



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

# Revenue Tracking

Ismael Torres, Chief Economist, LFC  
Jennifer Faubion, Economist, LFC  
Brendon Gray, Economist, LFC

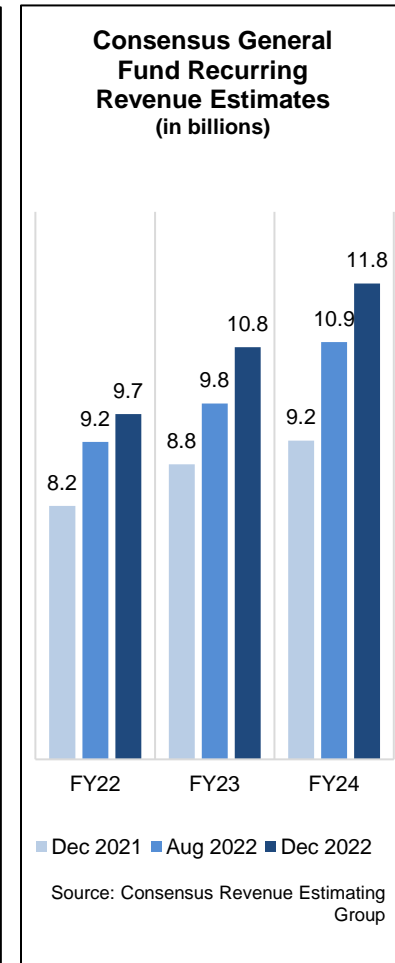
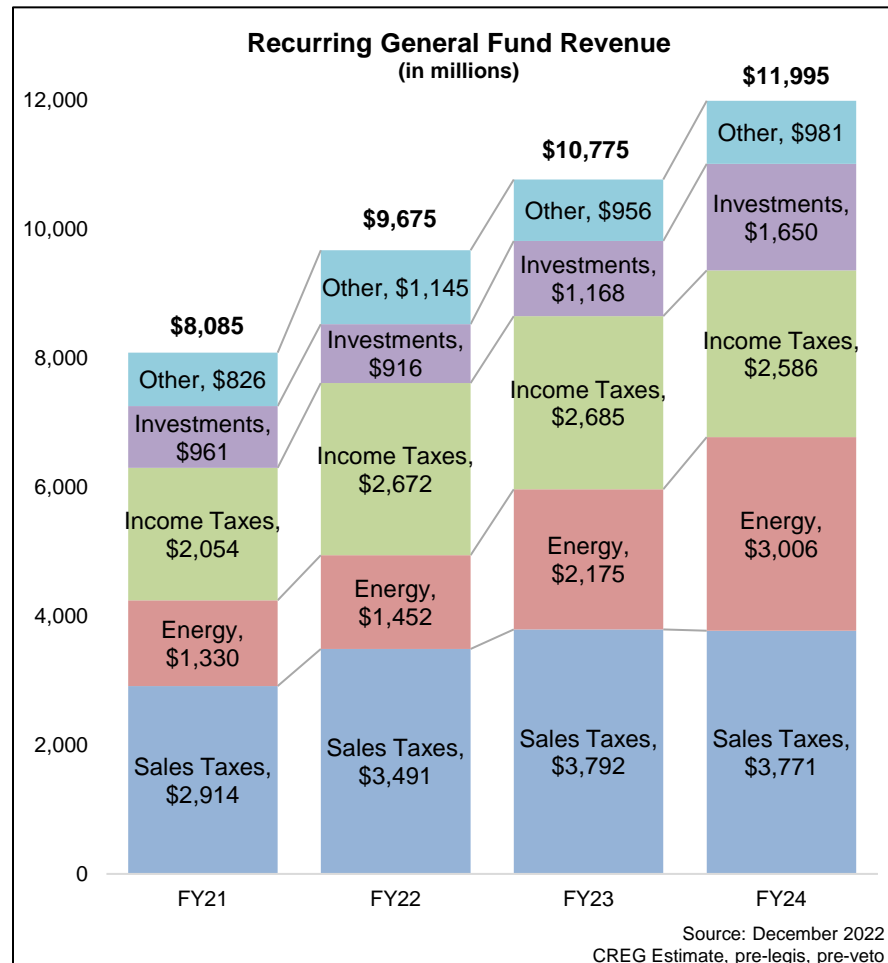
Presented to the  
Revenue Stabilization and Tax Policy Committee  
December 5, 2023

# REVENUE AND BUDGET RECAP



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

- Recurring revenues were projected to increase 11.7% and 11.3% Y-o-Y in FY23 and FY24.
- “New Money” – FY24 recurring revenue less FY23 recurring appropriations –projected at \$3.6 billion, or 42.7% growth.
- FY22 ending reserve balance of \$3.7 billion, or 49.3 percent.
- The state budget increased by over 13% two years in a row to \$9.6 billion.



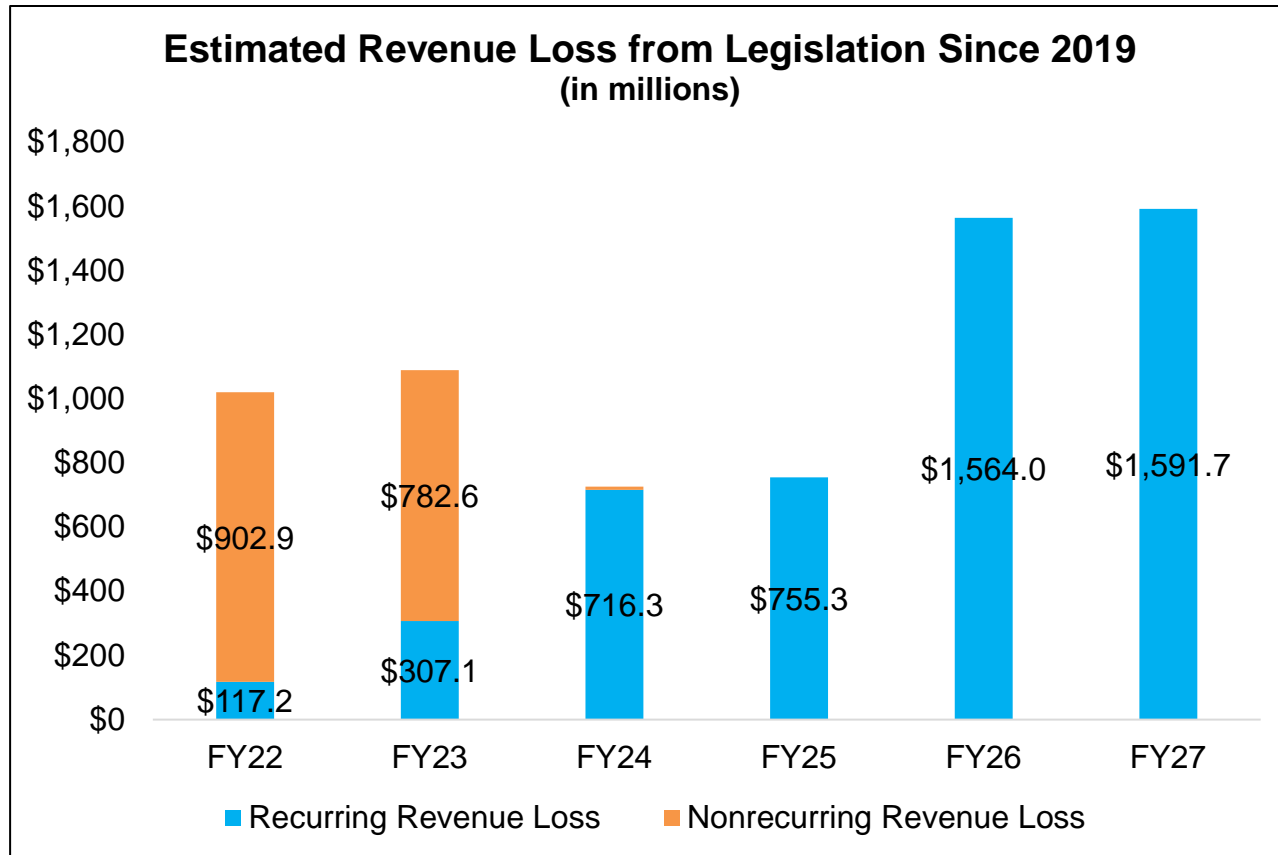
# In addition to increased budgets, tax changes were extensive.

- Legislation passed during the 2023 regular session alone reduced recurring general fund revenue by \$174.4 million in FY24, \$238.8 million in FY25, and \$255.9 million in FY26.

	FY23		FY24		FY25		FY26	
	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring
<b>REVENUE</b>								
<b><u>2023 Regular Session:</u></b>								
<b>Bill No.</b>								
<i>Ch. 52</i> HB 78 Aviation Fund GRT Distribution			\$ (3.0)		\$ (3.0)		\$ (3.0)	
<i>Ch. 157</i> HB 353 South Campus TIDD			\$ (5.5)		\$ (5.5)		\$ (5.5)	
<i>Ch. 211</i> HB 547 Omnibus Tax Package	\$ (666.6)		\$ (422.1)	\$ (6.7)	\$ (726.6)		\$ (978.7)	
Governor Veto <sup>2</sup>			\$ 280.2		\$ 519.7		\$ 755.3	
<i>Ch. 85</i> SB 147 Tax Changes	\$ (0.2)		\$ (1.5)	\$ (0.2)	\$ (1.6)		\$ (1.8)	
<i>Ch. 181</i> SB 491 Health Premium Tax for Law Enforcement			\$ (22.5)		\$ (21.8)		\$ (22.2)	
<b>TOTAL REVENUE</b>	\$ -	\$ (666.8)	\$ (174.4)	\$ (6.8)	\$ (238.8)	\$ -	\$ (255.9)	\$ -



# Total tax revenue loss from legislation since 2019 grows to \$1.591 billion by FY27.



The latest August 2023 forecast was increased by \$866 million and \$791 million for FY23 and FY24.

- The state saw 20.3% revenue growth in FY23, nearly \$2 billion higher than FY22.
  - According to PEW, New Mexico led all states in revenue growth through FY23 Q1, with 29.1% more cumulative tax revenue than it would have collected under its pre-pandemic growth rate.
- CREG estimates FY24 revenues will top \$12.5 billion, an 8.3% growth over FY23.

<b>August 2023 Consensus General Fund Recurring Revenue Estimate</b>			
(in millions)			
	<u>FY23</u>	<u>FY24</u>	<u>FY25</u>
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	\$969.9	\$440.1
Annual percent change	20.3%	8.3%	3.5%

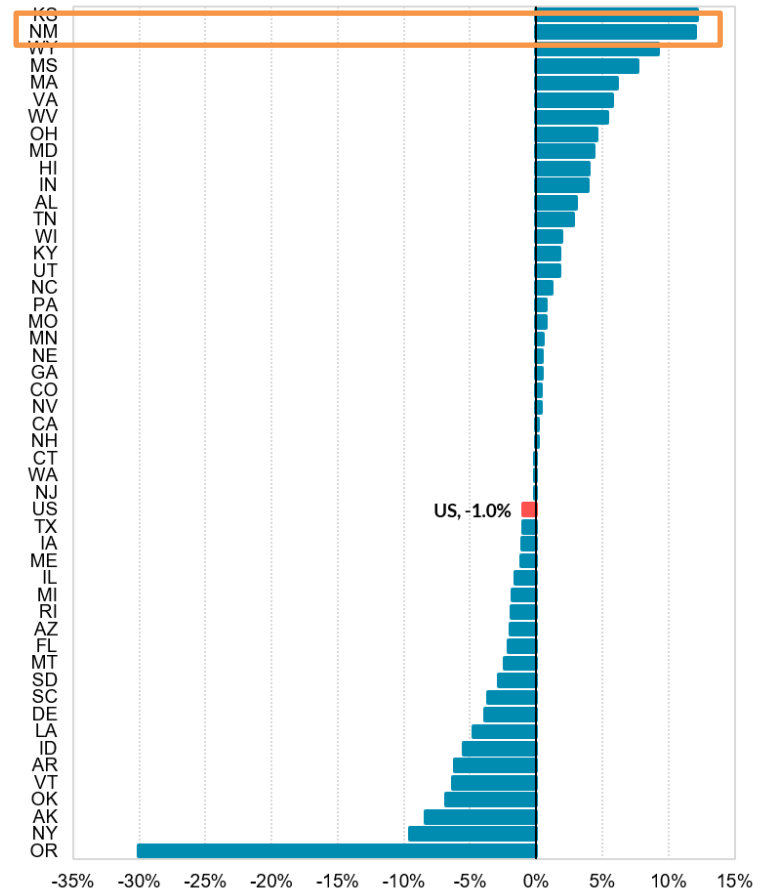


While slower than FY23, New Mexico's revenue growth is expected to last into FY24, while many states are expecting a more severe downturn.

- Nationwide, NM ranks second in forecasted FY24 revenue growth, according to the Tax Policy Council.
- Nationwide, total state revenues are expected to decline by 1 percent, year-over-year in fiscal year 2024.
- About half of states are projecting declines in overall tax revenues. Only seven states are projecting revenue growth of over 5 percent.

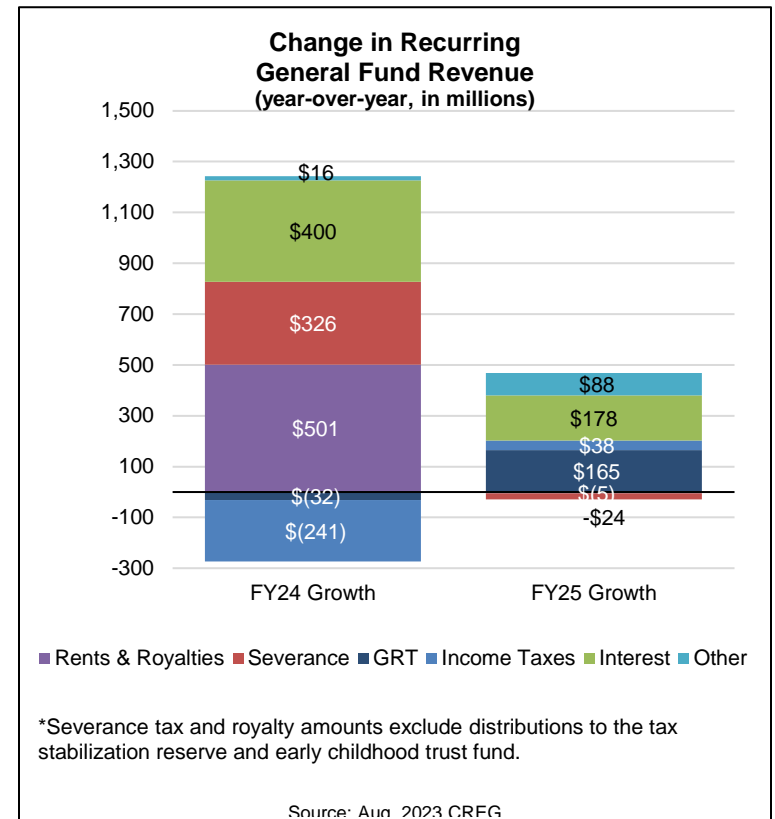
FIGURE 1

State total revenue forecasts for FY 2024



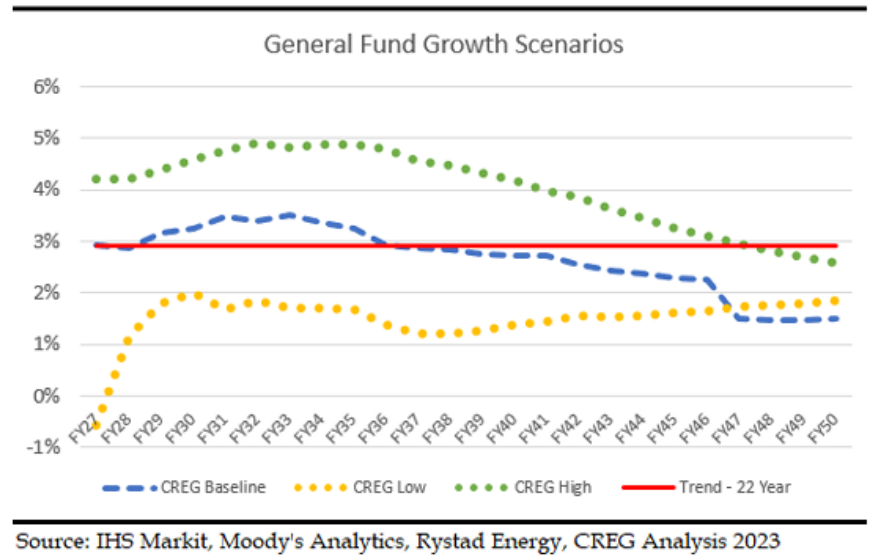
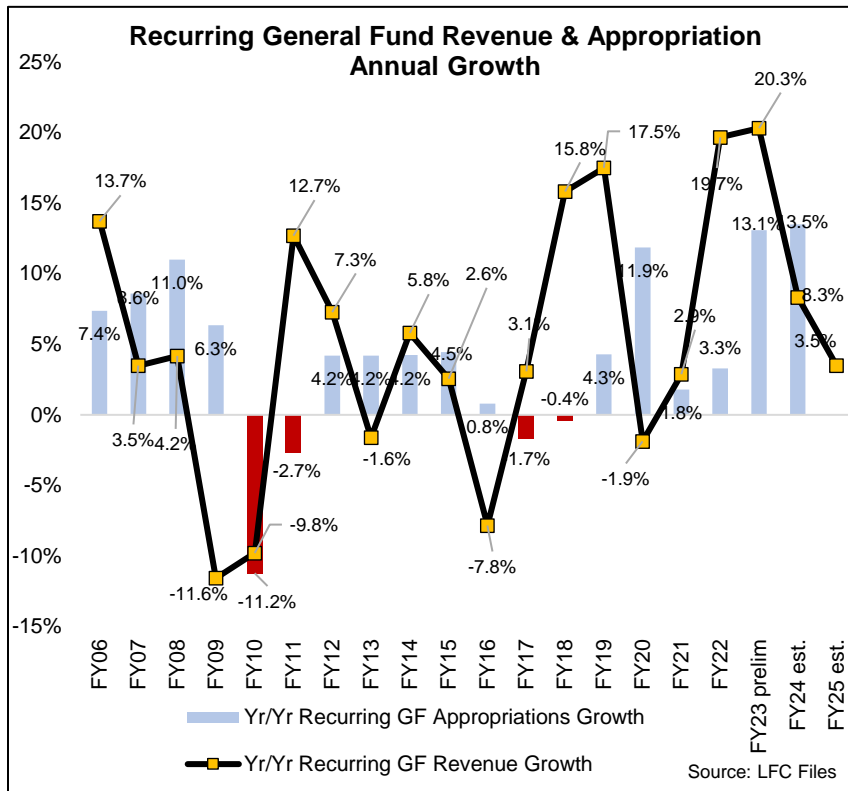
# The updated August 2023 forecast for FY25 is over \$13 billion.

- “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.



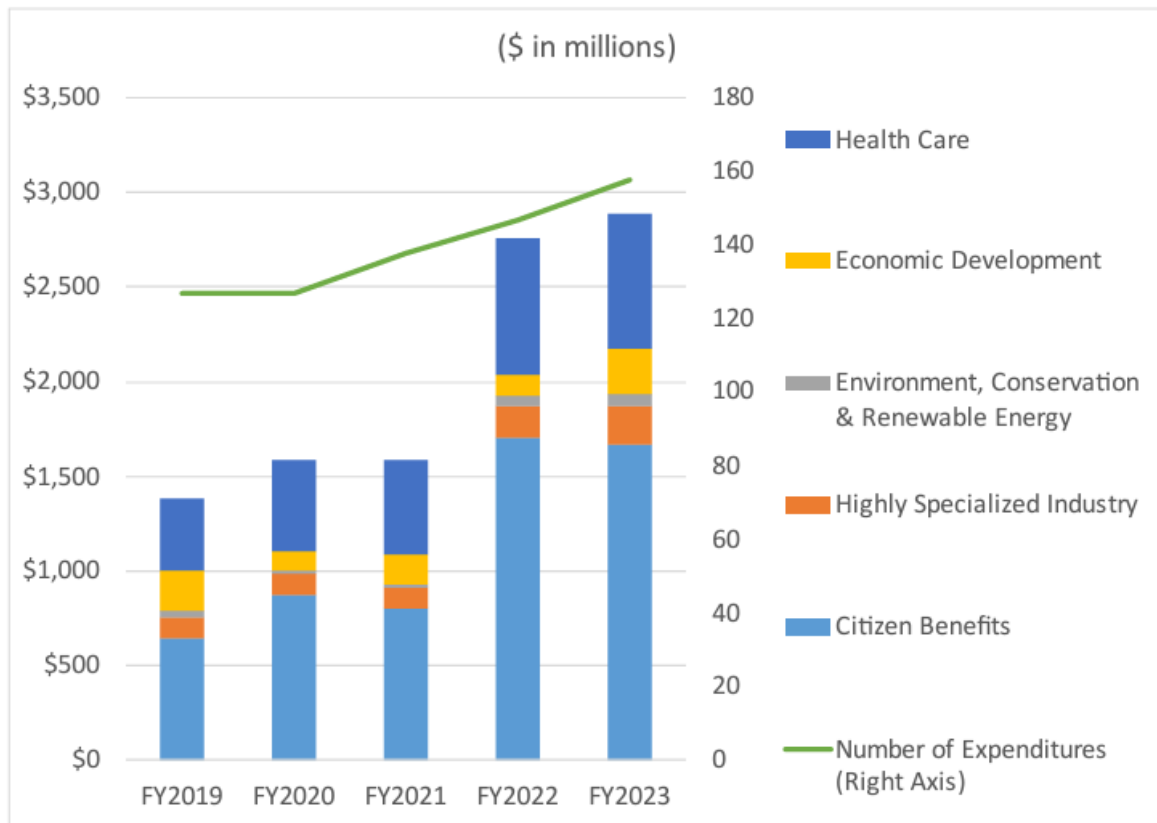


# Still, volatility remains, and revenue growth is expected to slow down and revert to pre-pandemic trends.



# ...and the cost of tax expenditures is growing.

TAX EXPENDITURES BY CATEGORY<sup>2</sup>



Source: TRD's 2023 Tax Expenditure Report



Some tax expenditures, like film tax, are expanding rapidly. Rebates are the largest expenditure but are one-time payments and will fall off the top 10 list.

### Top 10 Tax Expenditures: 2023 vs 2022

Name	2022 (\$000's State & Local)	2022 Rank	2023 (\$000's State & Local)	2023 Rank
Additional Income Tax Rebate 2021 Tax Year	0	NA	694,320	1
Sale of Food at Retail Food Stores GRT Deduction and Hold Harmless Distribution	422,671	2	443,918	2
Prescription Drugs, Oxygen and Medical Cannabis GRT and GGRT Deduction	371,700	3	392,500	3
DOH-Licensed Hospitals 60 Percent GRT Deduction	201,975	5	196,111	4
Capital Gain Deduction From PIT	102,483	8	114,533	5
Film and Television Credit against PIT and CIT	60,532	12	100,240	6
Working Families Tax Credit against PIT	104,527	7	93,802	7
Health Care Practitioner Services GRT Deduction and Hold Harmless Distribution	76,672	10	76,588	8
Social Security Income Exemption from PIT	0	NA	71,480	9
Low-Income Comprehensive Tax Rebate, +65 and older additional rebate	62,265	11	60,363	10

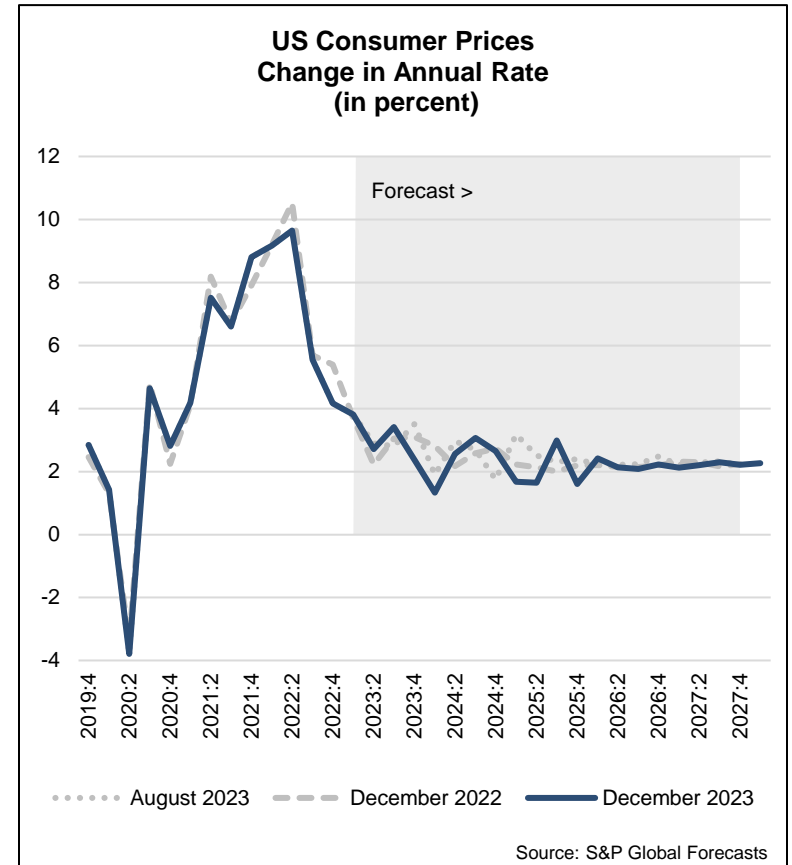
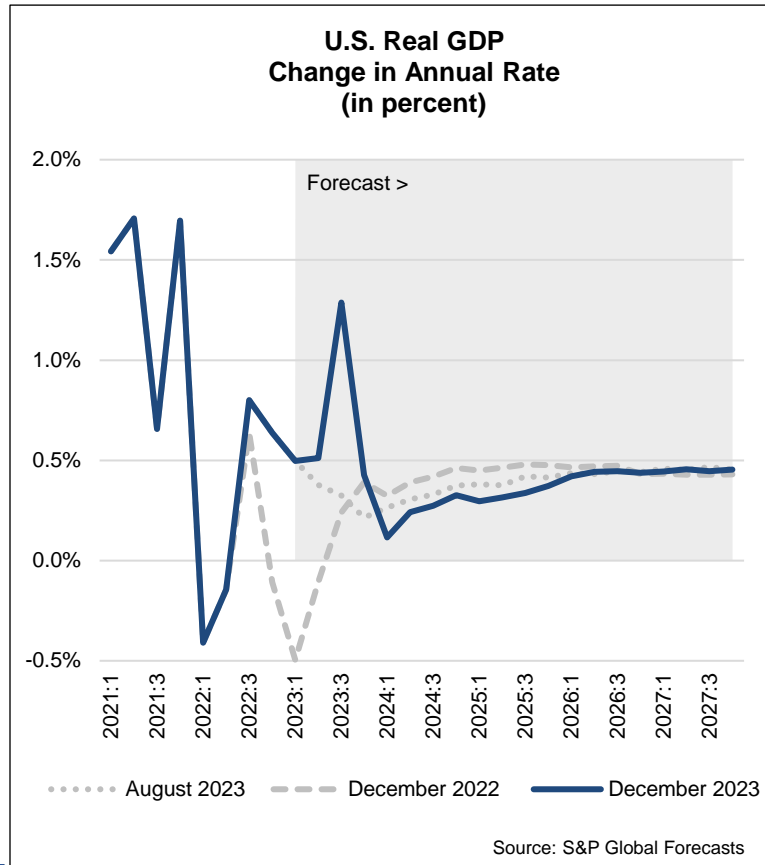
Source: TRD's 2023 Tax Expenditure Report



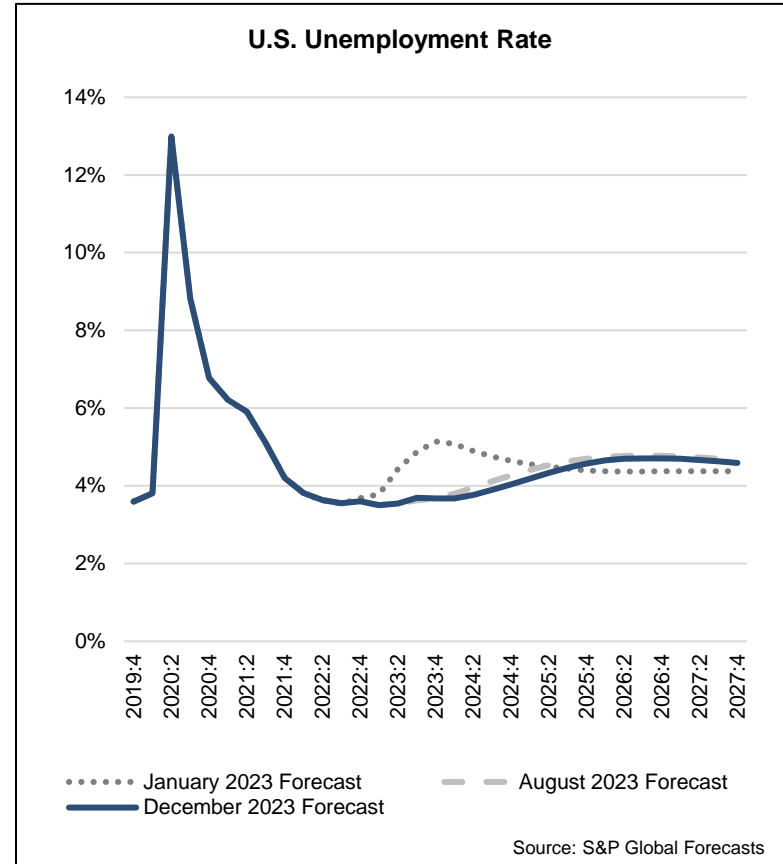
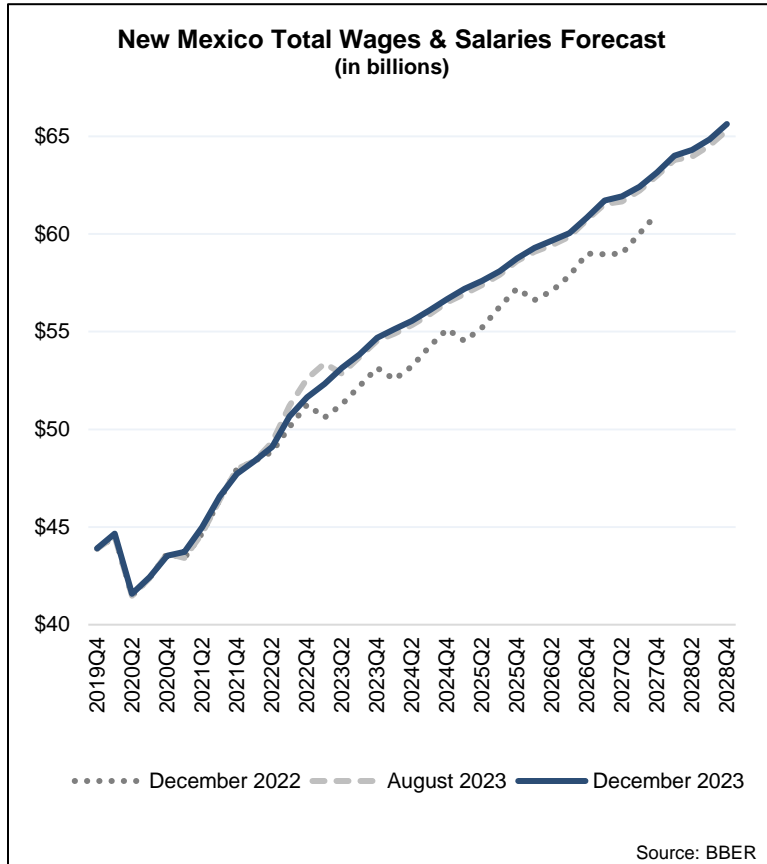
# ECONOMIC OUTLOOK



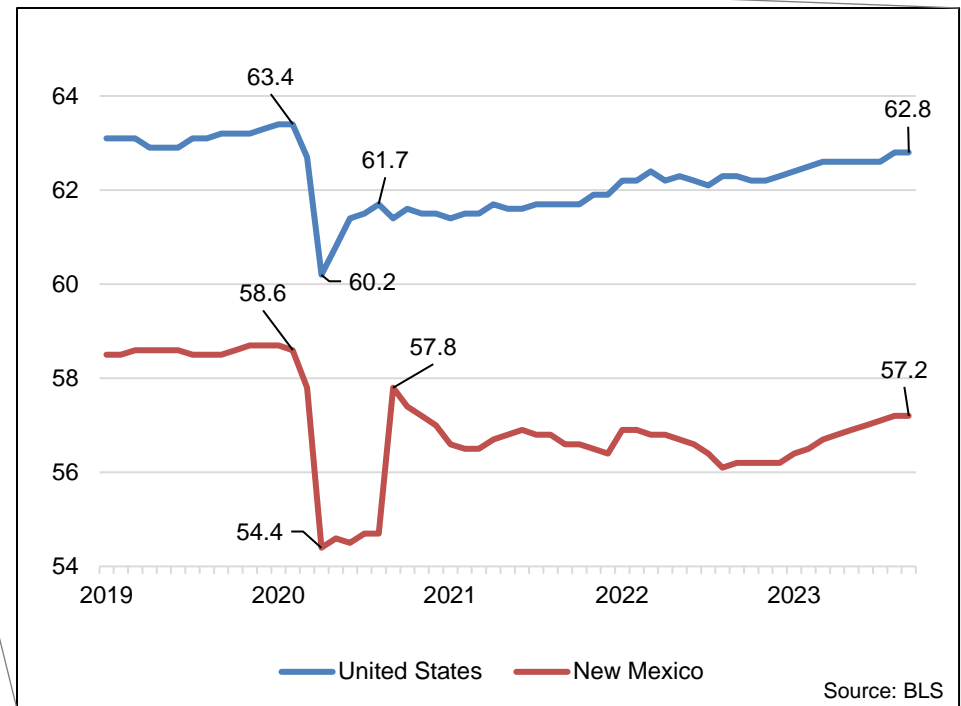
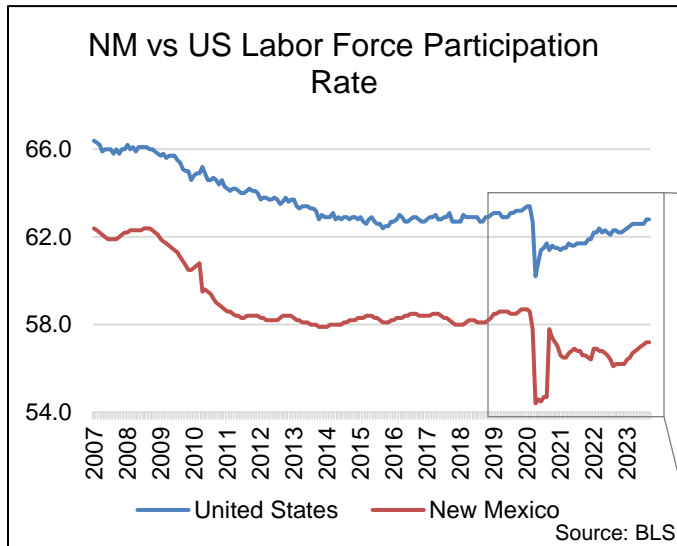
# The national economy is stabilizing and returning to prepandemic growth.



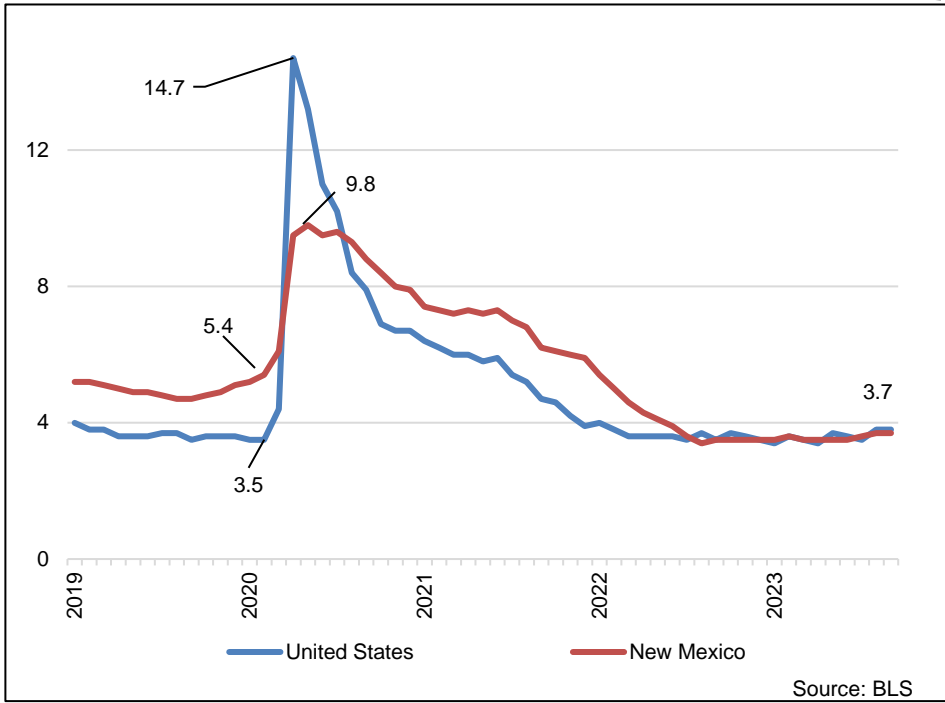
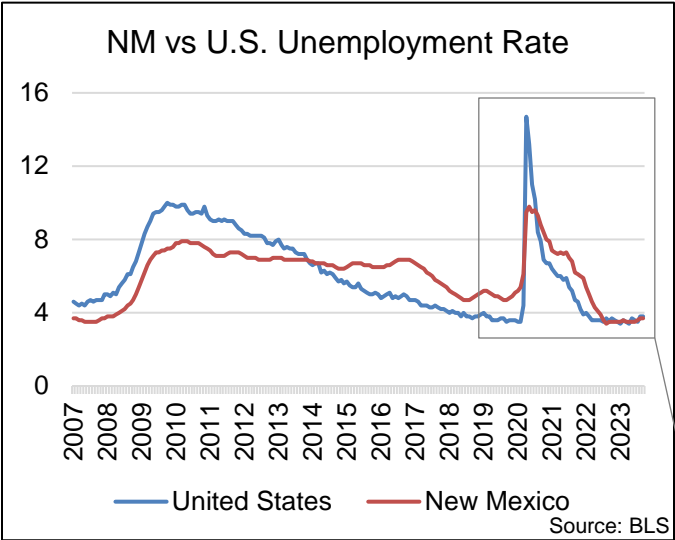
# BBER and S&P Global are predicting lower wages and salaries in the near-term while unemployment remains largely unchanged.



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

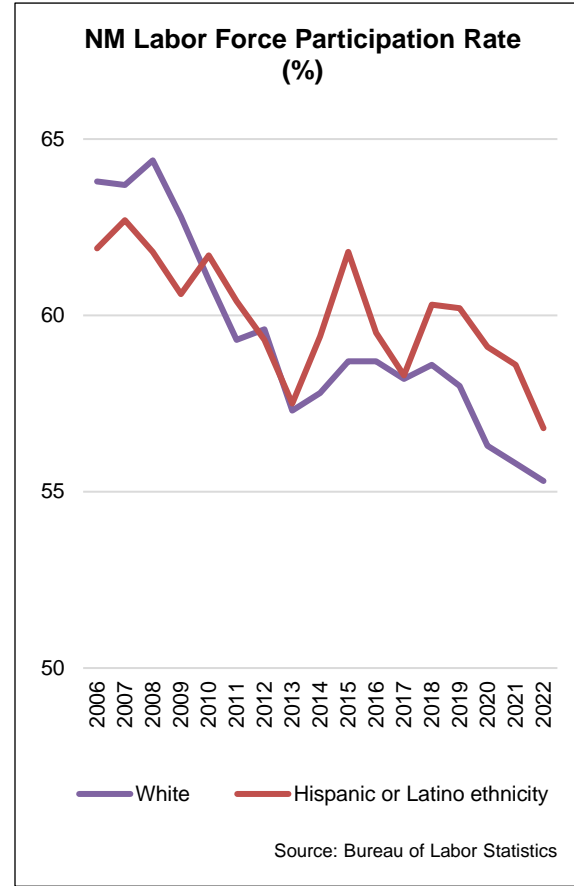
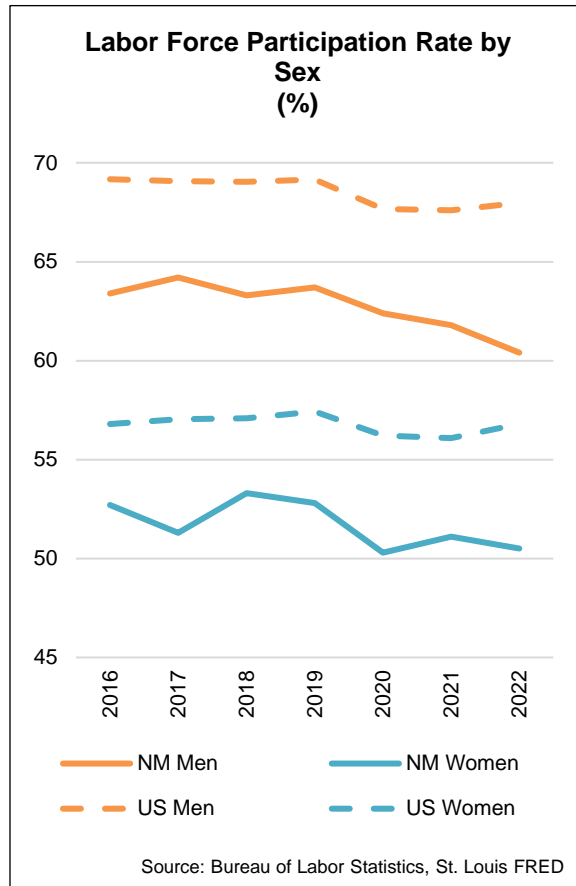


# New Mexico's unemployment rate has recovered to prepandemic levels, on track with U.S.

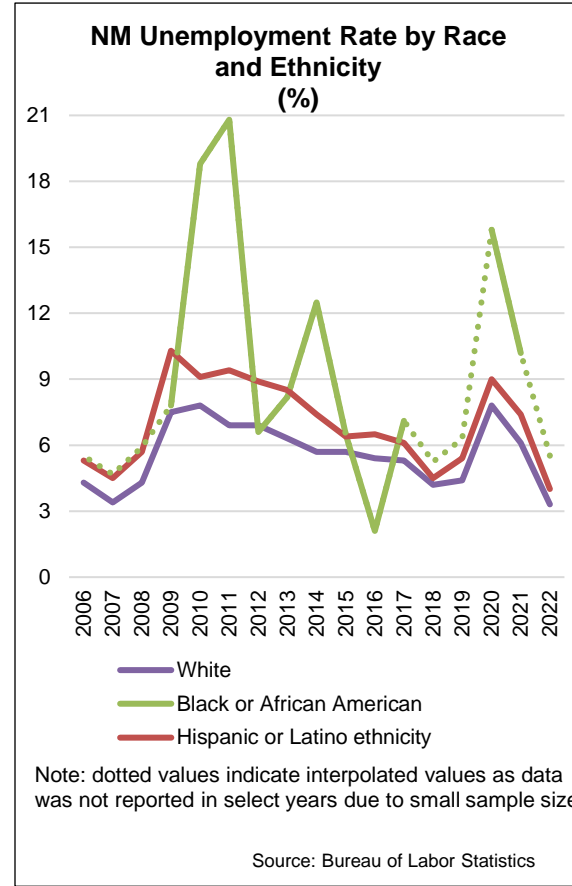
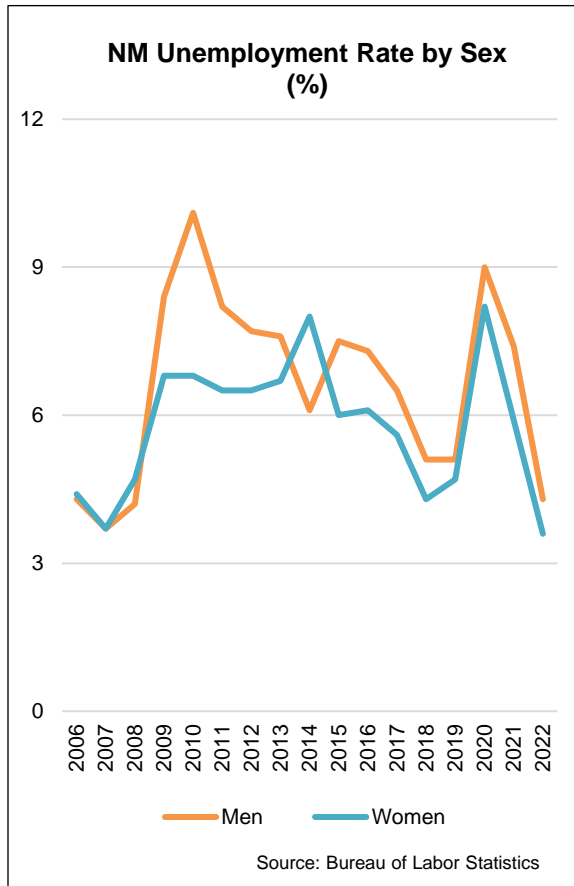




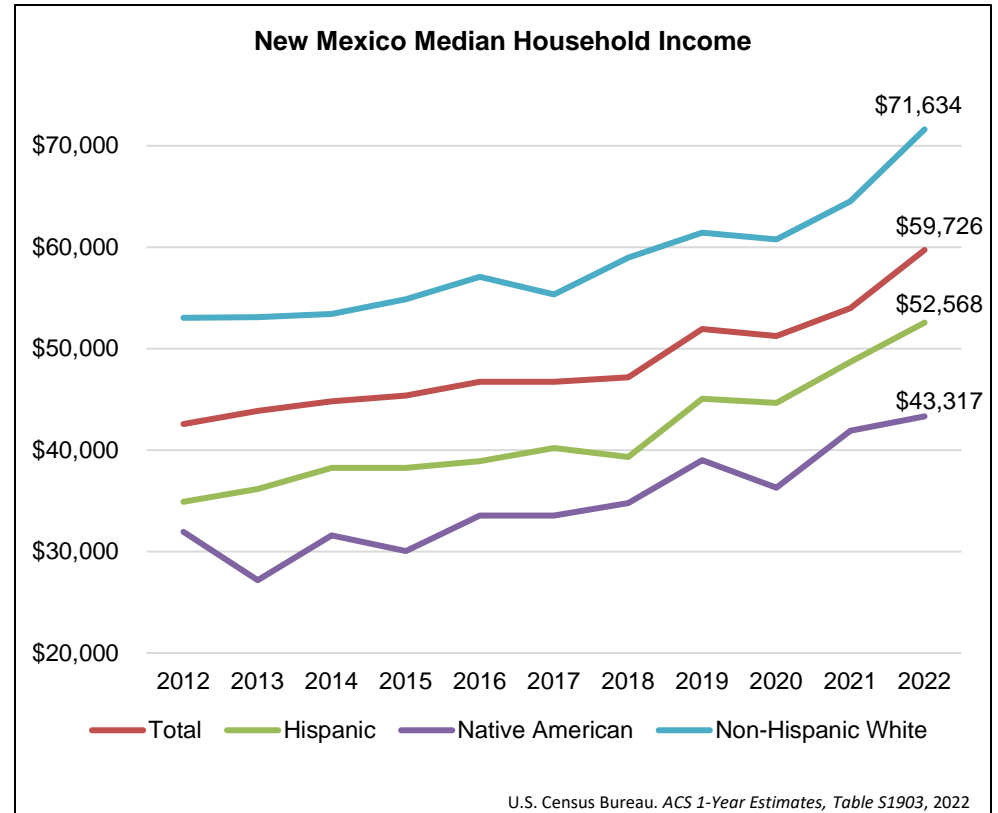
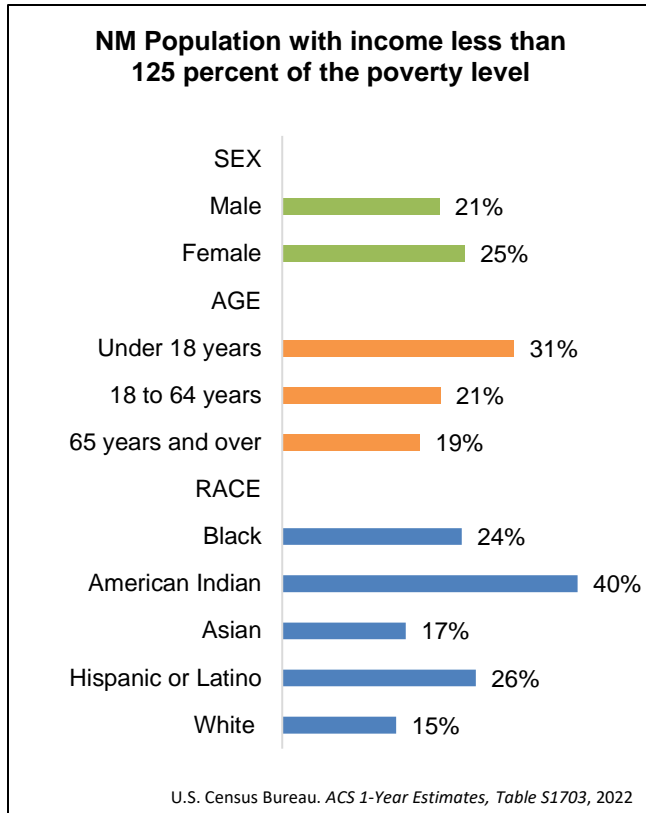
# The pandemic and the recovery has had different impacts across communities.



# The pandemic and the recovery has had different impacts across communities.

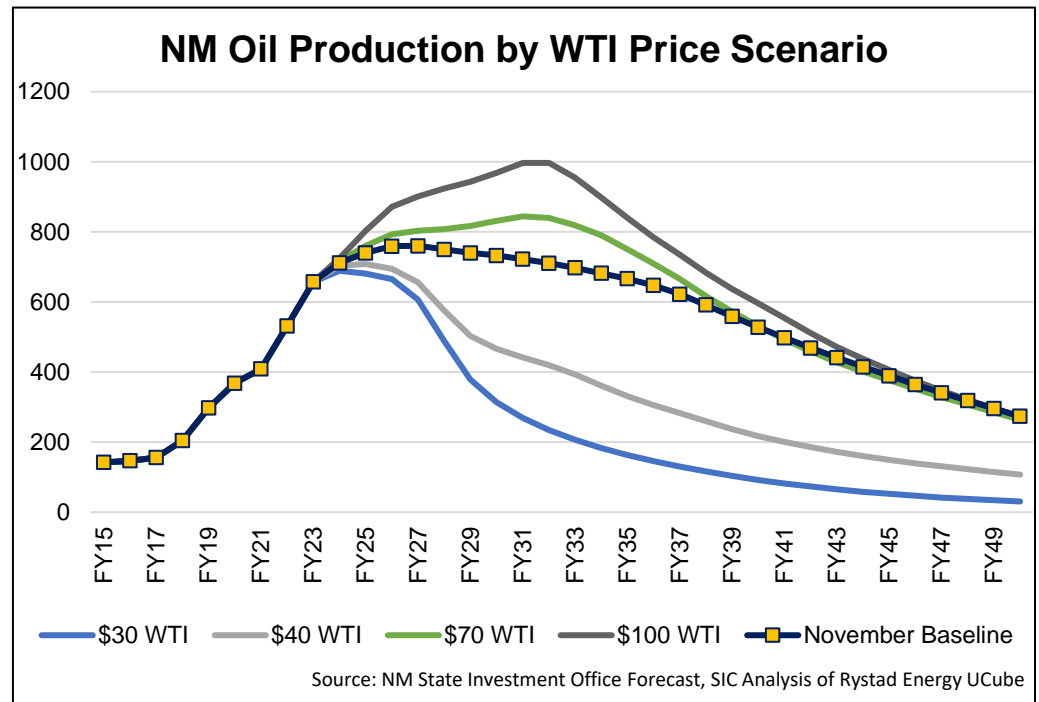


# Recovery has benefitted some groups more than others.

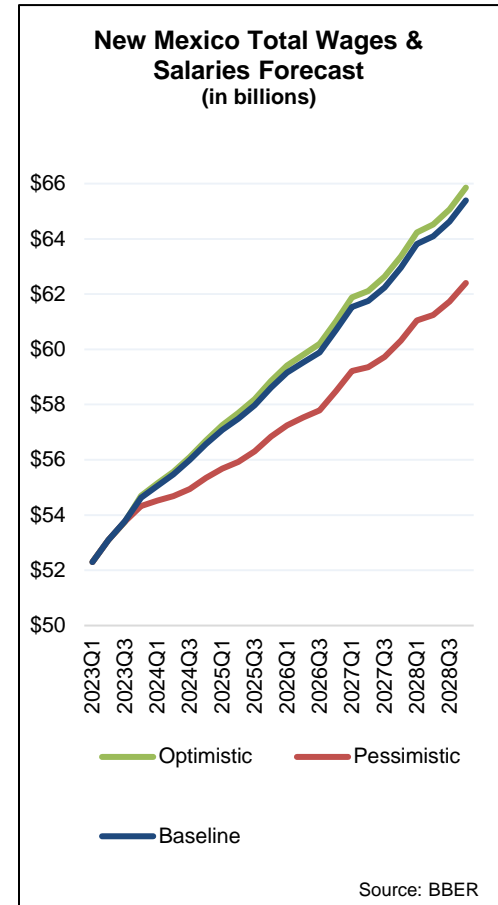
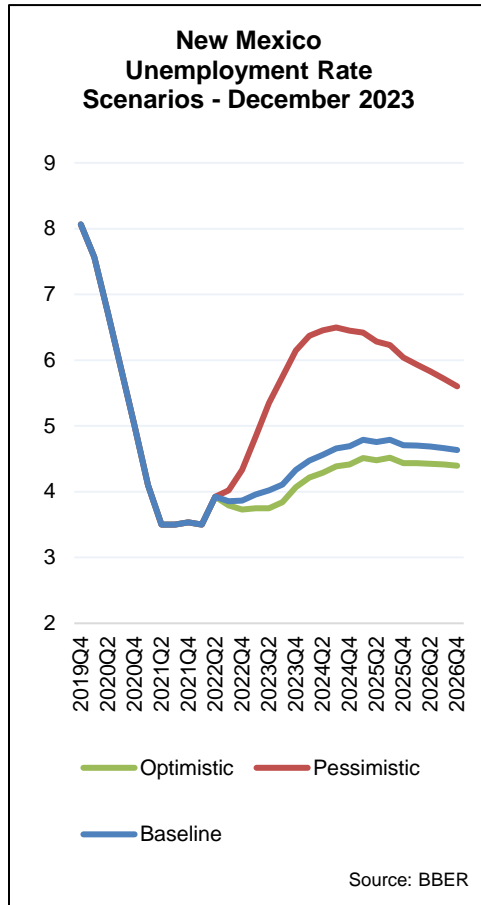
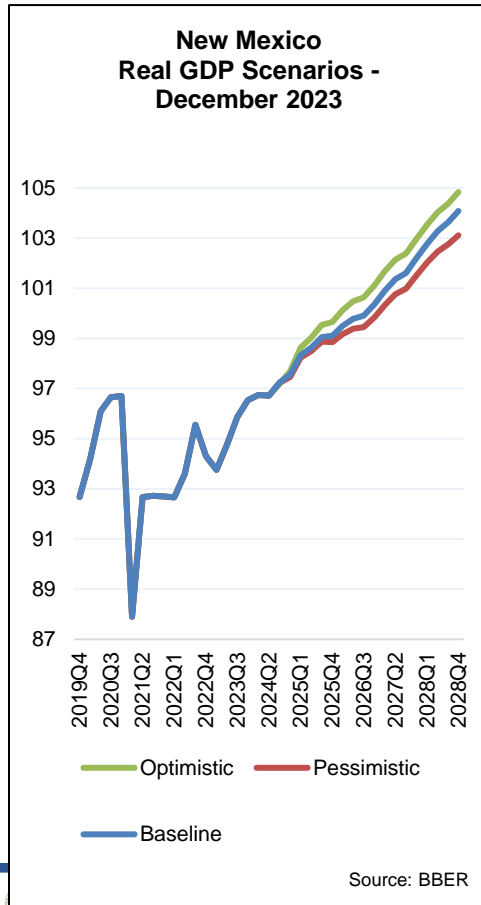


# Oil and gas remains an important driver of revenues and the biggest risk to budgets.

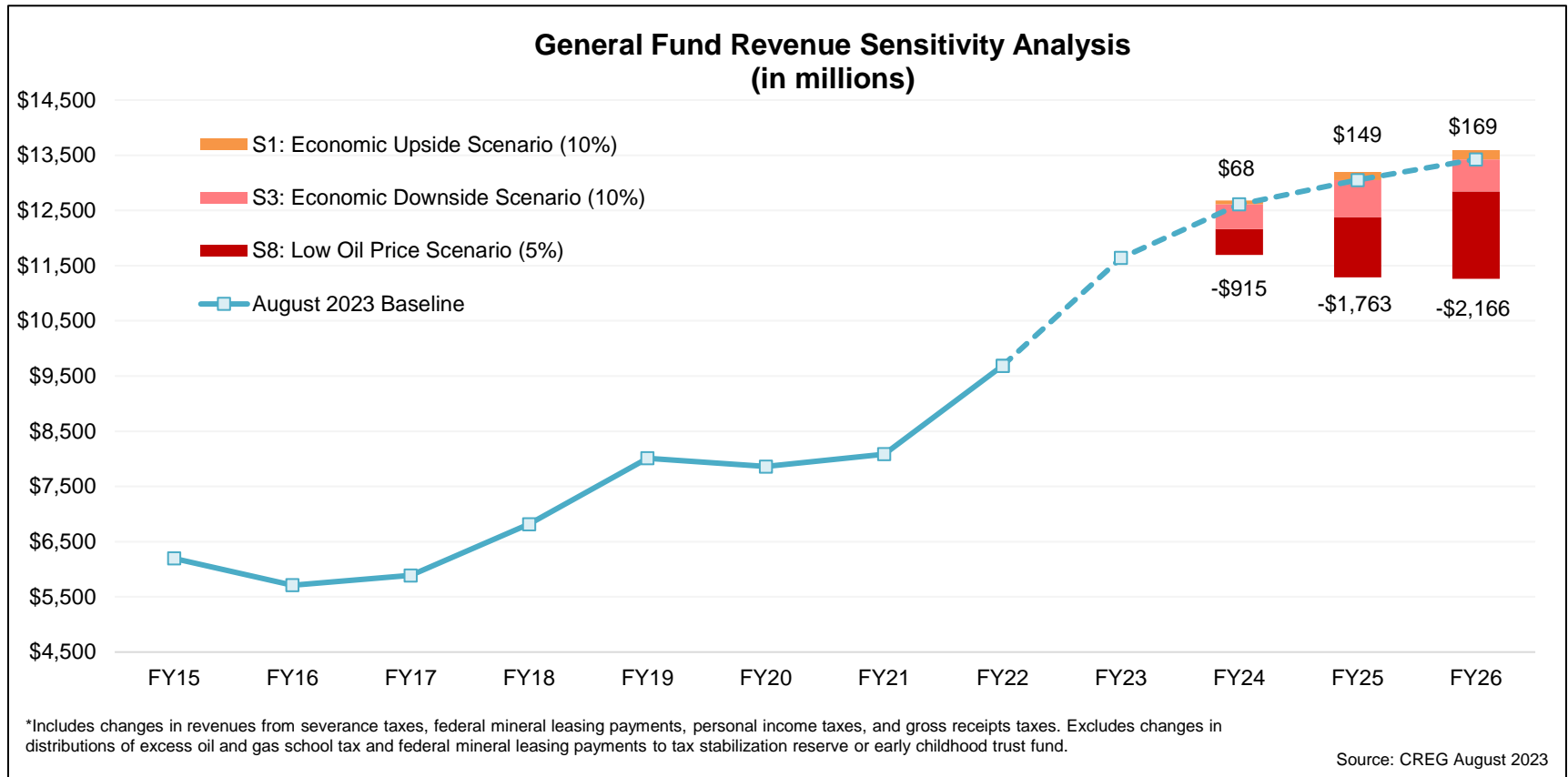
- The oil and gas peak could be earlier than previously forecasted depending on the global economic recovery, supply, and prices.
- Prices have fallen but remain volatile.



# Outside of oil and gas, economic uncertainty remains.



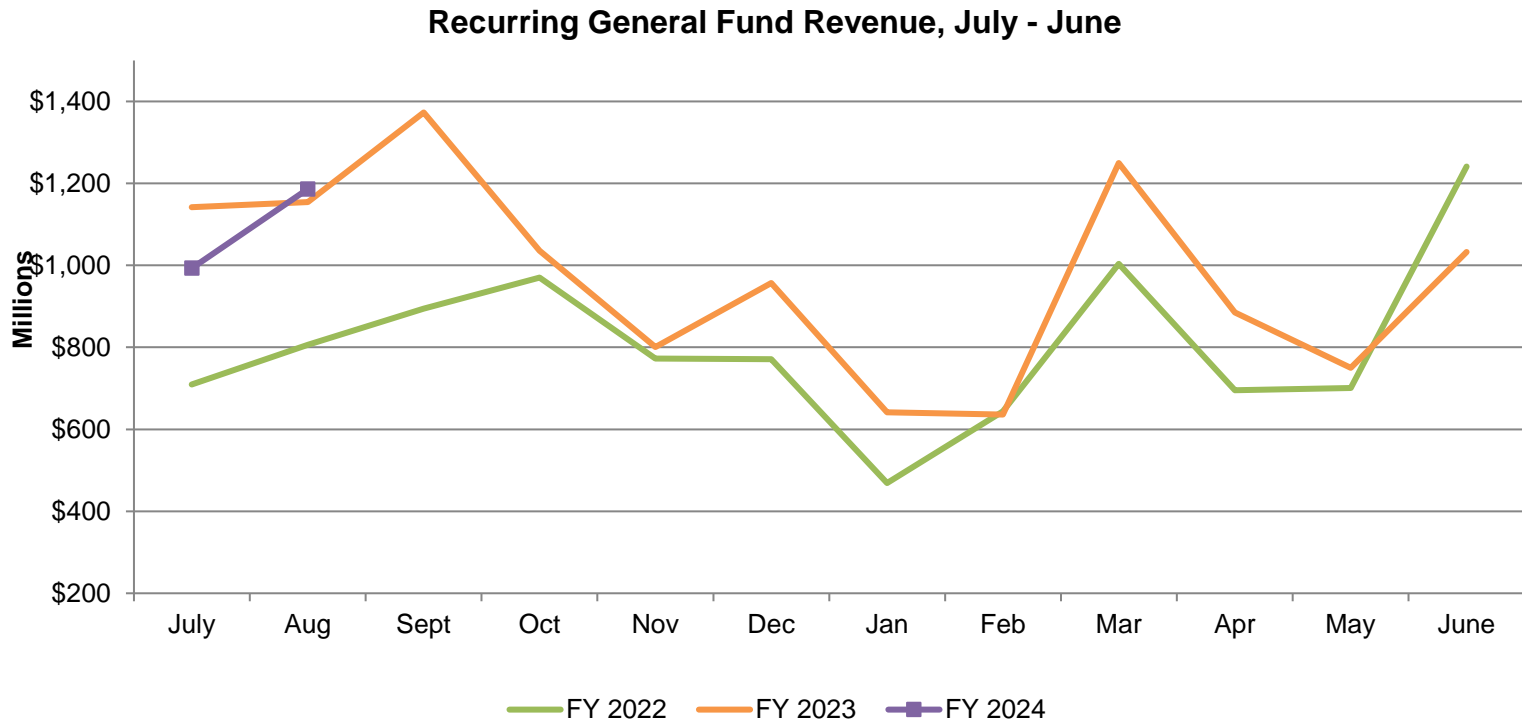
# Stress tests help understand the realm of possibility.



# FY24 REVENUE TRACKING



# Revenues through August are tracking below FY23 and above FY22.





Revenue collections through August are down \$116.5 million, or 5.1 percent, from last year, mainly due to slower oil and gas revenues.

Table 1. General Fund Revenue Accruals: FY24 vs. FY23

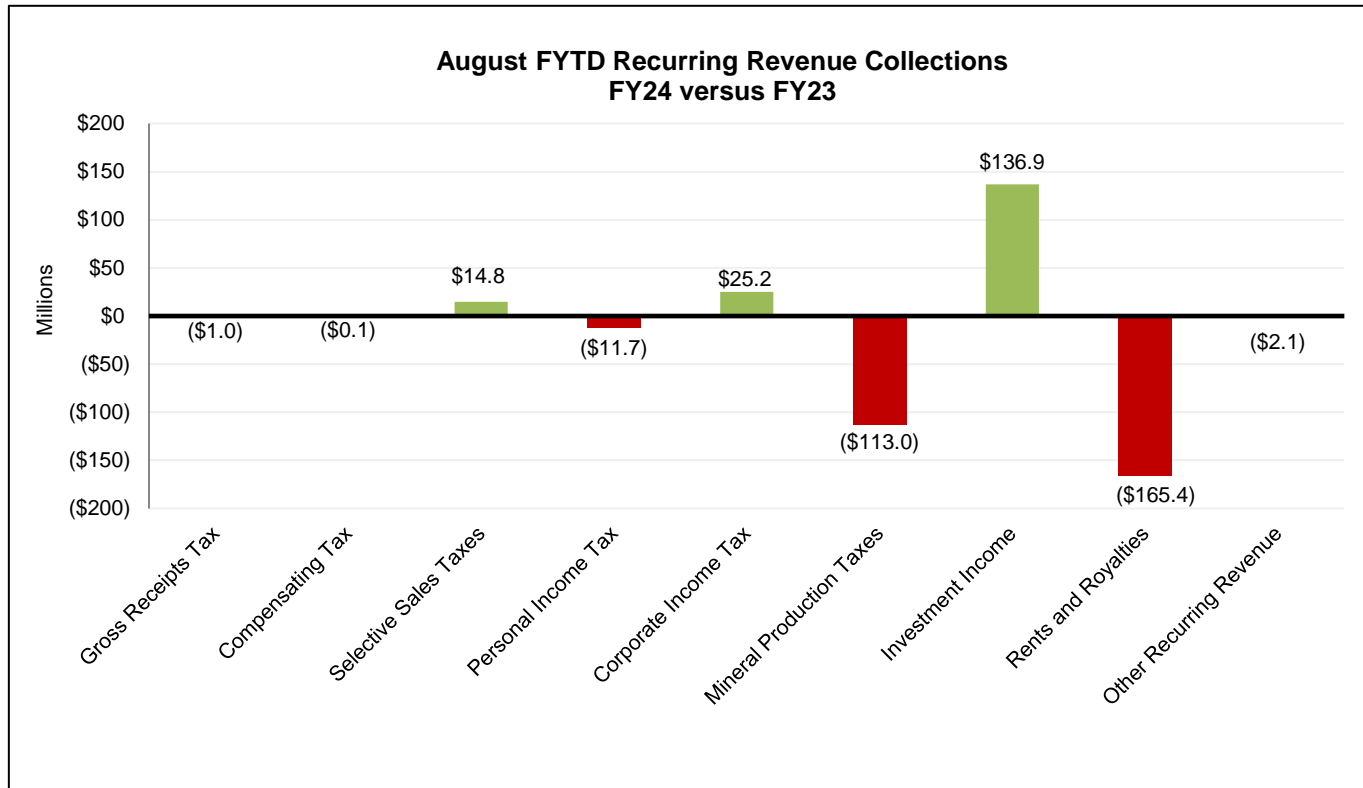
Revenue Category	August Revenue		Month Year-over-Year Amount Change	Fiscal Year-to-Date Through August		Fiscal YTD Year-over-Year Amount Change	Fiscal YTD Year-over-Year Growth	Projected Full-Year Growth: August 23 Forecast
	FY23	FY24		FY23	FY24			
Gross Receipts Tax	\$326.3	\$344.2	\$17.8	\$632.1	\$631.1	-\$1.0	-0.2%	-1.0%
Compensating Tax	\$7.6	\$7.1	-\$0.5	\$14.8	\$14.7	-\$0.1	-0.6%	-1.0%
Selective Sales Taxes *	\$25.8	\$35.4	\$9.5	\$54.3	\$69.0	\$14.8	27.2%	2.5%
Personal Income Tax	\$246.1	\$230.5	-\$15.6	\$394.9	\$383.3	-\$11.7	-3.0%	-5.8%
Corporate Income Tax	-\$23.2	-\$1.2	\$22.0	-\$13.4	\$11.8	\$25.2	187.8%	-19.4%
Mineral Production Taxes **	\$220.6	\$170.8	-\$49.8	\$440.1	\$327.0	-\$113.0	-25.7%	32.8%
License Fees	\$0.9	\$0.7	-\$0.2	\$1.2	\$1.1	-\$0.1	-10.0%	-2.9%
Investment Income	\$57.9	\$160.6	\$102.6	\$183.8	\$320.6	\$136.9	74.5%	30.0%
Rents and Royalties	\$288.0	\$237.0	-\$51.0	\$583.1	\$417.6	-\$165.4	-28.4%	41.7%
Tribal Revenue Sharing	\$0.0	\$0.1	\$0.1	\$0.4	\$1.5	\$1.1	290.6%	-1.1%
Miscellaneous Receipts	\$0.8	\$1.1	\$0.3	\$1.4	\$1.6	\$0.2	15.0%	0.2%
Reversions	\$3.2	\$0.0	-\$3.2	\$3.3	\$0.0	-\$3.3	-99.5%	0.0%
<b>Subtotal Recurring Rev.</b>	<b>\$1,154.2</b>	<b>\$1,186.2</b>	<b>\$32.0</b>	<b>\$2,295.9</b>	<b>\$2,179.4</b>	<b>-\$116.5</b>	<b>-5.1%</b>	<b>11.4%</b>
Nonrecurring Revenue	-\$14.2	-\$1.8	\$12.4	-\$14.2	-\$4.4	\$9.8	69.3%	-98.8%
<b>Total Revenue</b>	<b>\$1,140.0</b>	<b>\$1,184.4</b>	<b>\$44.4</b>	<b>\$2,281.7</b>	<b>\$2,175.0</b>	<b>-\$106.6</b>	<b>-4.7%</b>	<b>14.4%</b>

\* Includes estimates for Insurance

\*\* Includes estimates for Oil and Gas School Tax and Oil and Gas Conservation Tax.

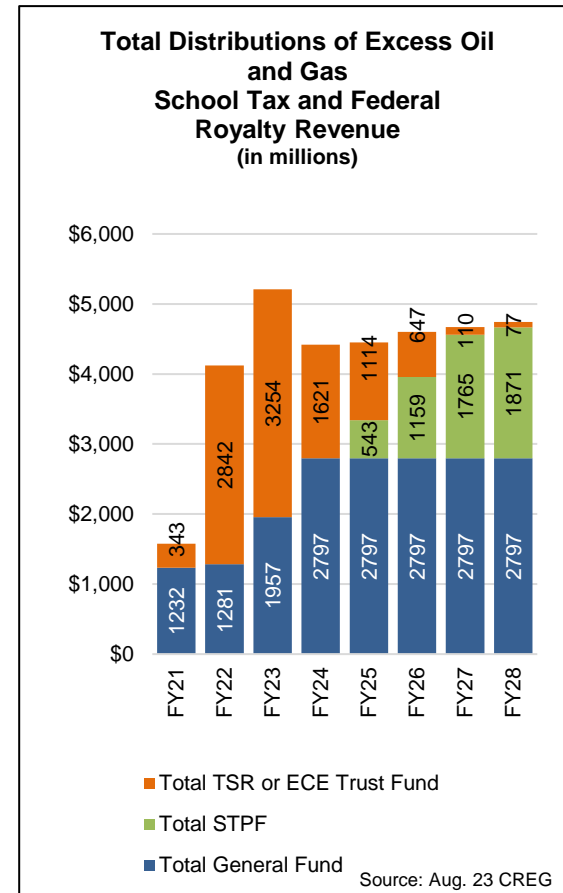


# A downturn in oil and gas revenue is driving the year-over-year decrease.



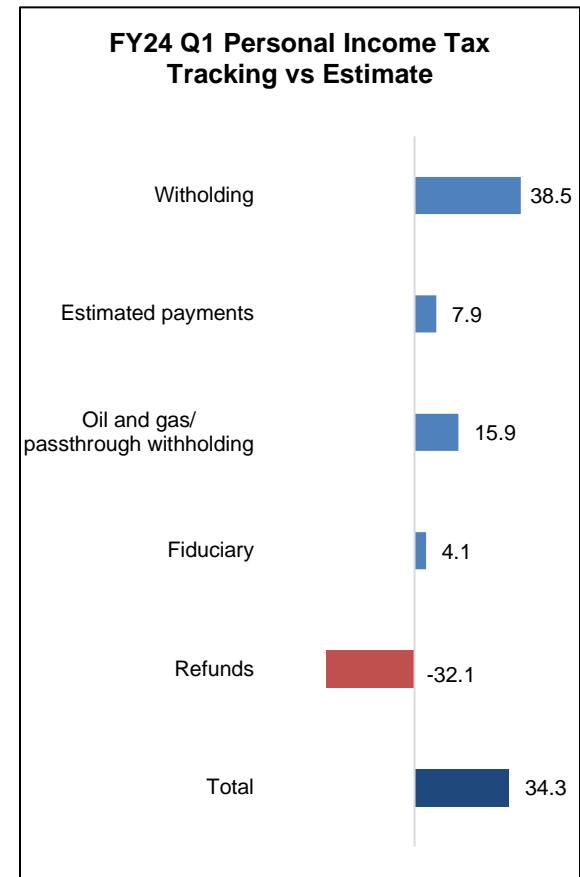
# Oil and gas revenues are tracking slightly below the estimate.

- A decrease in most of these revenues will hit the early childhood trust fund and the severance tax permanent fund before the general fund.



PIT is tracking higher than the estimate; however, preliminary September data and economic indicators are pointing to a slow-down.

- Withholding is strong, followed by oil and gas revenues but offset by higher refunds.
- A cool-down in oil and gas prices and wages and salaries could dampen growth through the rest of the fiscal year.
- A weak holiday hiring season could also slow PIT revenues. However, consumer spending has stayed strong.



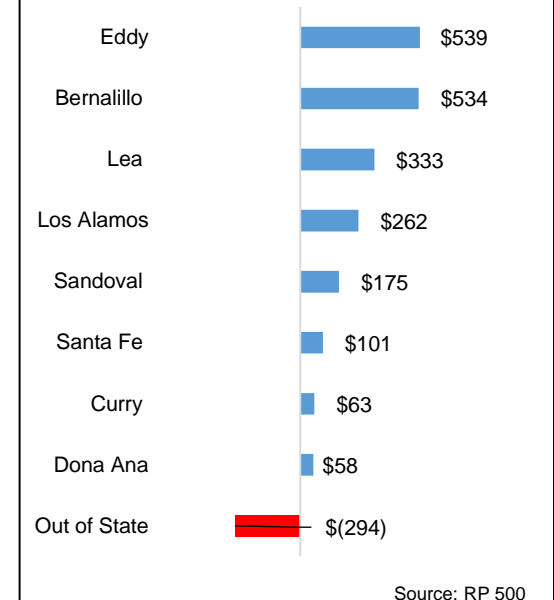
GRT is tracking \$23.6 million above the August estimate.

**Matched Taxable Gross Receipts by Industry - FY24 vs FY23**

Industry	Matched Taxable Gross Receipts	Year-over-Year Growth	Year-over-Year Change
Mining, Quarrying, and Oil and Gas Extraction	\$2,959,851,192	\$130,301,222	4.6%
Utilities	\$869,337,914	\$4,814,794	0.6%
Construction	\$3,192,223,479	\$485,423,833	17.9%
Manufacturing	\$962,032,328	\$147,672,108	18.1%
Wholesale Trade	\$1,399,808,642	\$162,776,569	13.2%
Retail Trade	\$5,197,977,194	\$274,958,922	5.6%
Transportation and Warehousing	\$409,590,285	\$5,004,352	1.2%
Information	\$638,070,081	\$56,288,023	9.7%
Real Estate and Rental and Leasing	\$692,355,888	\$44,093,617	6.8%
Professional, Scientific, and Technical Services	\$2,460,232,925	\$380,239,837	18.3%
Administrative/Support & Waste Management/Remediation	\$1,367,900,442	\$129,844,096	10.5%
Health Care and Social Assistance	\$1,130,923,681	\$29,177,072	2.6%
Leisure and Hospitality Services	\$1,807,530,685	\$141,495,848	8.5%
Other Industries	\$2,458,974,753	\$137,899,238	37.0%
<b>Total</b>	<b>\$25,546,809,489</b>	<b>\$2,129,989,529</b>	<b>9.1%</b>

Source: RP500

**Matched Taxable Gross Receipts by County, FY24 Year-over-Year Amount (in millions)**



Source: RP 500

- Revenue strength is coming from stronger than expected construction receipts.
- Mining receipts are slowing but other industries are also growing quickly. Out-of-state declines from destination sourcing are a drag.



Although, preliminary revenues for September show total revenues are tracking only \$28.3 million below the forecast.

### FISCAL YEAR 2024 GENERAL FUND MONTHLY REVENUE TRACKING

(dollars in millions)

	FY24	TRACKING CHANGE		
	<u>Actual + Estimate</u>	FY24 Aug Forecast	<u>% Diff.</u>	<u>\$ Diff.</u>
GENERAL SALES TAXES	3,991.3	3,967.7	0.6%	23.6
SELECTIVE SALES TAXES	761.5	777.0	-2.0%	(15.5)
PERSONAL INCOME TAX	2,533.4	2,499.2	1.4%	34.3
CORPORATE INCOME TAX	279.8	360.7	-22.4%	(80.9)
TOTAL INCOME TAXES	2,813.2	2,859.9	-1.6%	(46.7)
MINERAL PROD. TAXES	1,314.4	1,317.8	-0.3%	(3.4)
LICENSE FEES	58.9	58.4	0.9%	0.5
INVESTMENT EARNINGS	1,751.2	1,733.7	1.0%	17.5
RENTS & ROYALTIES	1,697.1	1,702.5	-0.3%	(5.4)
TRIBAL REVENUE SHARING	80.4	79.3	1.3%	1.1
MISCELLANEOUS RECEIPTS	39.7	39.7	0.2%	0.1
REVERSIONS	75.0	75.0	0.0%	(0.0)
<b>TOTAL RECURRING REVENUE</b>	<b>12,582.7</b>	<b>12,611.0</b>	<b>-0.2%</b>	<b>(28.3)</b>
<b>TOTAL NON-RECURRING REVENUE</b>	<b>(9.3)</b>	<b>(9.3)</b>		<b>0.0</b>
<b>GRAND TOTAL REVENUE</b>	<b>12,573.5</b>	<b>12,601.7</b>	<b>-0.2%</b>	<b>(28.3)</b>

Estimates are developed by LFC and based on the consensus revenue estimate and historical monthly patterns.



# QUESTIONS?

**For More Information:**

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

Publications on:

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

325 Don Gaspar –Suite 101  
Santa Fe, NM 87501  
505-986-4550

