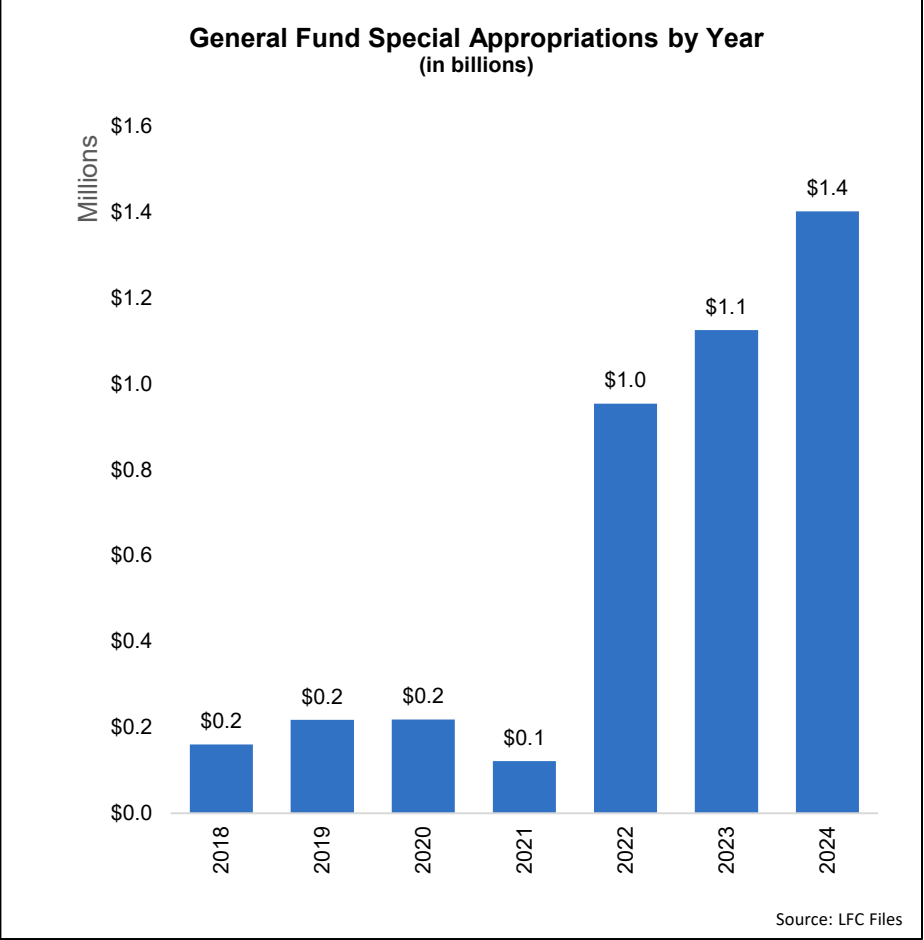
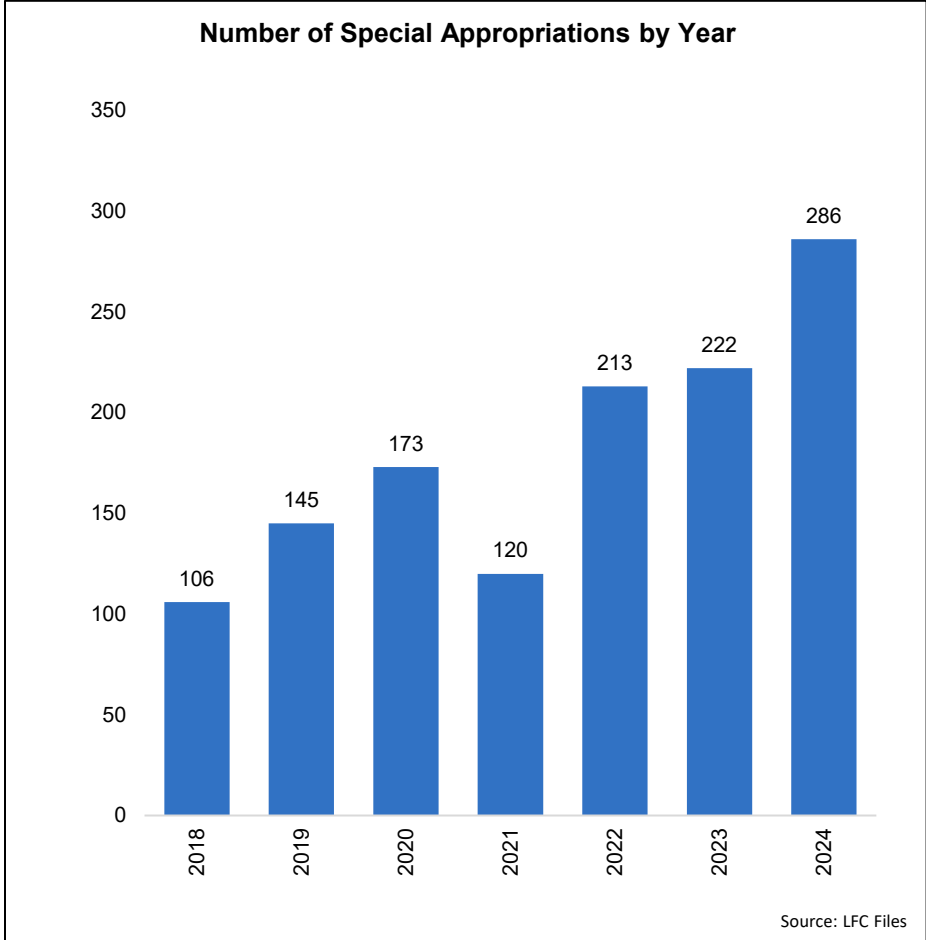
FY25 Recurring General Fund Appropriations
\$10.2 (In millions)



- Public Schools
- Higher Education
- Medicaid
- Other Health & Human Services
- Public Safety
- Other



Special (nonrecurring) appropriations continue to grow



Natural Resources

- For FY25 the Legislature continued to prioritize natural resources
- Recurring spending grows by \$12.2 million
- Non recurring appropriations totaled \$352.3 million including a \$300 million appropriation for the conservation legacy fund

Natural Resources General Fund Agencies	FY24 General Fund Adj. OpBud	FY25 General Fund Total	Total Percent Change from FY24 Opbud
Cultural Affairs Department	\$ 41,434.1	\$ 43,380.6	4.7%
New Mexico Livestock Board	\$ 4,517.1	\$ 4,993.0	10.5%
Energy, Minerals and Natural Resources Depart.	\$ 35,439.6	\$ 39,854.2	12.5%
State Engineer	\$ 30,665.4	\$ 33,382.3	8.9%
Department of Environment	\$ 25,487.7	\$ 32,404.4	27.1%

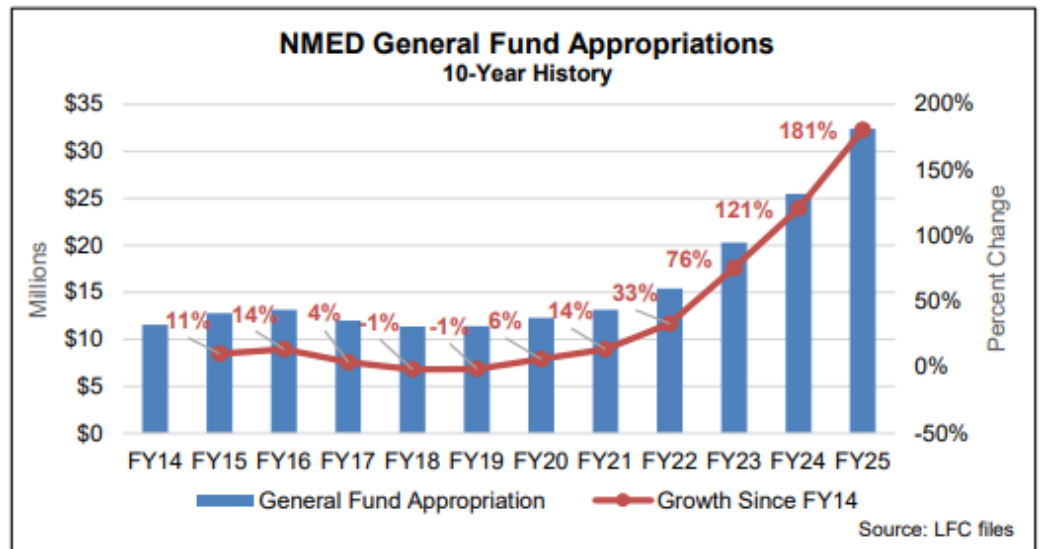
Source: LFC Files

Note: Totals do not include compensation increases as operating budgets are not finalized



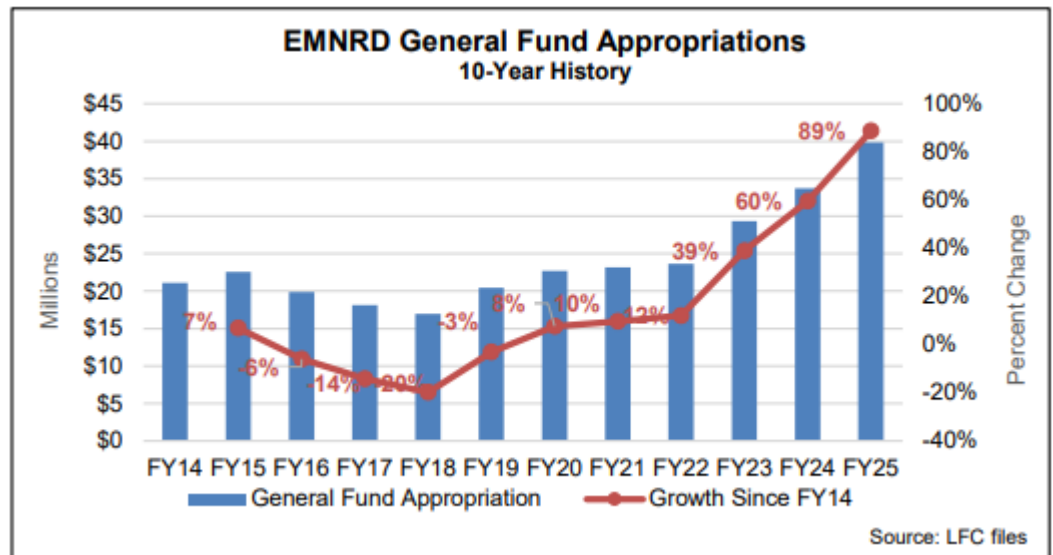
Environment Department

- For FY25 NMED received a \$6.9 million or 27.1 percent increase
- Additional funding includes resources for agency-wide pay raises and appropriate placement
- Remainder used for building leases and office space
- Legislature has grown NMED by 181% since FY14



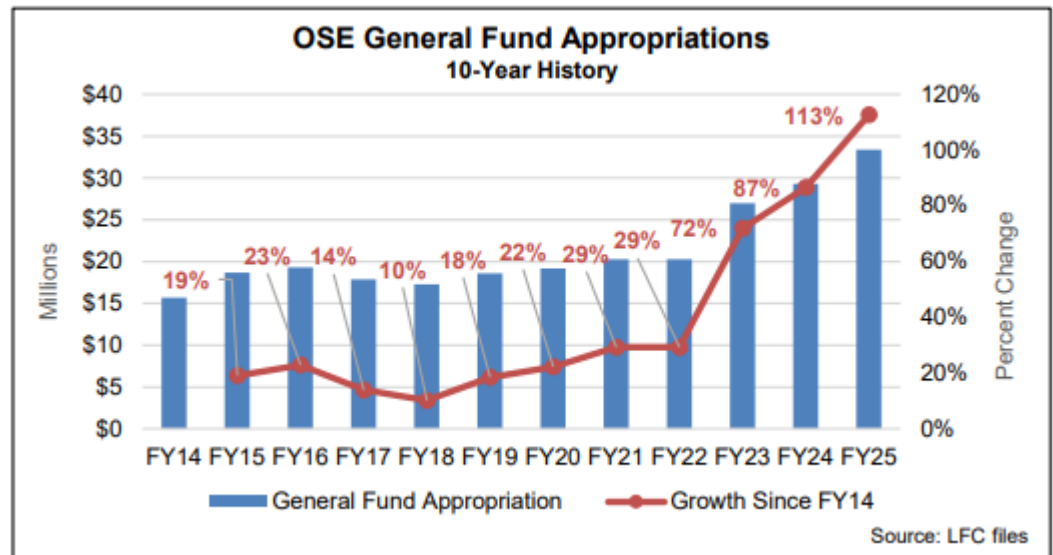
Energy, Minerals and Natural Resources Department

- For FY25 EMNRD received a \$4.4 million or 12.5 percent increase
- \$1.2 million invested for a second hotshot crew
- State Parks also received funding to fill vacant positions
- GAA funded expansions for Water Data Act reporting



Office of the State Engineer

- For FY25 OSE received a \$2.7 million or 8.9 percent increase
- Increases are related to recommendations from the 2023 Water Policy and Infrastructure Task Force
- Budget increases support
 - Water Security Planning Act implementation;
 - Water infrastructure project administration; and
 - Active water resource management.



QUESTIONS?

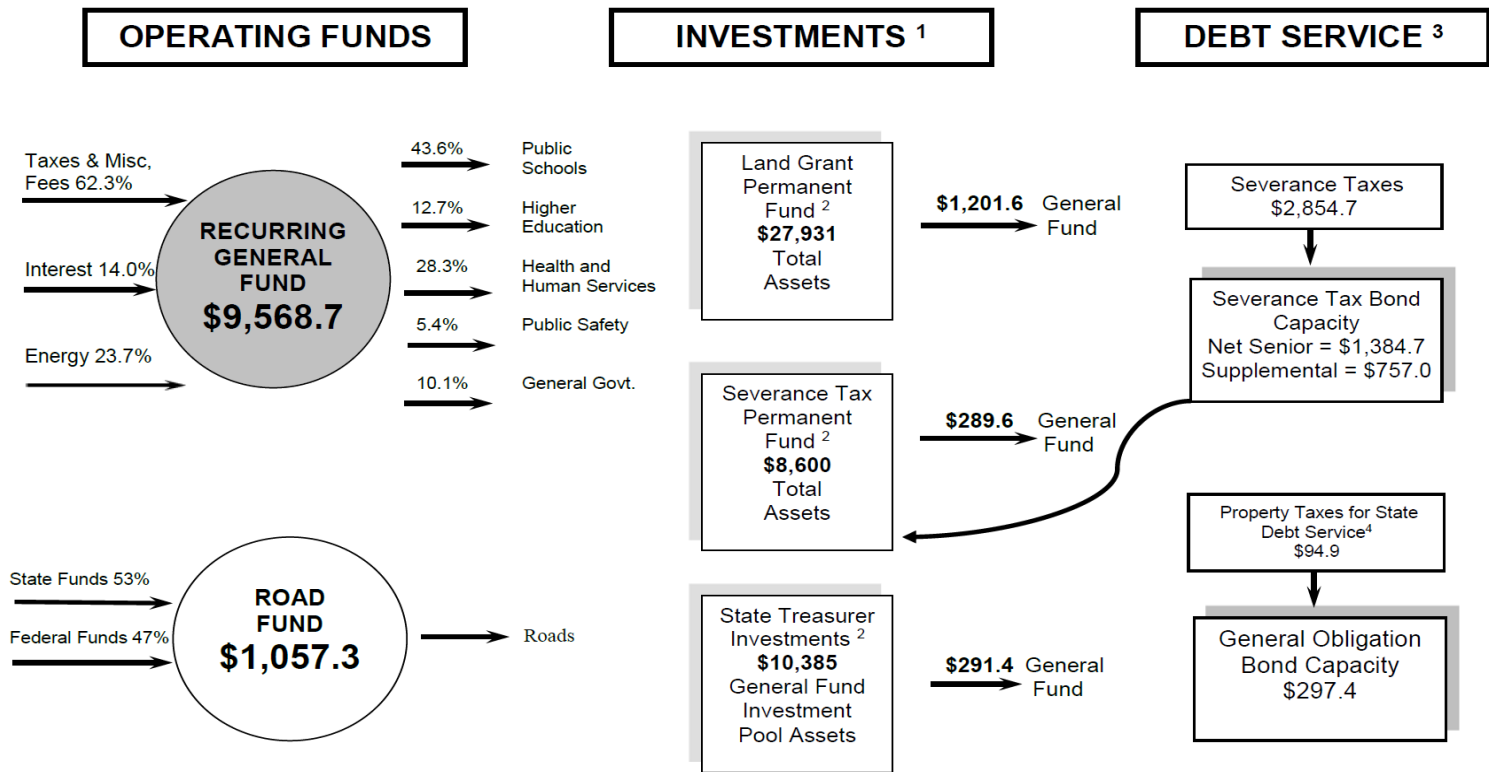


Additional Slides



New Mexico Finance Overview

OVERVIEW OF NEW MEXICO FINANCES: FY24 OPERATING BUDGET (in millions of dollars)

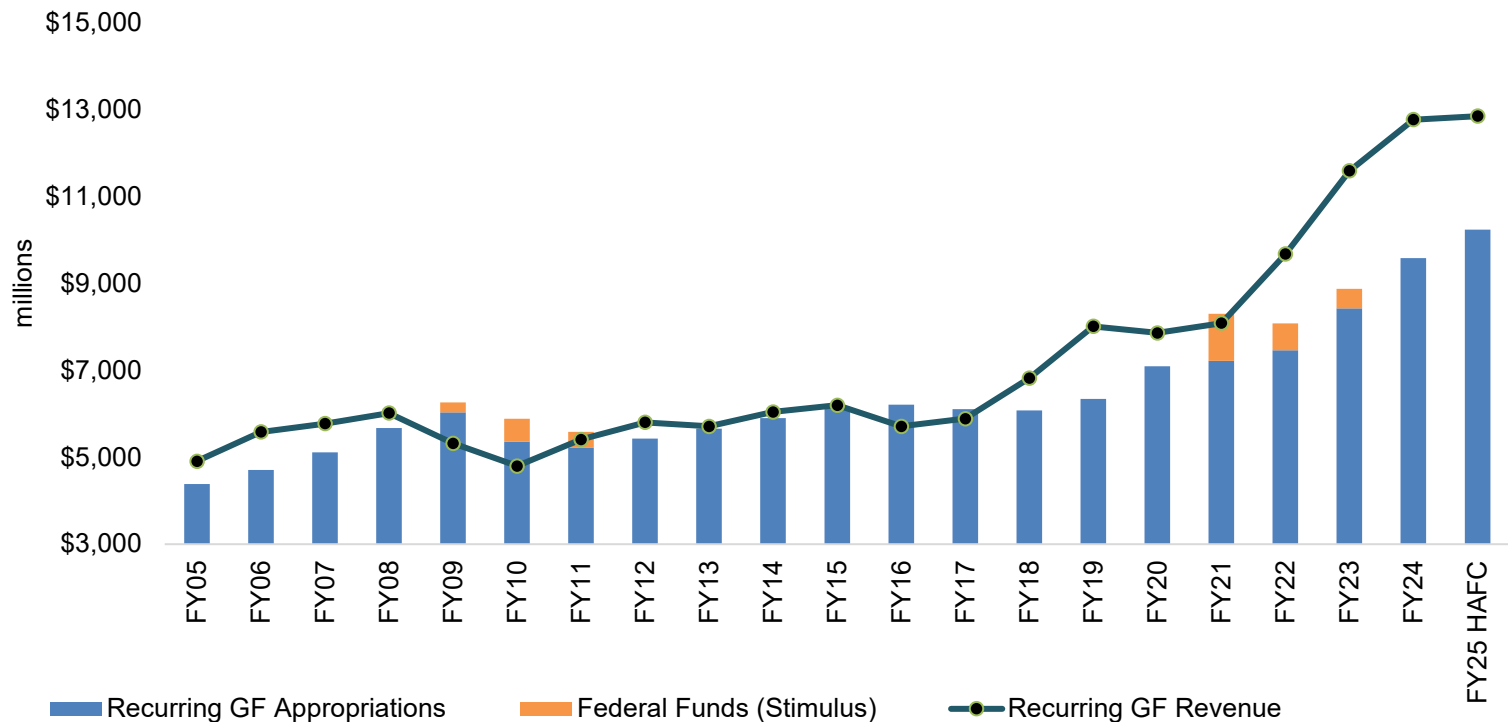


1 Investments exclude retirement funds
 2 As of November 2023 for state treasurer; as of September 2023 for LGPF and STPF. Excludes federal relief funds
 3 Includes only state debt service
 4 GO bonds are issued every other year

Source: LFC Files

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

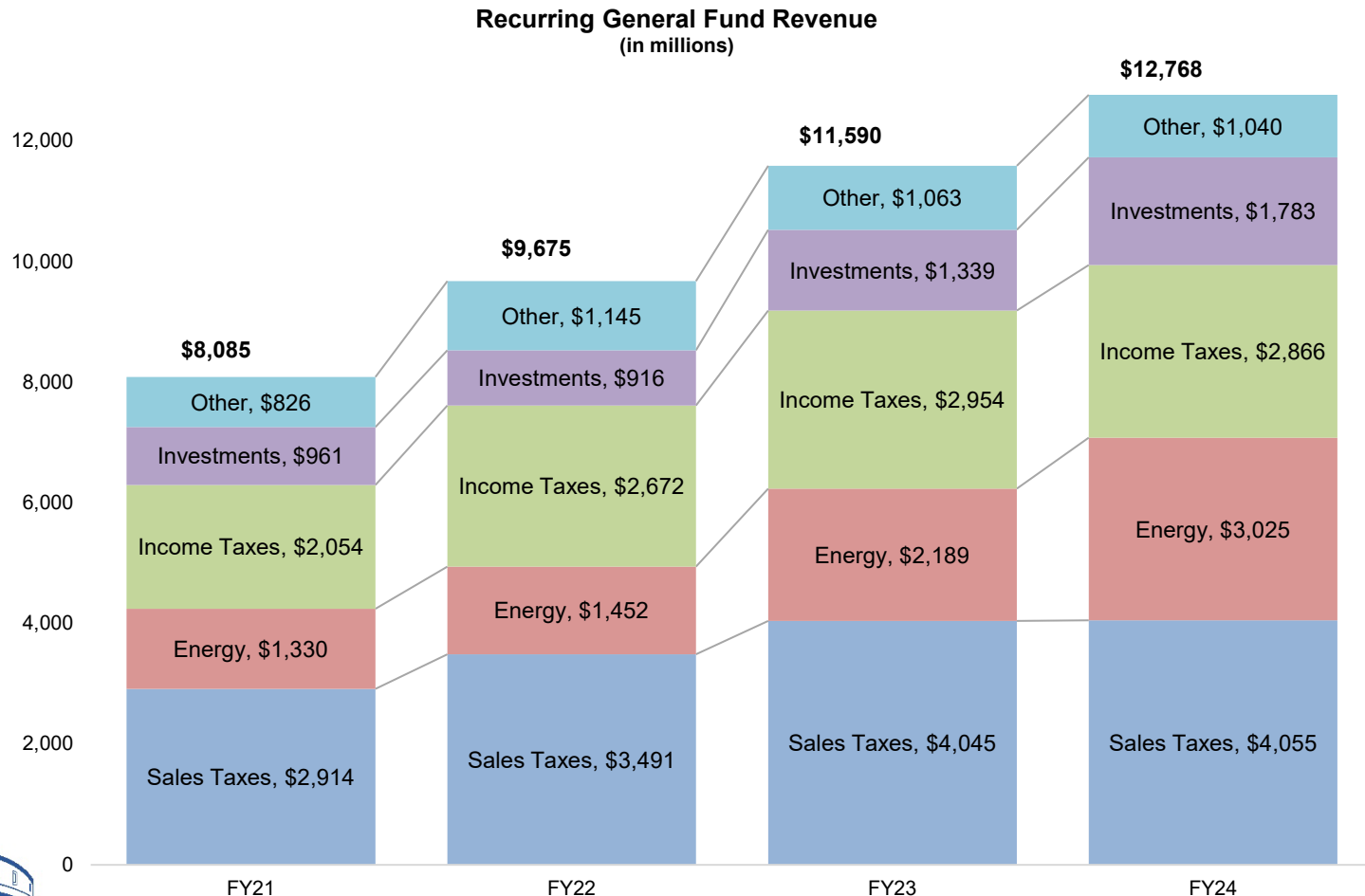
**Recurring General Fund Revenues & Appropriations
(including Great Recession & Covid-19 pandemic federal stimulus offsets)**



Source: LFC Files

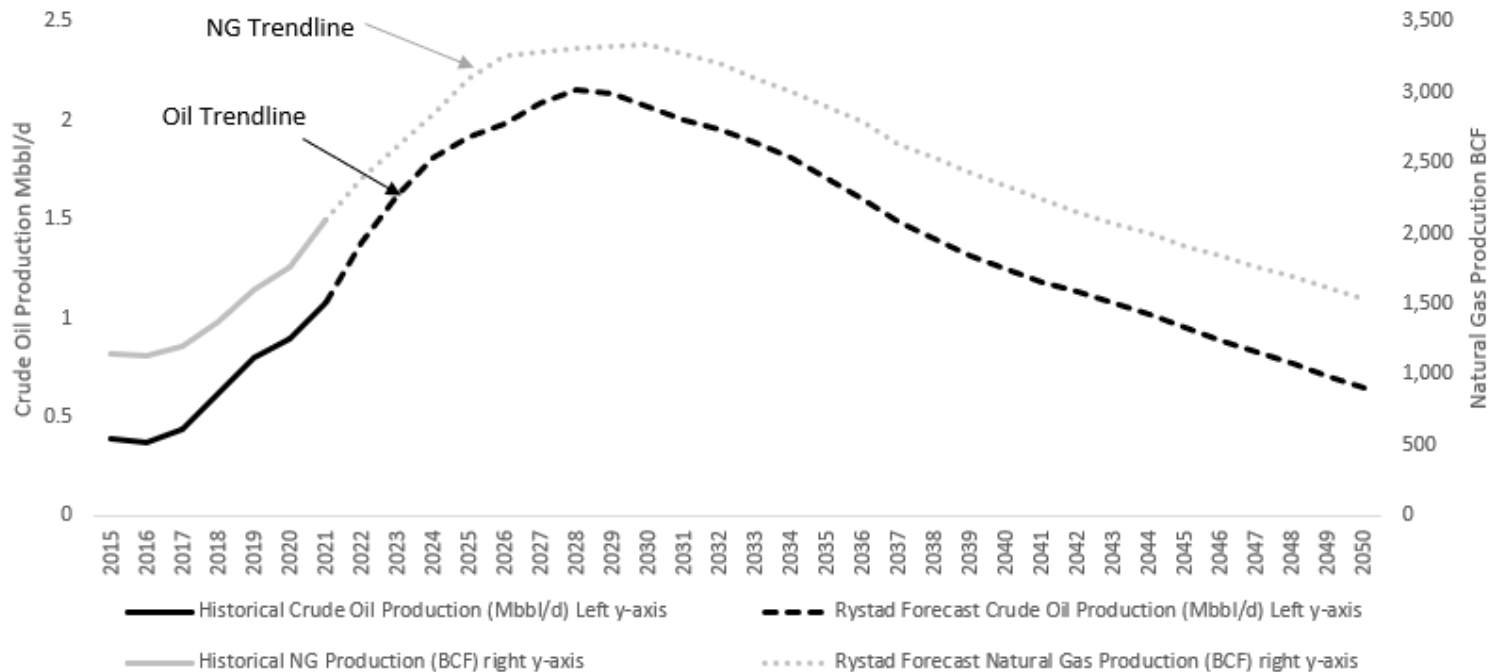


Energy revenues have driven most of the growth in total revenue to the general fund



Long term industry projections suggest peak oil production sooner than later

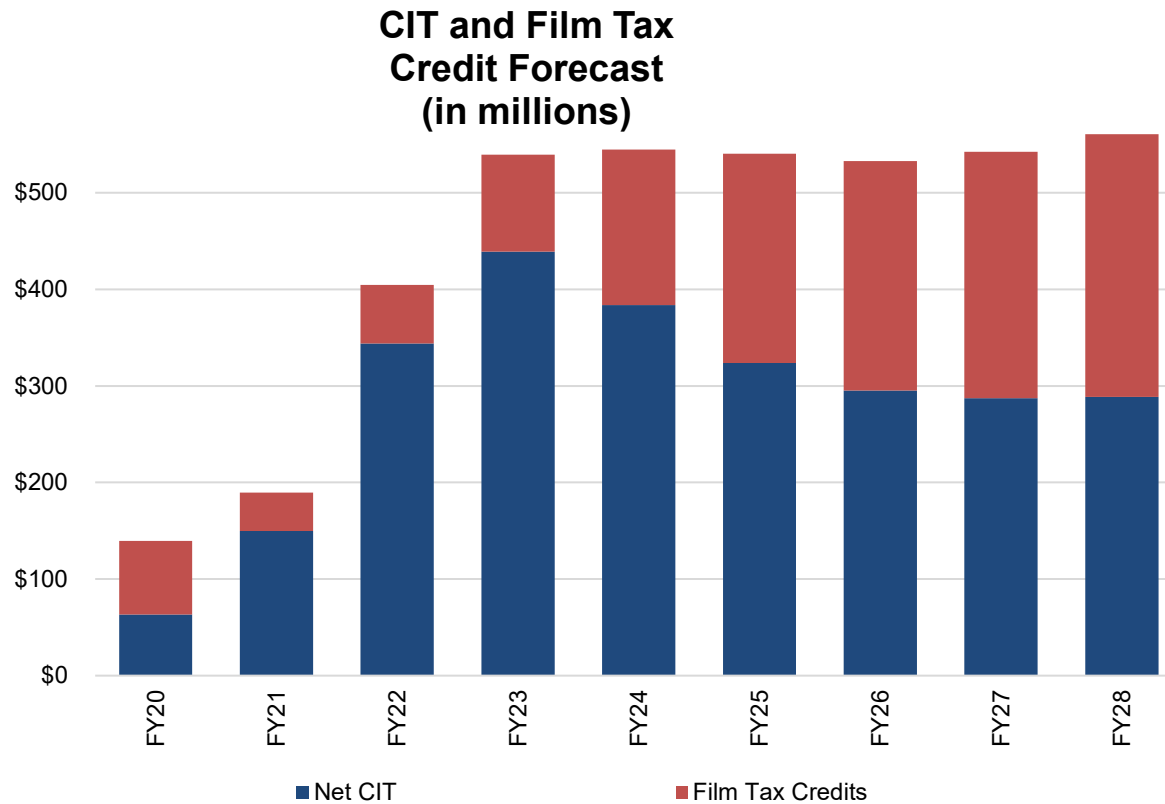
NM Crude Oil Production Forecast (CY 2022 to 2050)
NM Natural Gas Forecast (CY 2022 to 2040)



Source: Rystad Energy



Creating headwinds for various taxes and slowing general fund growth

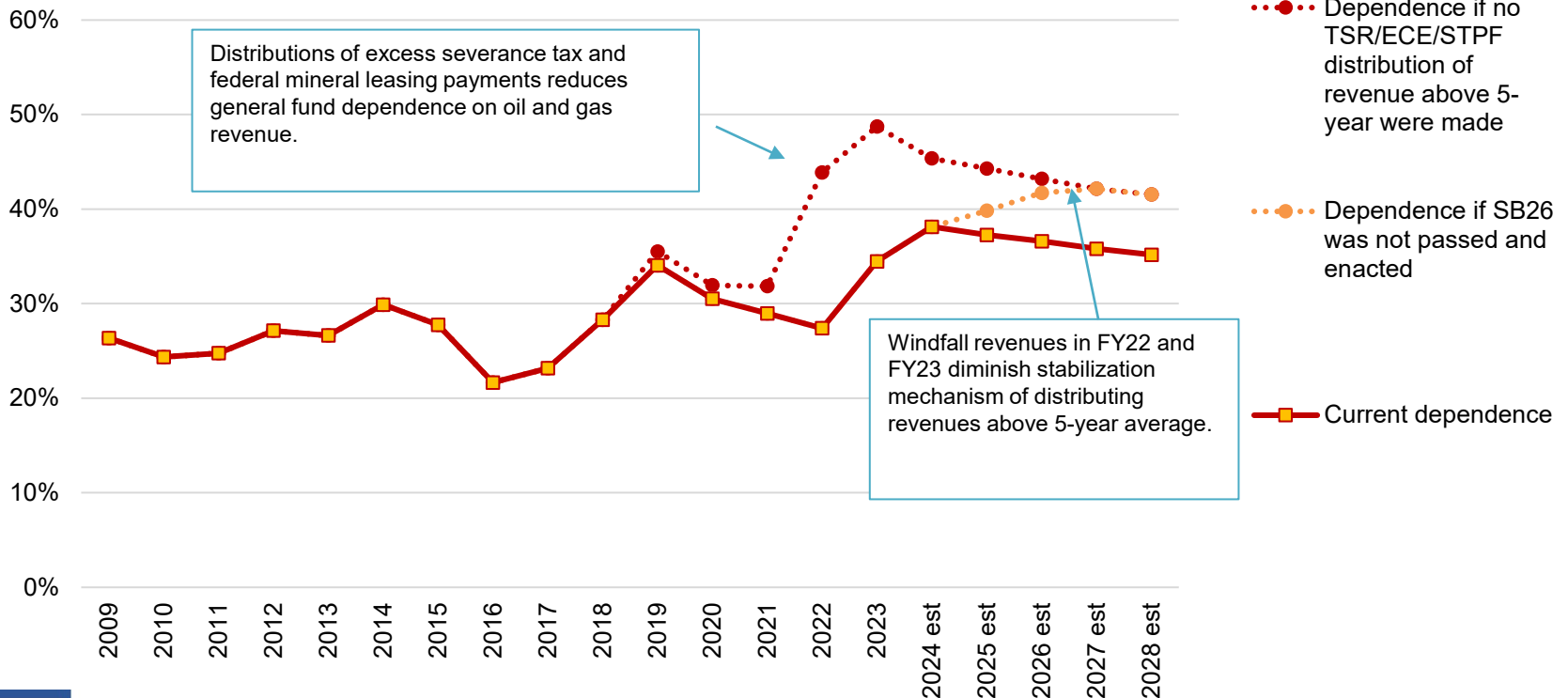


Source: December 2023 CREG



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

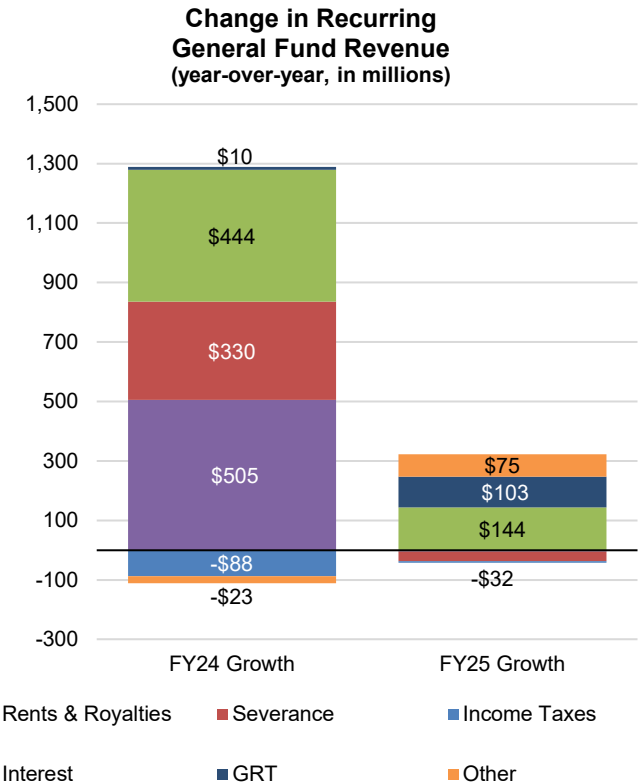
(in millions)

	<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.

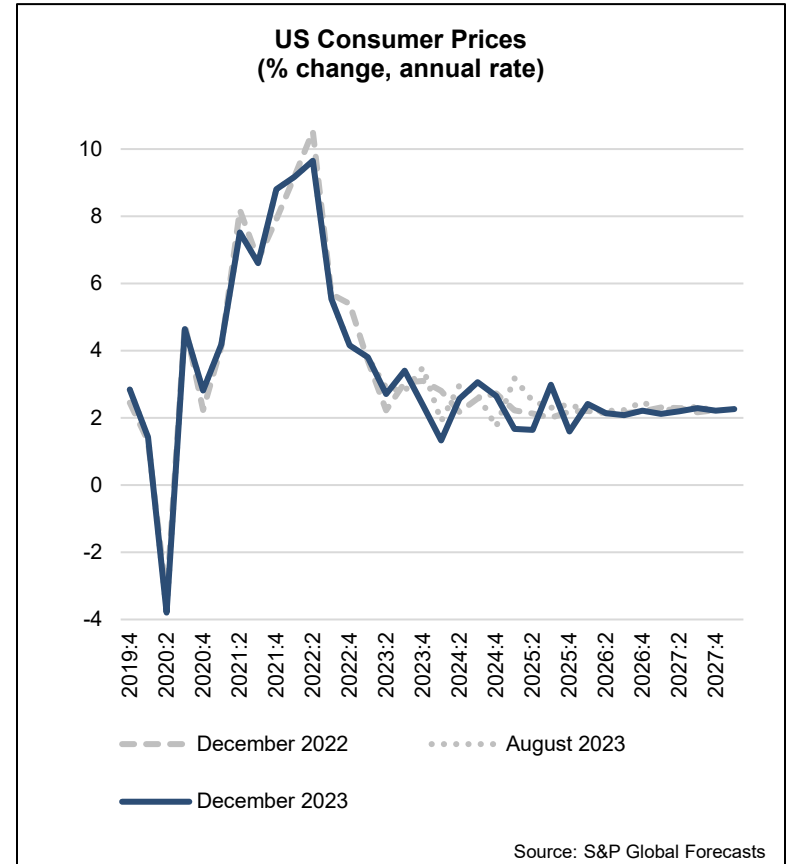
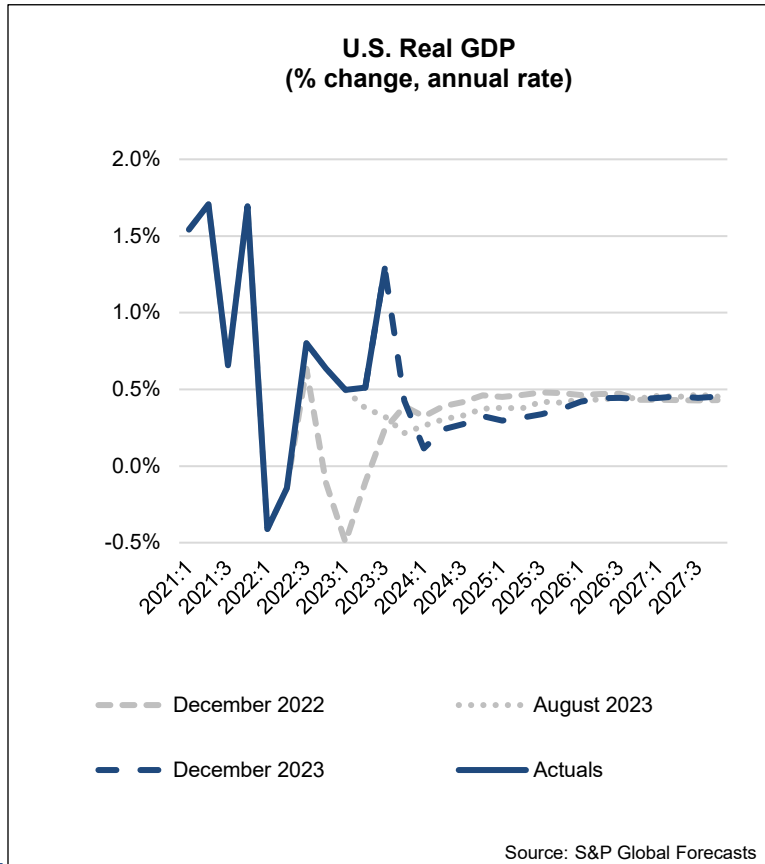


*Severance tax and royalty amounts exclude distributions to the tax stabilization reserve and early childhood trust fund.

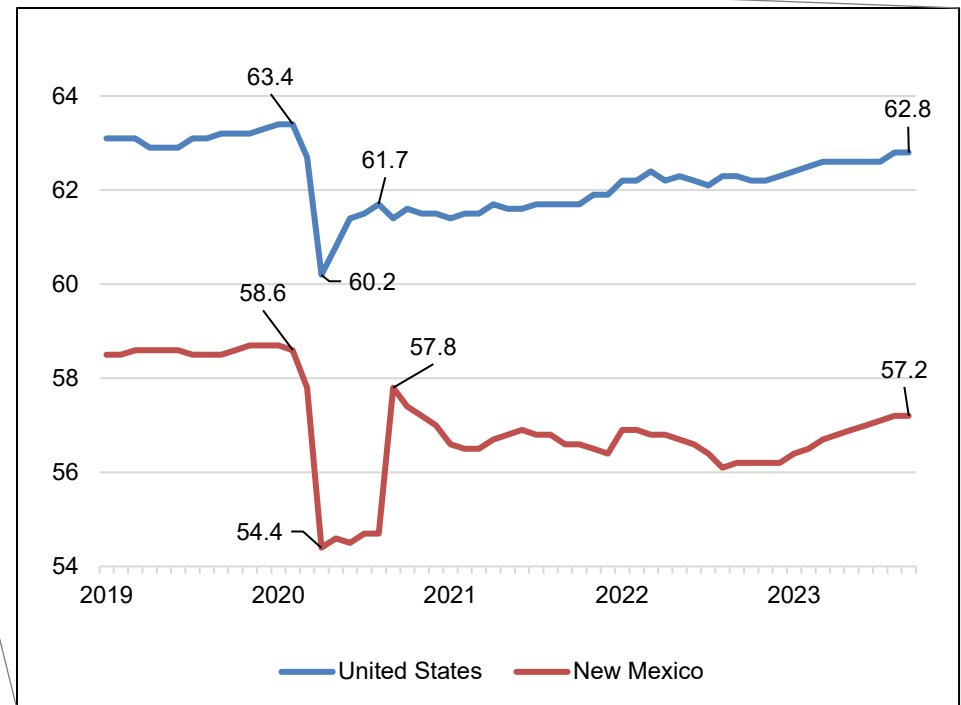
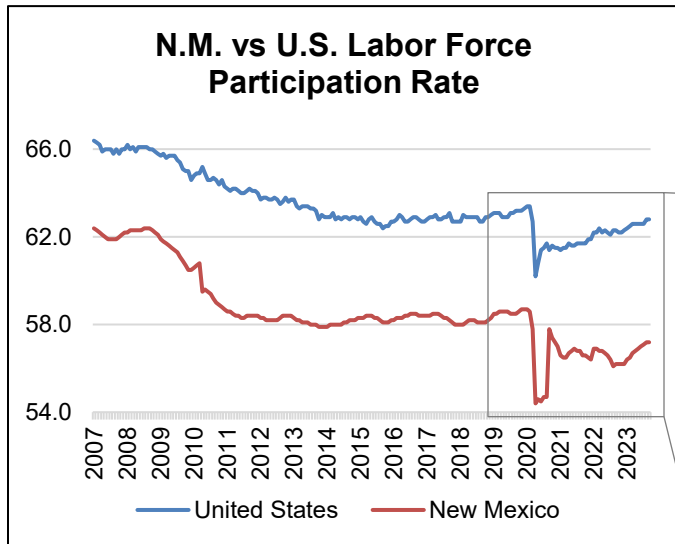
Source: December 2023 CREG



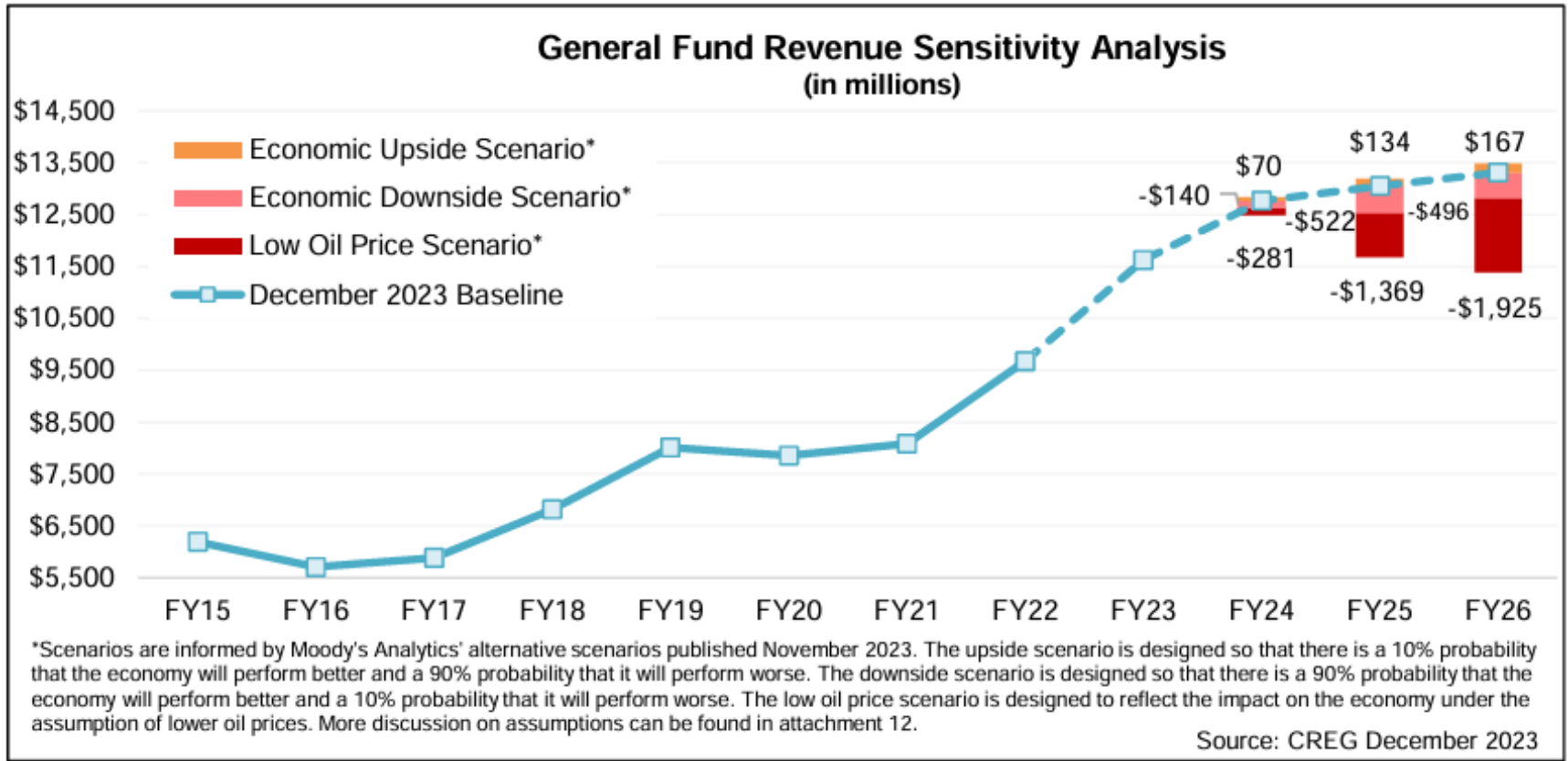
The national economy is stabilizing and returning to pre-pandemic growth



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

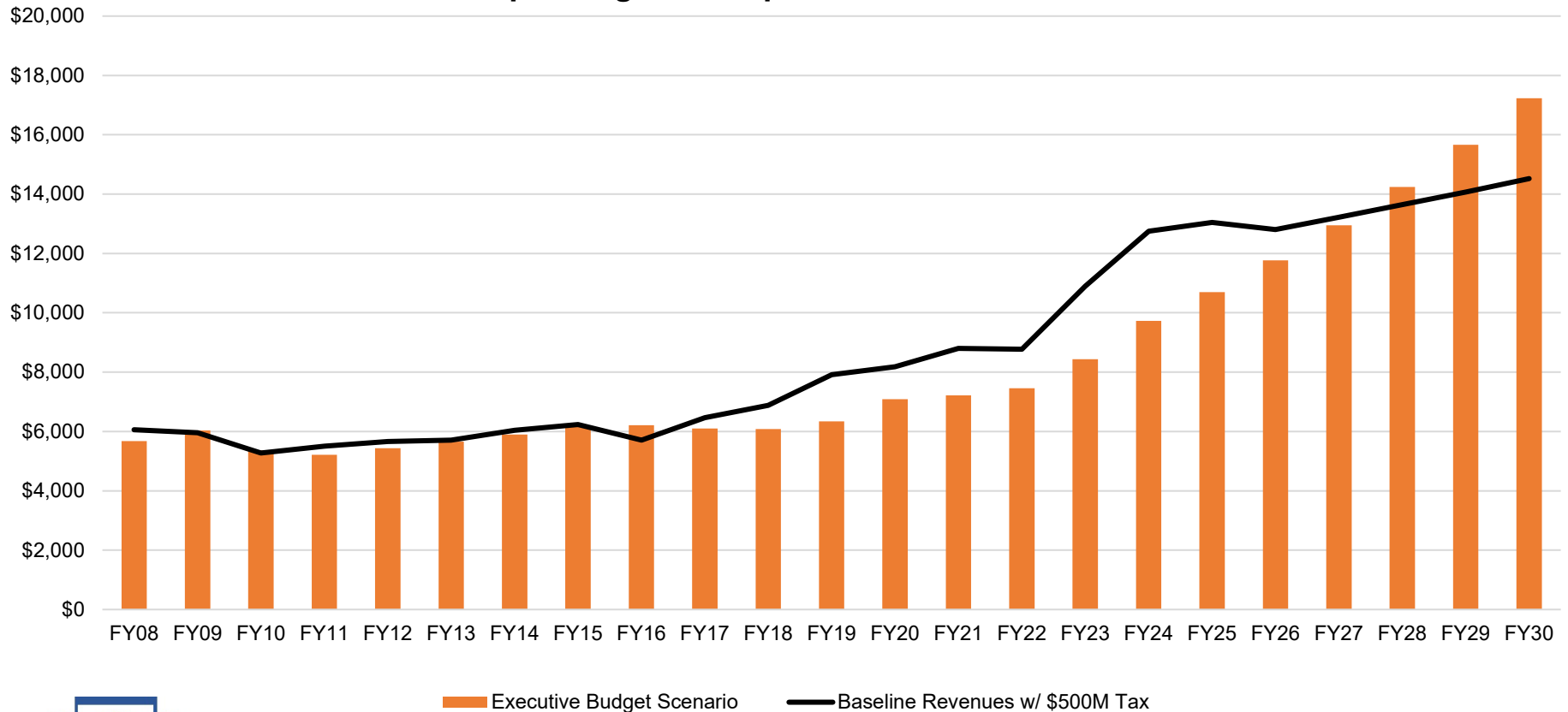


Stress tests help understand the realm of possibility



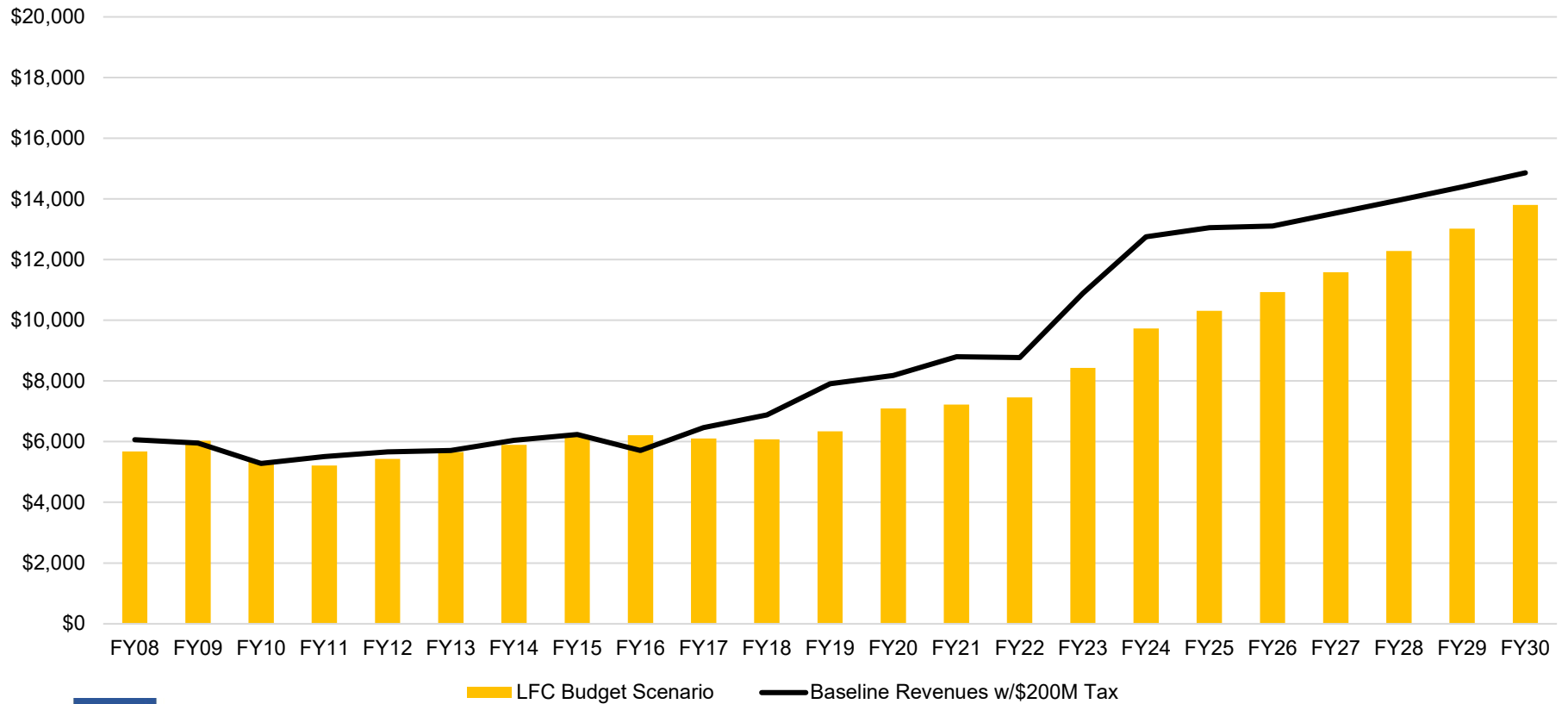
Continued large spending increases (10%-15%) unaffordable

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

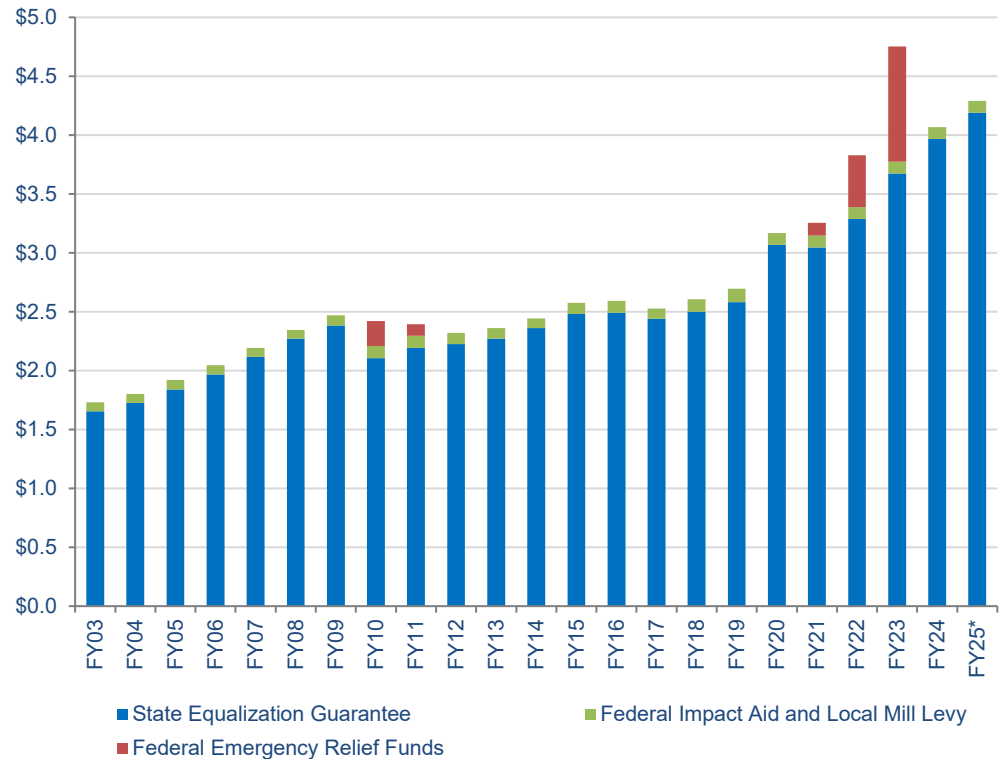
- FY25 budget (HB 1& 2) passed at \$10.2 billion, a 6.8% increase over FY24.
 - \$1.99 billion to the new Healthcare Authority
 - Nearly \$20 million increase for early childhood
 - \$186 million increase for Medicaid
 - 12% increase for fire fighting, state parks, and OGAS regulating
 - Increases for judicial and public safety staffing boosts
- HB 2 also includes \$1.3 billion in nonrecurring appropriations
 - \$300 million for K12 education projects
 - \$100 million for rural health and behavioral health 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 increases SEG for FY25 by \$201 million, or 5.1%

Operational Funding for Public Schools
(in billions)



*HAFC Substitute for House Bill 2
Source: LFC Files



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

New Mexico Education Sufficiency Lawsuit:



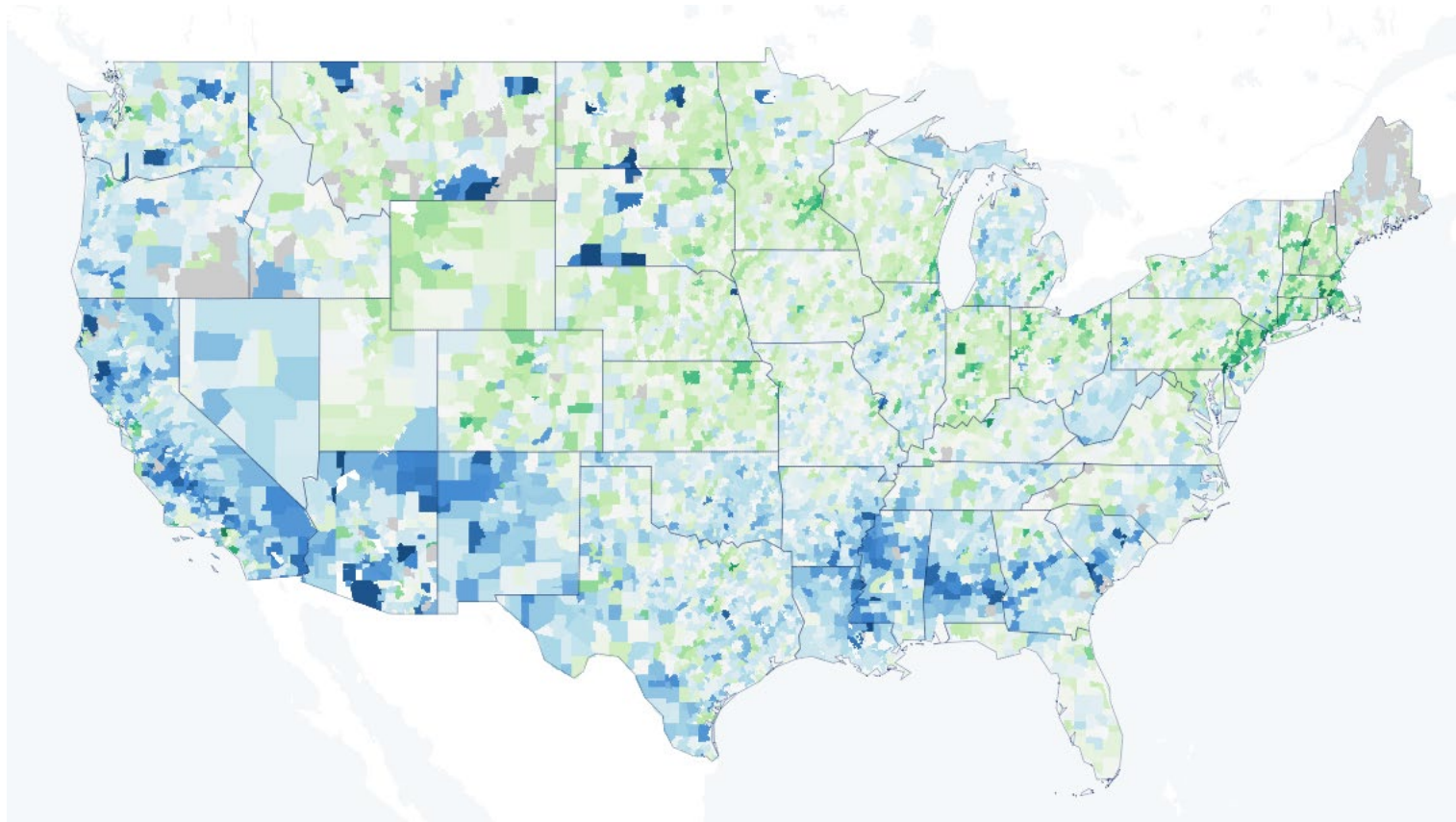
Martinez and Yazzie v. State of New Mexico

- 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)



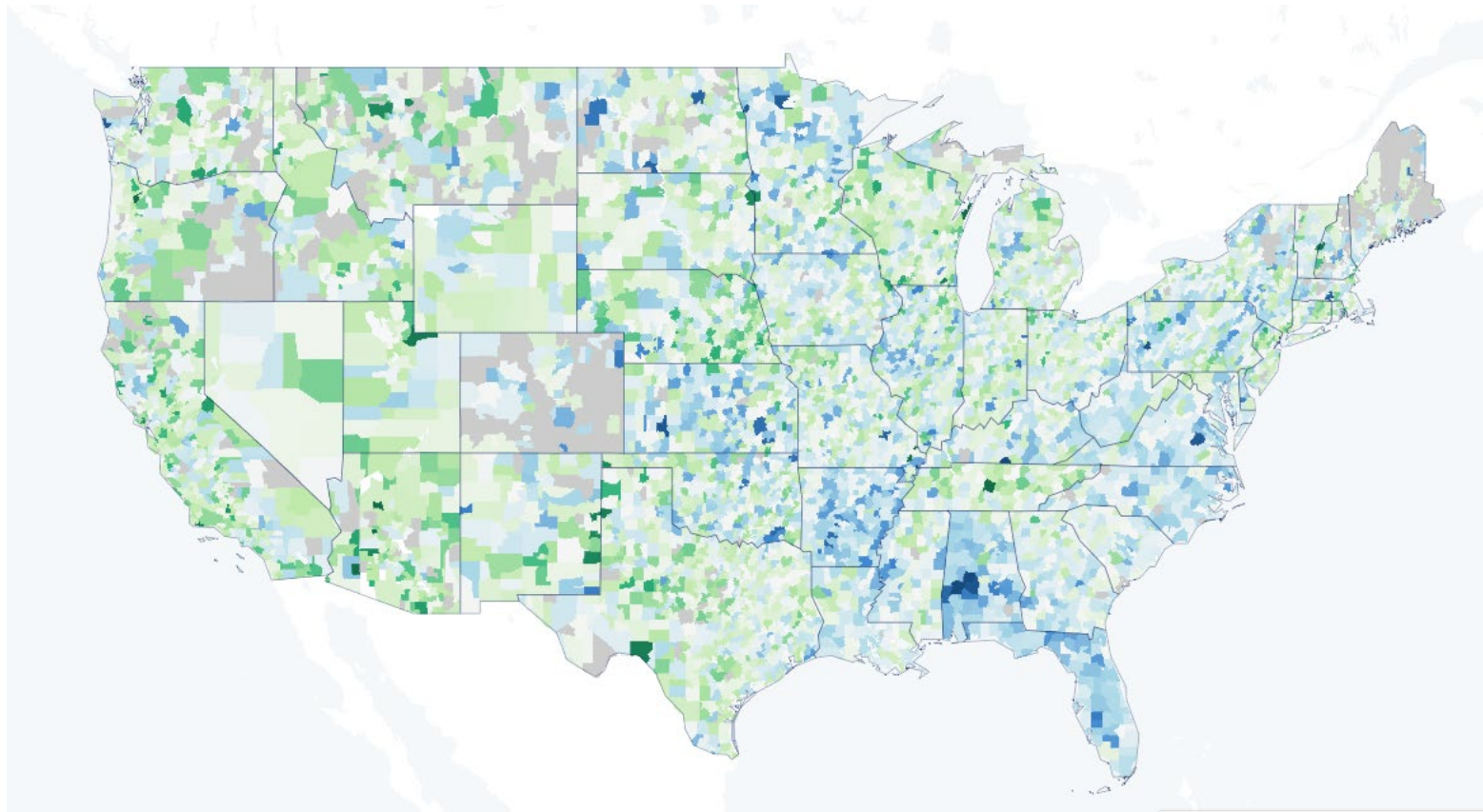
Average Test Scores By School District
in grade levels, relative to the U.S. average

-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

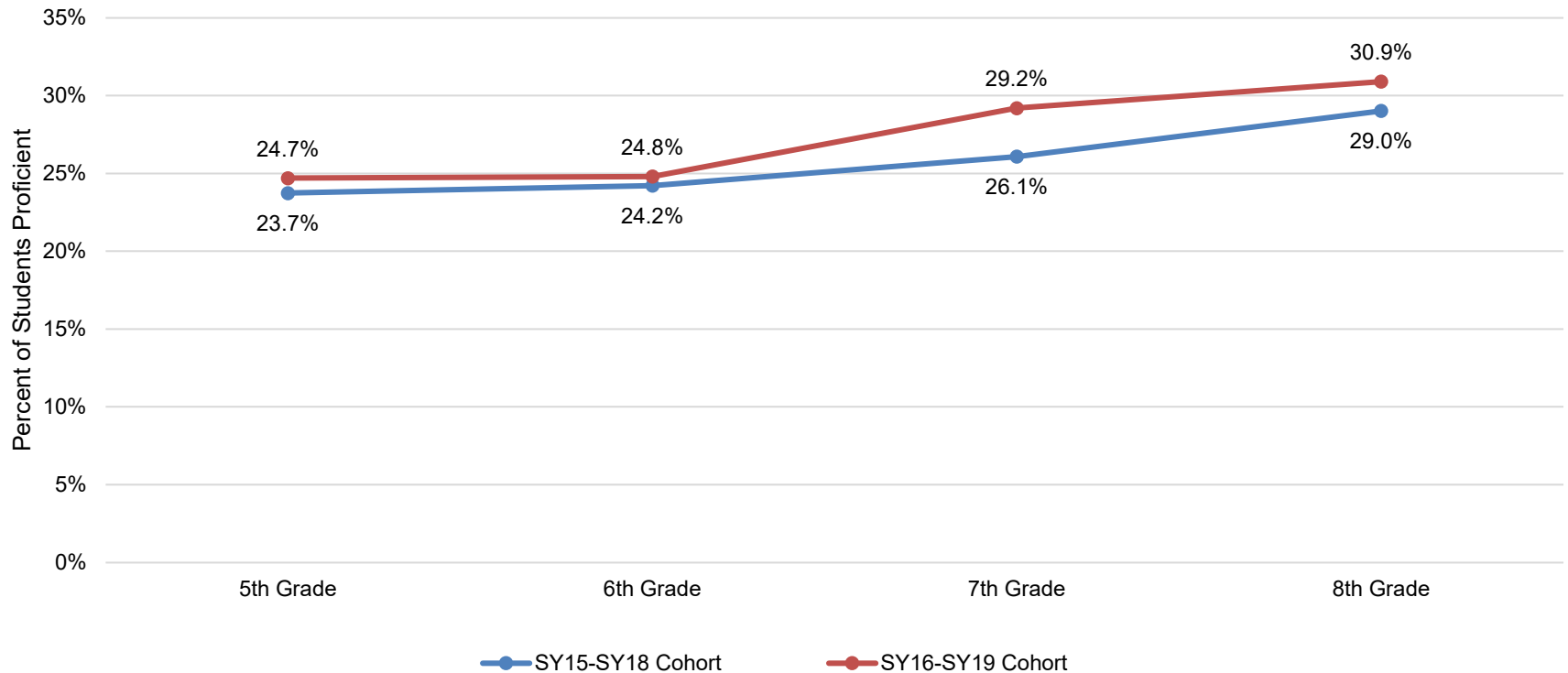


Colors show how much students learn each year relative to the national average (grades 3-8, 2009-2018).
Source: The Educational Opportunity Project at Stanford University



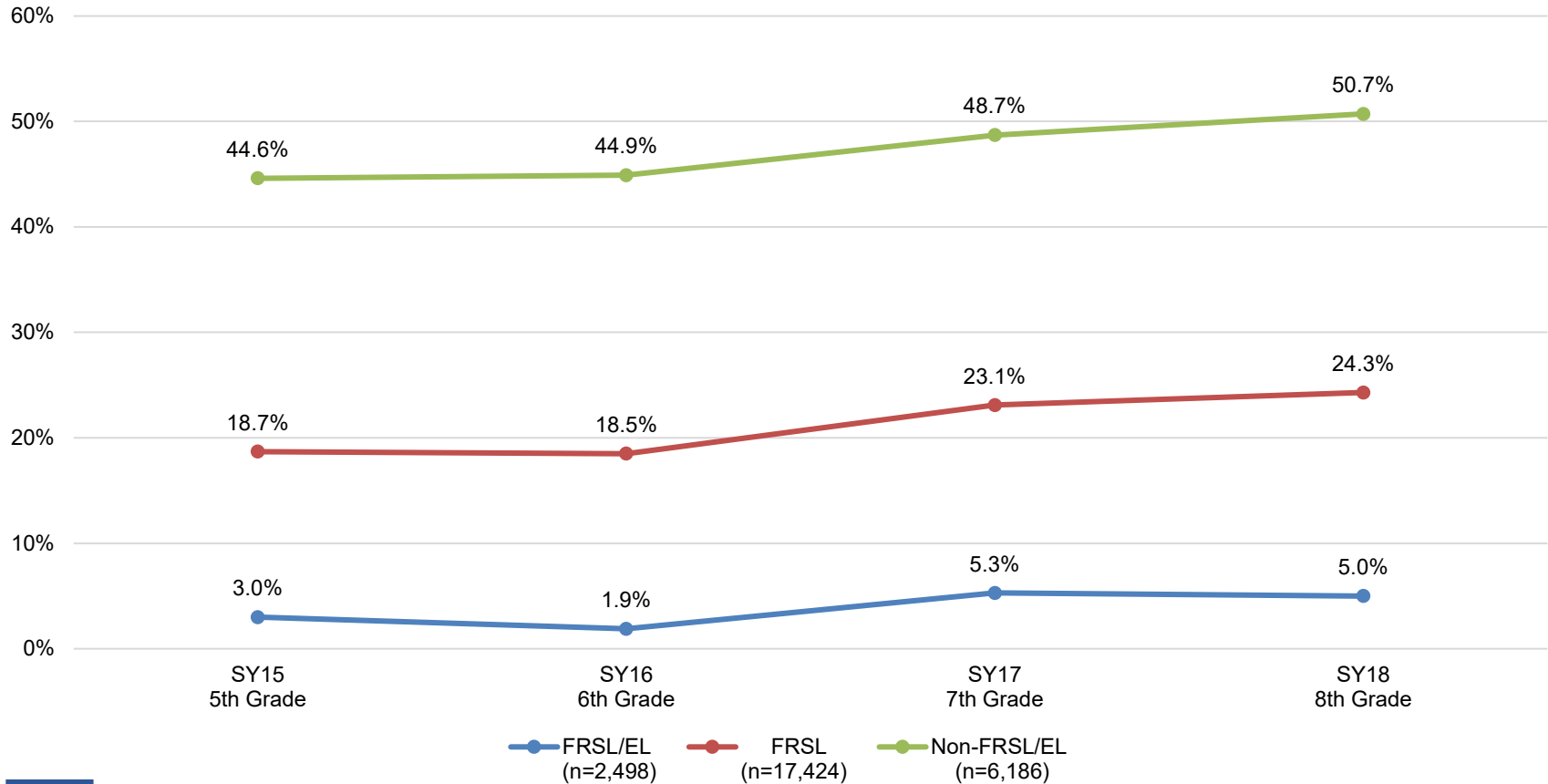
LFC analysis of New Mexico data consistently finds when students attend school and experience more learning time, including longer school year, achievement improves

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:

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- Program Evaluations and more!

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