

# Long-Term Revenue Outlook

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Legislative Finance Committee  
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Office of the Governor

**MICHELLE LUJAN GRISHAM**



# Consensus Revenue Estimating Group

## Participating Agencies

### **New Mexico Department of Finance and Administration**

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# Introduction/Forecasts

- Baseline forecasts based on current data and assumptions
  - Built on economic, demographic, and industry indicators
- Does not include future:
  - Recessions
  - Fiscal and monetary policy actions
  - Technological innovations
  - Financial, energy, or other market shocks
  - Wars or geopolitical events
  - State or federal legislation
- As forecasts are extended, possibilities and volatility around the baseline grows
- These models and estimates are useful for planning and discussion purposes
  - Budget and policy
- The main objective is to look at trends
  - With the most current available data and surmise - Where is the state headed?

# Economic Indicators

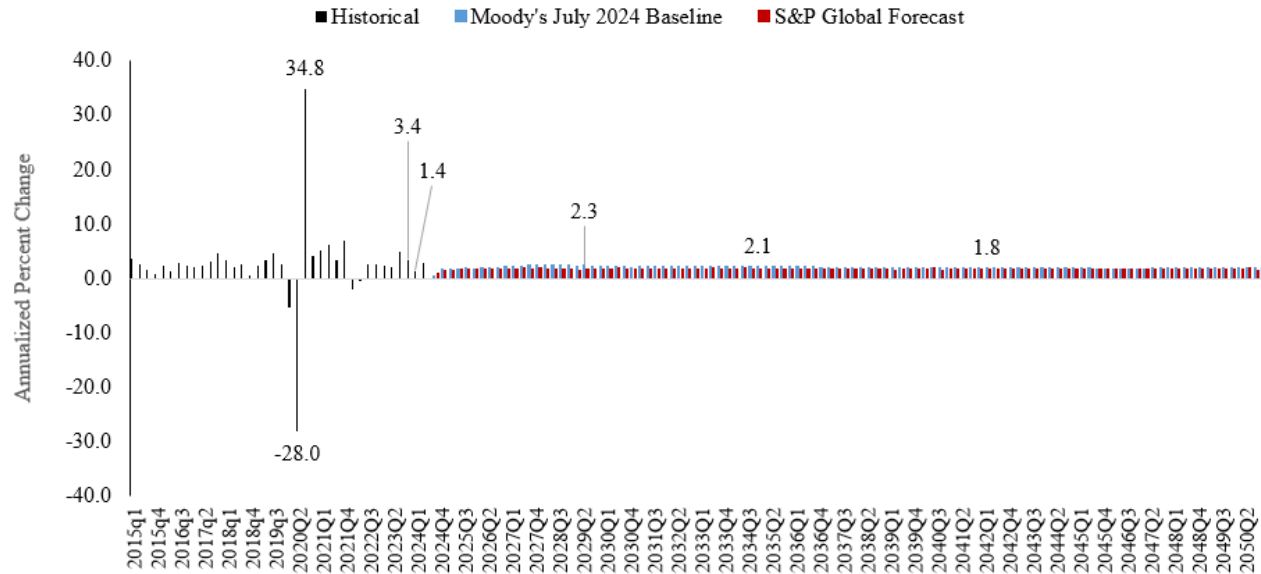
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# U.S. RGDP

## Annualized Percent Change in U.S.A Real GDP: 2015 Q1 to 2024 Q2

Moody's Forecast 2024Q3-2050Q4, S&P Global Forecast 2024Q3-2050Q4

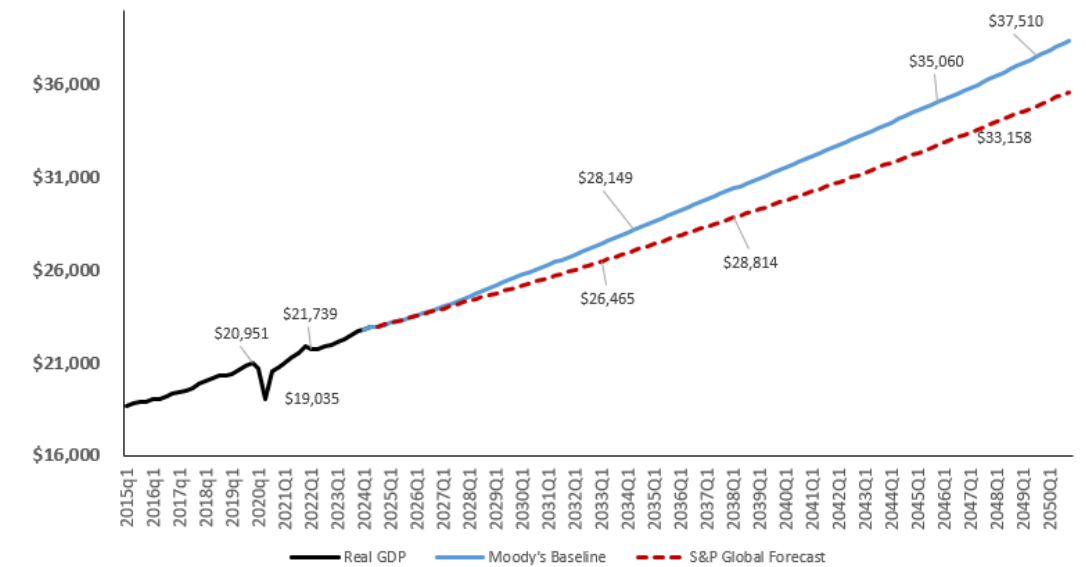
(Quarter-over-Previous-Quarter)



Source: bea.gov seasonally adjusted at annual rates, Moody's Current Baseline, S&P Global May Baseline

## U.S. Real Gross Domestic Product: 2015 Q4 to 2024 Q2

Moody's and S&P Global Forecasts 2024 Q3-2052Q4

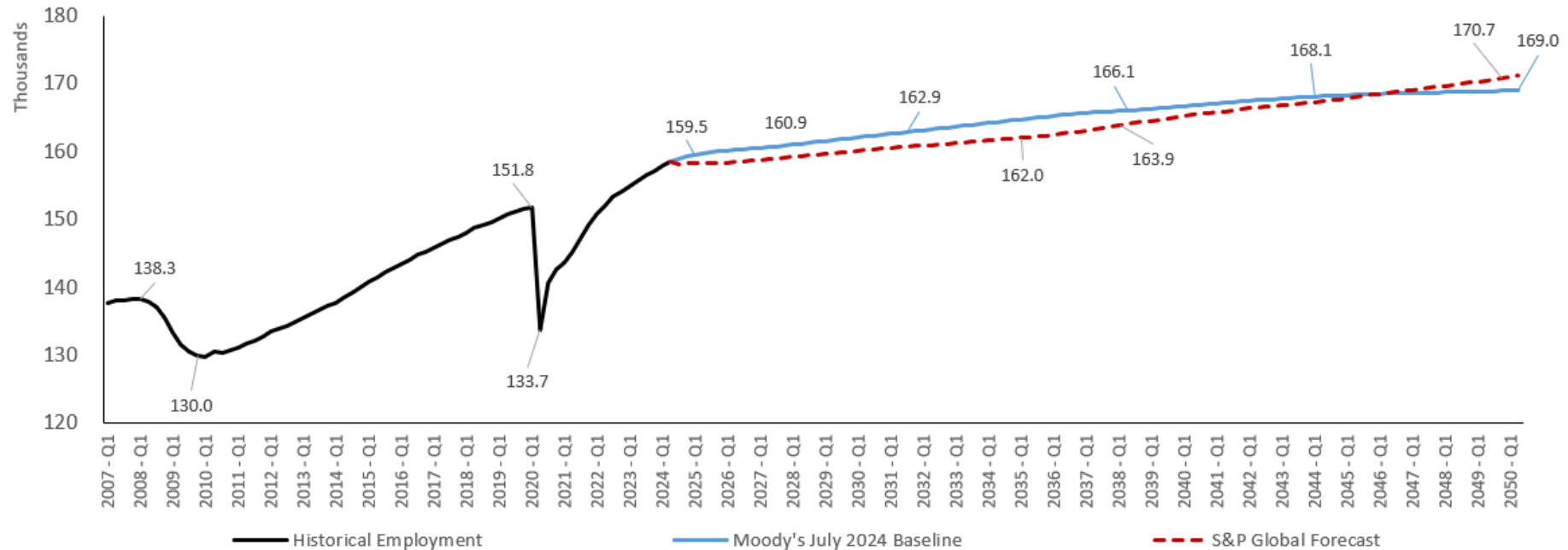


Source: GDP in billions of chained 2017 dollars, retrieved from bea.gov.

- Current national forecasts do not include a national recession in baseline forecasts
- Recession risks have decreased as the nation's economic growth returns to long-run economic growth rates
- Both Moody's and S&P Global expect growth to continue
- S&P Global expects more moderate long-term growth than Moody's

# U.S. Employment

U.S. Total Non-Employment: 2007Q1 to 2024Q2. Moody's and S&P Global Forecasts: 2024Q3 to 2050Q2  
(1,000s of jobs)

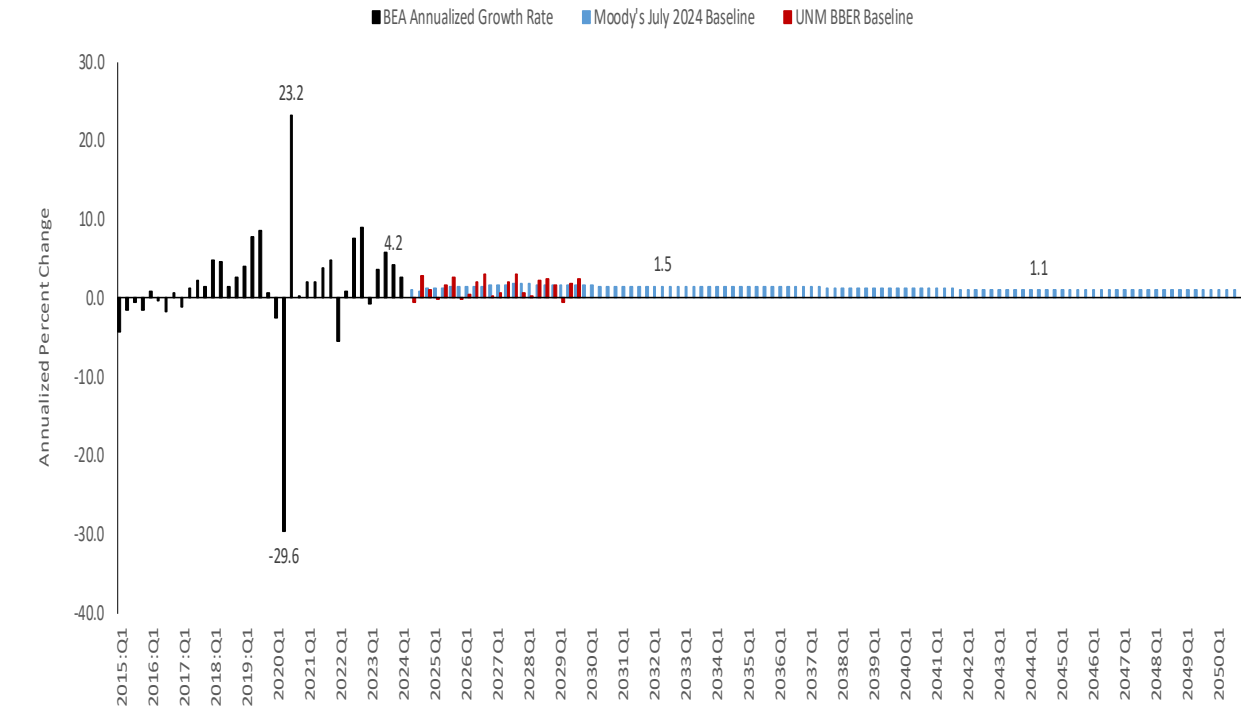


Source: Bureau of Labor Statistics

- National forecasts see national employment moderating in the long run
  - Country at full employment with an unemployment rate at 3.5% to 4.0%
- Recent labor market data indicated the demand for labor is moderating

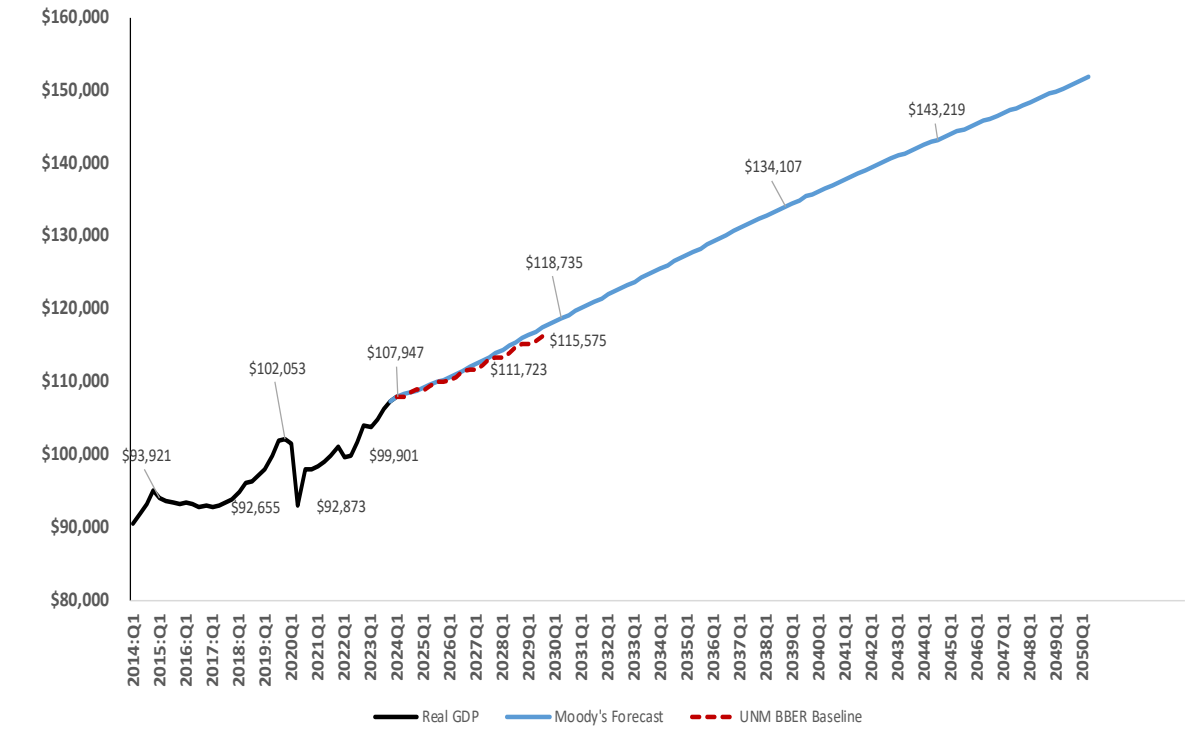
# N.M. RGSP

Annualized Percent Change in N.M. Real GDP 2014Q1 to 2024Q1, Moody's Forecasts 2024Q2-2053Q4, UNM BBER Forecast from 2024Q2 to 2029Q4 (Quarter to Quarter)



Source: bea.gov, Moody's April 2024 Baseline Scenario vs. Historical Values

New Mexico Real Gross Domestic Product 2014Q1-2024Q1, Moody's Forecasts 2024Q2-2050Q4 UNM BBER Forecast 2024Q2-2029Q4

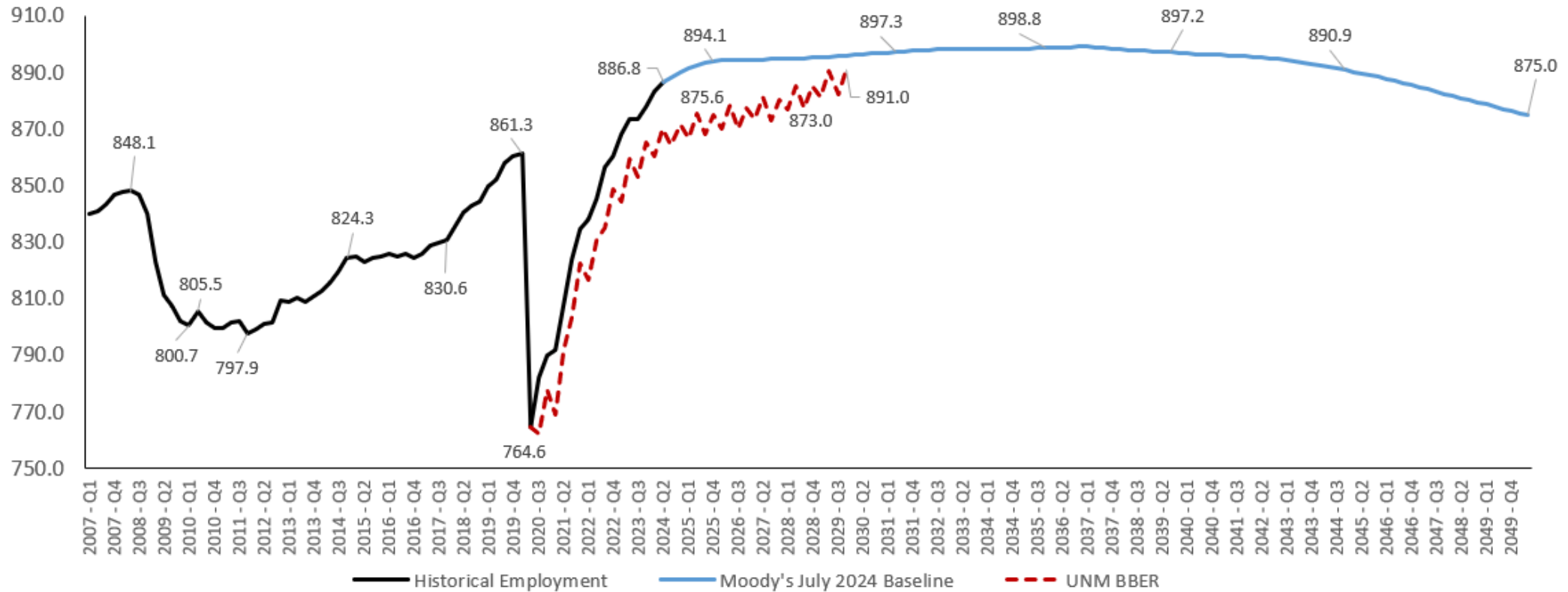


Source: Moody's July 2024 Baseline vs. Historical Values from the Bureau of Economic Analysis

➤ Current Moody's and UNM Bureau of Business and Economic Growth (BBER) baseline forecasts expect moderate to slow growth

# N.M. Employment

N.M.'s Quarterly Total Non-Employment: 2007Q1 to 2024Q2, Moody's Forecast 2024Q3 to 2050Q2, UNM BBER Forecast 2024Q3 to 2029Q4  
(1,000s of jobs)



Source: Bureau of Labor Statistics

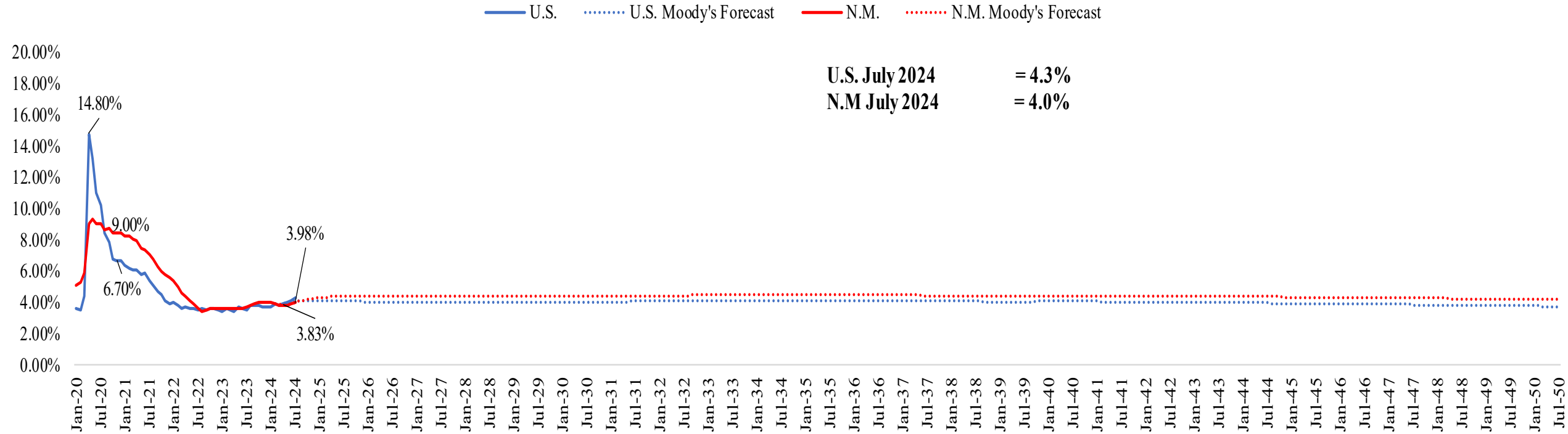
➤ Moody's forecasts that NM total employment will grow through CY 2036-2037 and then begin to moderate



# U.S. and N.M. Unemployment

U.S. and N.M. Unemployment Rate (percent) : January 2020 to Present

Moody's Forecast: August 2024 to June 2050

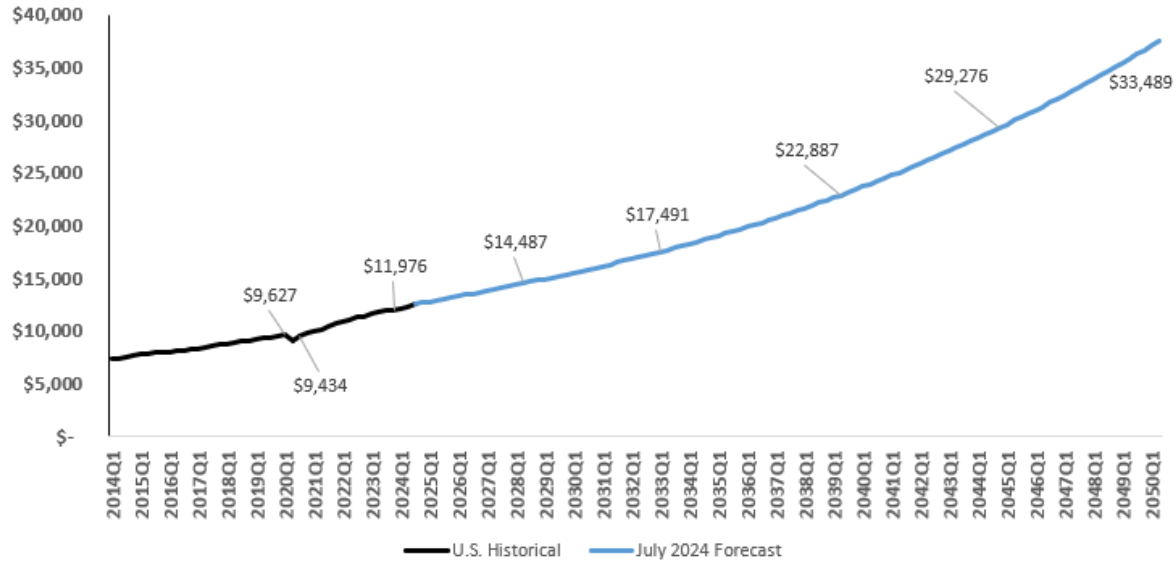


Source: bls.gov, seasonally adjusted

➤ National and state unemployment rates are estimated to hover around 4% through FY50

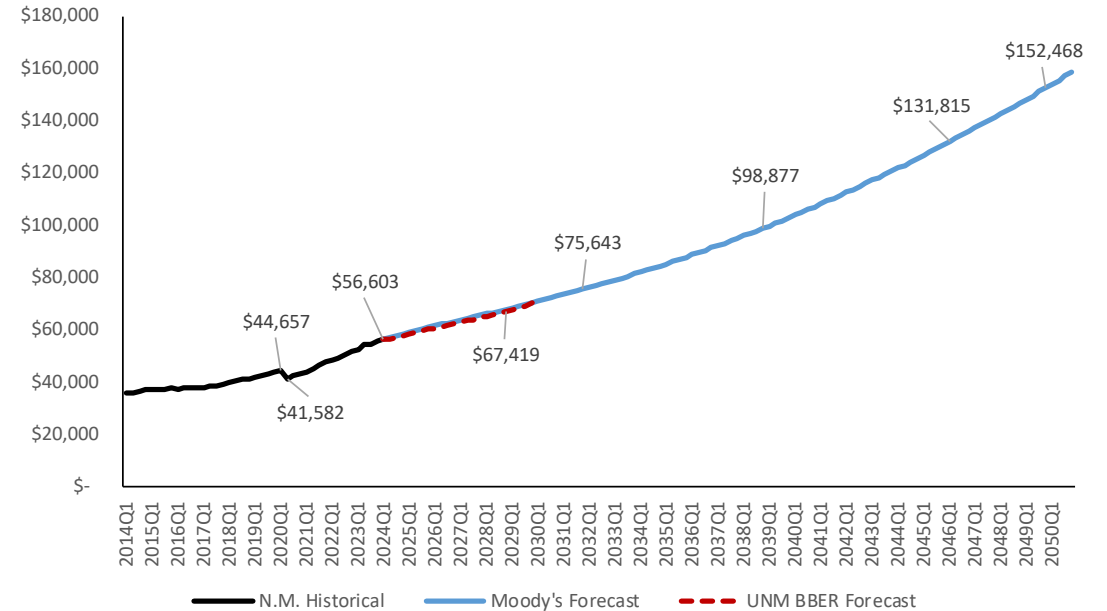
# U.S. and N.M. Wages & Salaries

**U.S.A Total Nominal Wages and Salaries by Moody's Analytics and S&P Global (in billions)  
CY 2014Q1 to 2050Q2**



Source: bls.gov

**N.M. Total Wages and Salaries by Moody's Analytics  
CY 2014Q1 to 2050Q4**

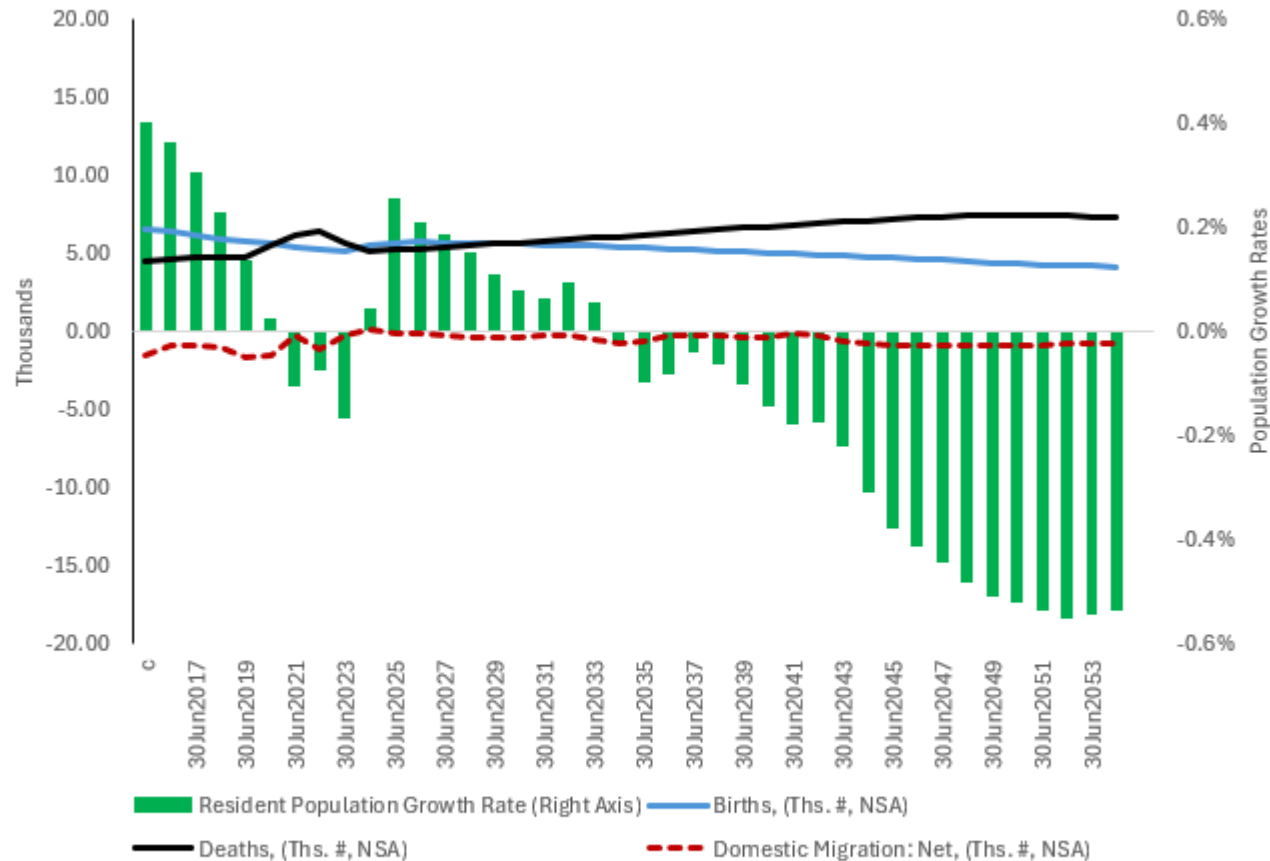


Source: bls.gov

- Demographics and pandemic impacts on the labor market contributed to recent increases in wages and salaries
- Higher persistent inflation is also driving wages and salaries higher
- Wages and salary growth are forecasted to average 1.85% for the nation and 0.96% for the state.

# The Demographic Shift

Births, Deaths, and Domestic Net Migration (1000s, NSA\*) vs N.M. Population Growth: FY2015 to FY2054  
Moody's Estimate: FY2024 to FY2055



Moody's Analytics July 2024 Estimates  
\*NSA=not seasonally adjusted

- N.M. births will exceed deaths until the end of the decade
- From FY2030 onward, the number of deaths will exceed the number of births.
- Domestic net migration continues to decline through the forecast
- Overall, the state will experience little to flat population growth through FY2035.
- New Mexico's population is anticipated to decline through FY2055
- Population forecast underpins the employment forecast

# Oil & Natural Gas

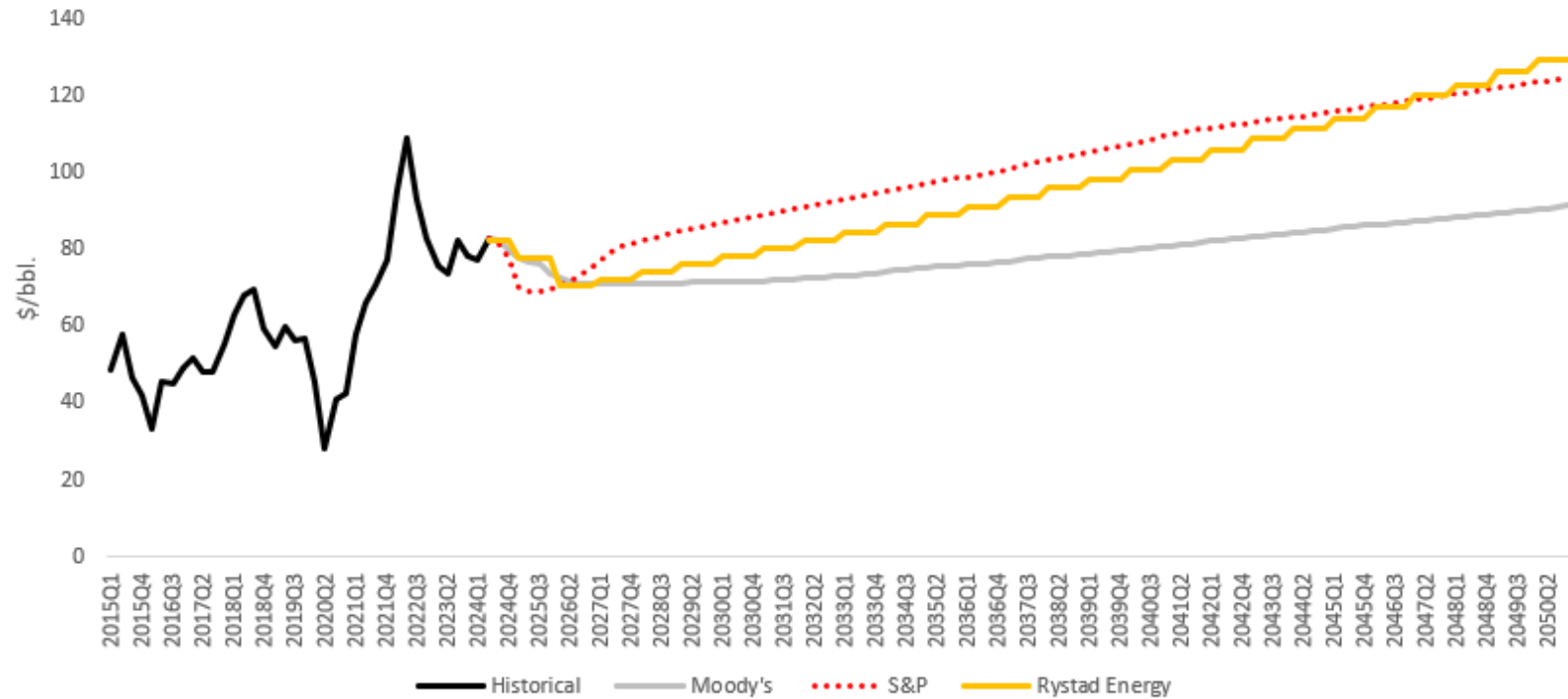
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# U.S. Oil WTI Prices (Moody's, S&P, Rystad)

**Moody's WTI Price Forecast (2023Q2 to 2050Q4)**

**S&P WTI Price Forecast (2024Q3 to 2050Q2)**

**Rystad Energy WTI Price Forecast (2023Q2 to 2050Q2)**

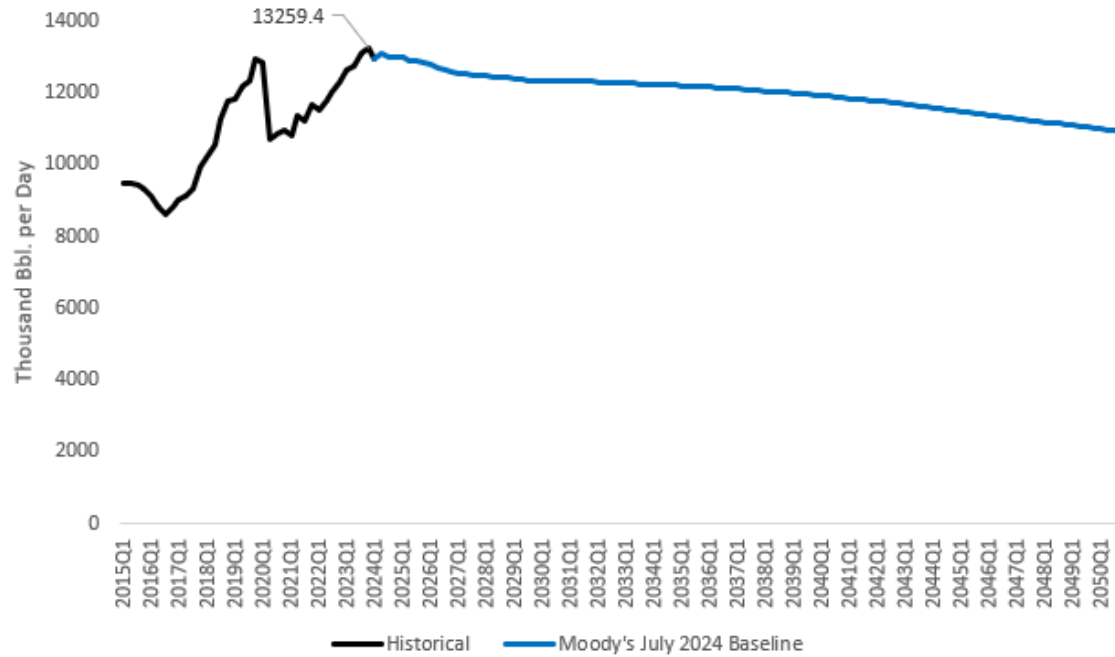


**Source: Moody's Analytics, S&P, Rystad Energy**

- Oil prices are inherently volatile and dependent on oil demand, inventory levels, OPEC+ decisions, and other factors

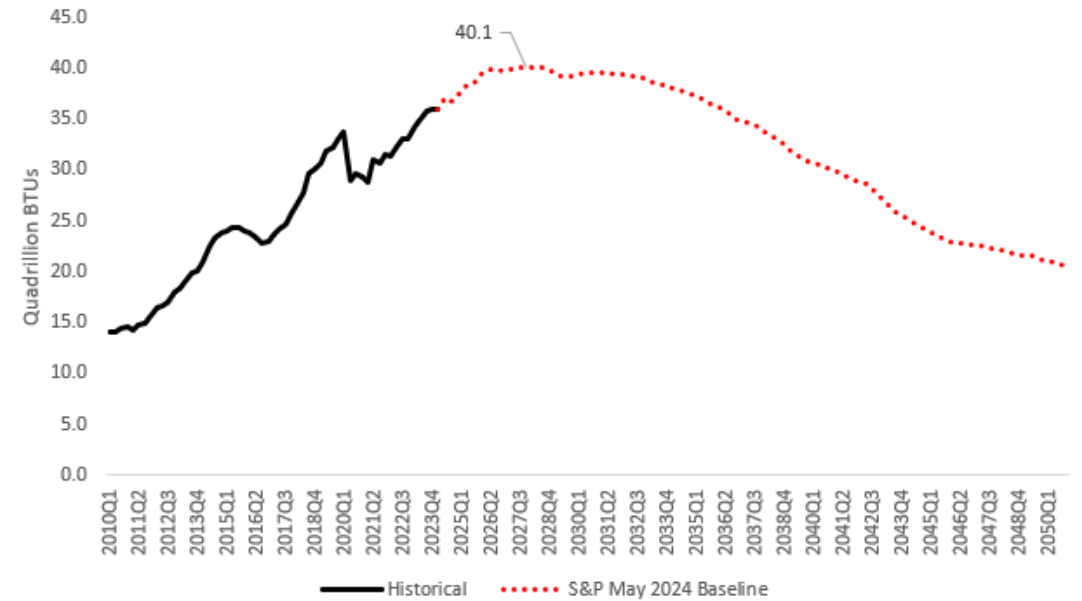
# U.S. Oil Production (Moody's & S&P)

## US Crude Oil Production Moody's Forecast (2024Q2 to 2050Q4)



Source: Moody's Analytics

## US Crude Oil Production S&P Forecast (2024Q2 to 2050Q4)



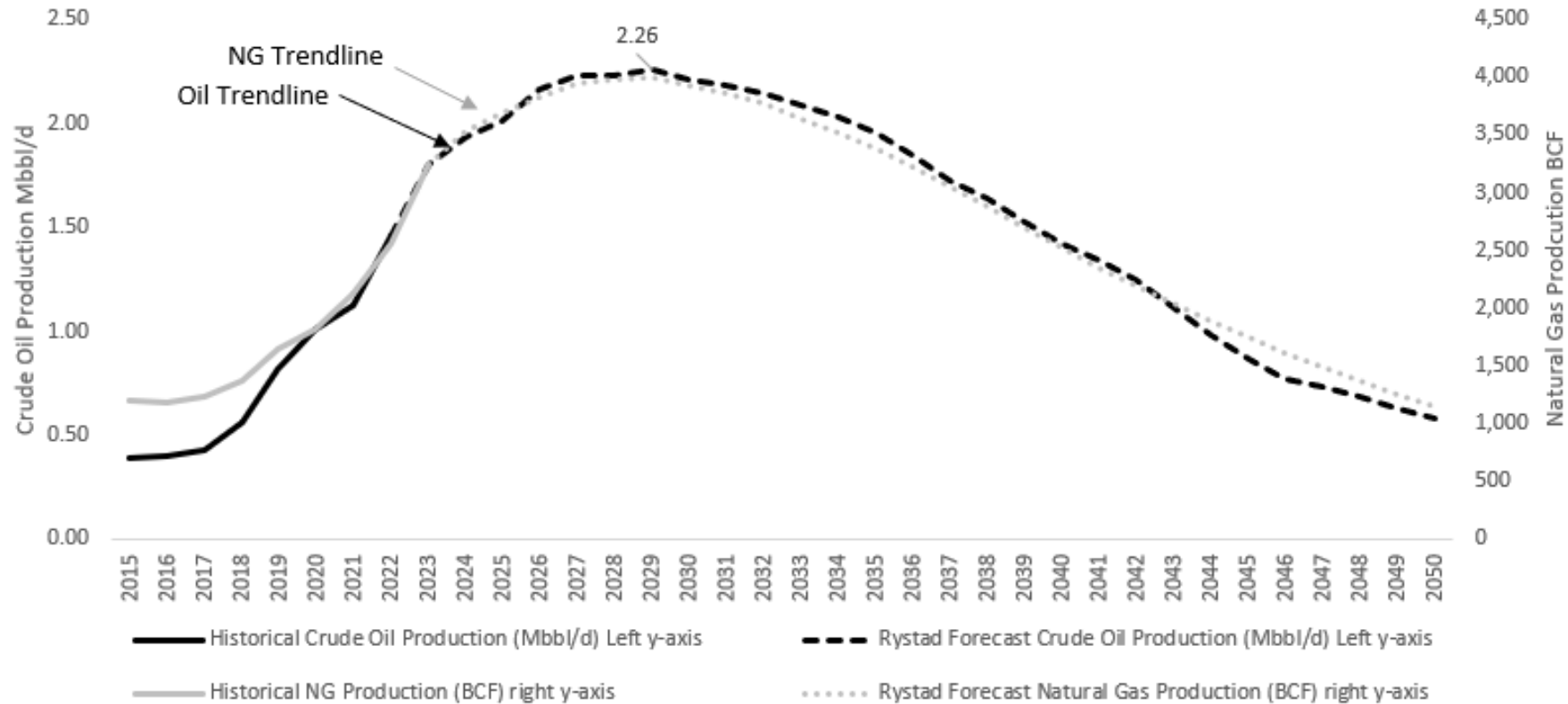
Source: S&P

➤ Both national forecasters see U.S. oil production peaking between 2024 and 2027

# N.M. Oil Production Long-Term Forecast

## NM Crude Oil Production Forecast (FY 2024 to 2050)

## NM Natural Gas Forecast (FY 2024 to 2050)



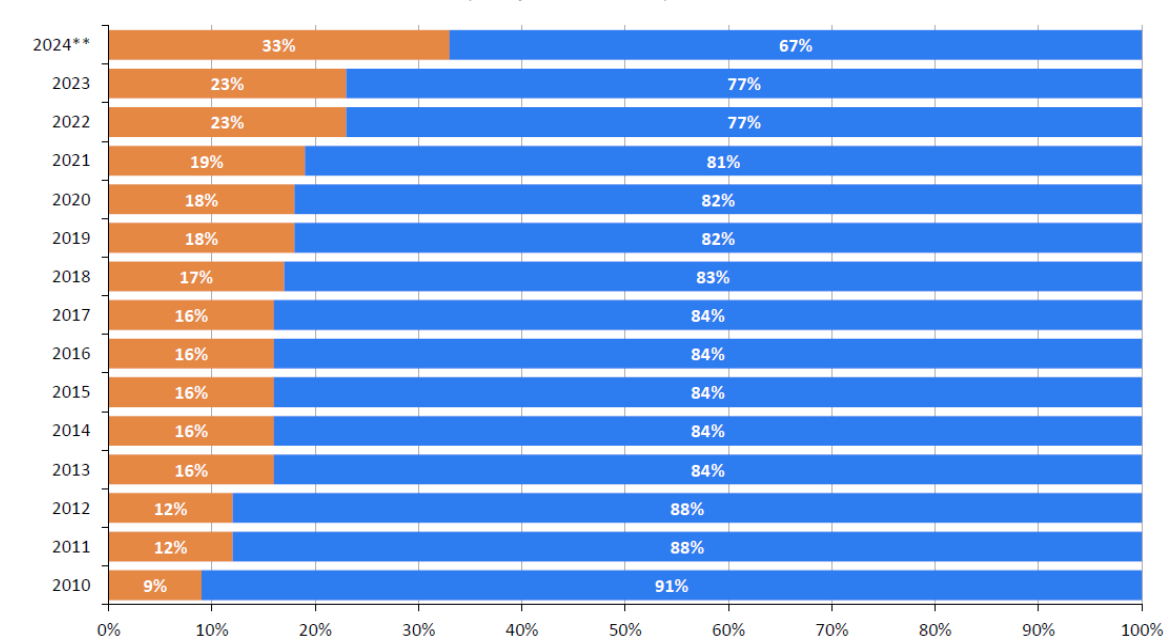
Source: CREG, Rystad Energy Ucube & Energy Transition Scenarios, Moody's Analytics, S&P

➤ Expected N.M. oil and natural gas production is in line with national expectations

# Permian Basin Matures (Shale 4.0)

## Supermajors set to control an unprecedented portion of US shale resources

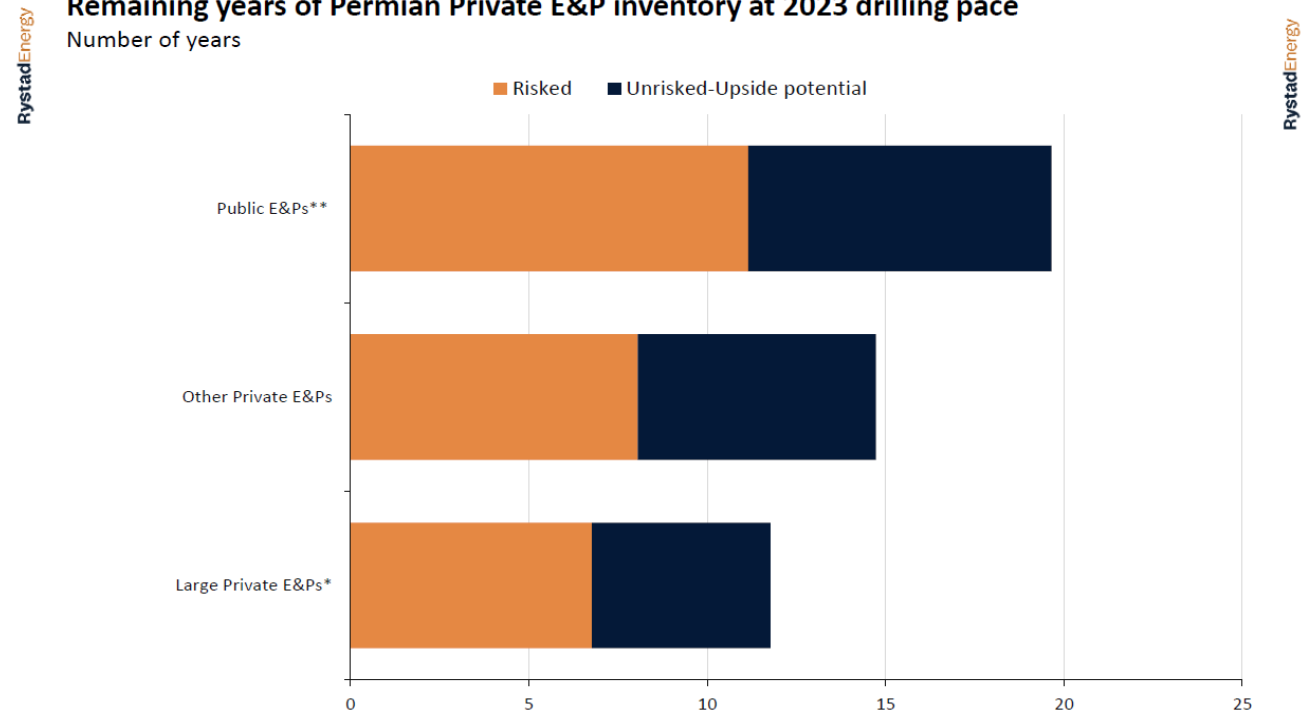
Share of remaining US tight oil resources by year\*, controlled by company type  
Percent



\*Oil and condensate reserves, values as of 1 January  
\*\*Assumes Hess and Pioneer owned by Chevron and ExxonMobil, respectively, as of 1 January 2024  
Source: Rystad Energy UCube May 2024

## Remaining years of Permian Private E&P inventory at 2023 drilling pace

Number of years



\*Includes Endeavor, Mewbourne, CrownQuest, Birch, Kaiser-Francis, Surge Energy and Continental Resources  
\*\*Includes Supermajors  
Source: Rystad Energy UCube, Rystad Energy research and analysis

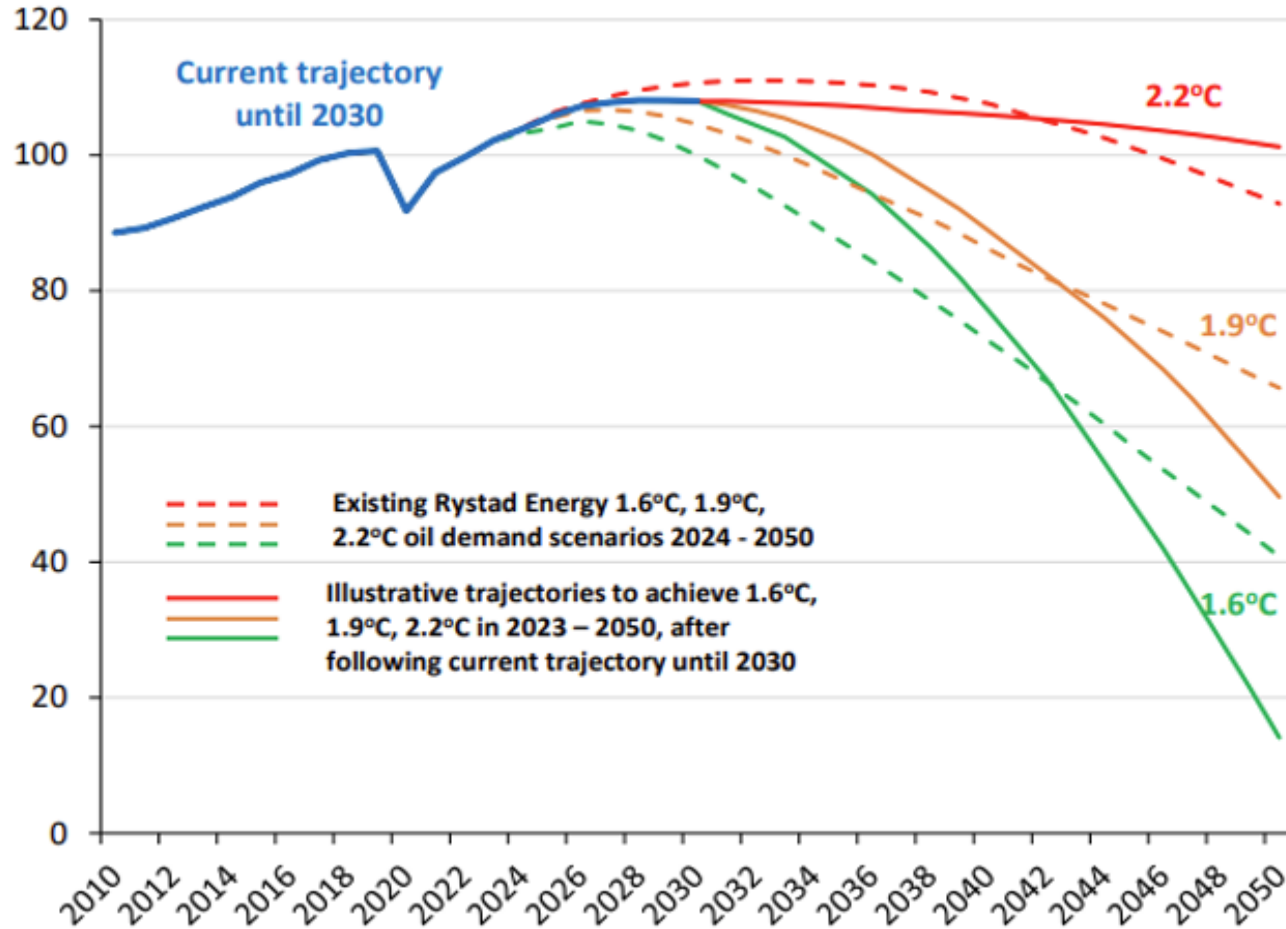
- The Shale 4.0 era is a shift by management teams and investors towards building companies of scale for the long term
- Mergers and acquisitions by Supermajors
- With the strategic goal of managing resources and inventories to ensure that their assets can continue to deliver returns



# Global Energy Transition

## Oil demand current trajectory and scenarios (illustrative)

Million barrels per day



Source: Rystad Energy OilMacroCube

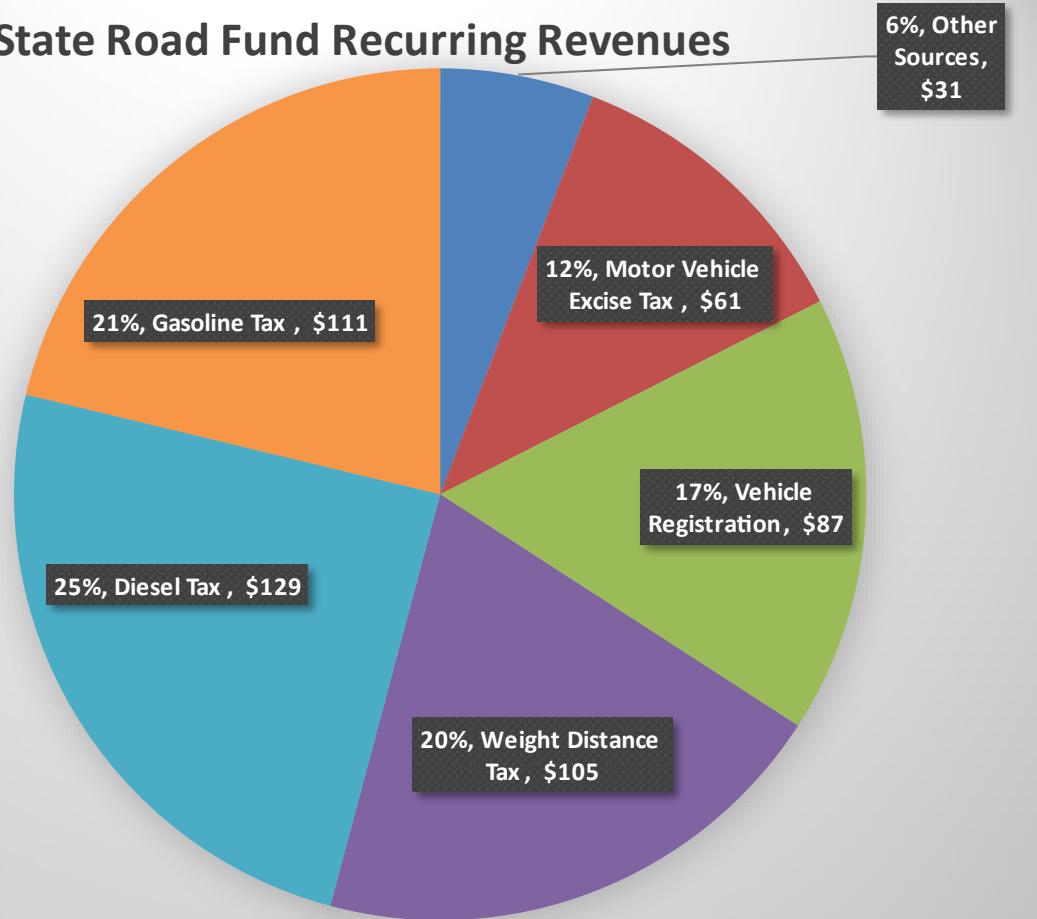
- Rystad Energy demand scenarios:
  - The +Sigma (2.2°C) scenario outlines a future shaped by a sluggish energy transition, with slow decarbonization.
  - The Mean (1.9°C) scenario is the mid-case, long-term oil demand trajectory, with a moderate pace of decarbonization
  - The -Sigma (1.6°C) scenario outlines an aggressive pace of transition, accounting for greater climate commitment from global heavy hitters such as the US, and for stronger corporate targets.
- Analysis illustrates the following factors will drive oil demand:
  - Global passenger vehicles
  - Global commercial transport (trucks)
  - Petrochemicals
  - Government initiatives
- Understanding the trajectory of oil demand lays the foundation for projecting long-term trends

# N.M. State Road Fund

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# NM State Road Fund – Overview

State Road Fund Recurring Revenues

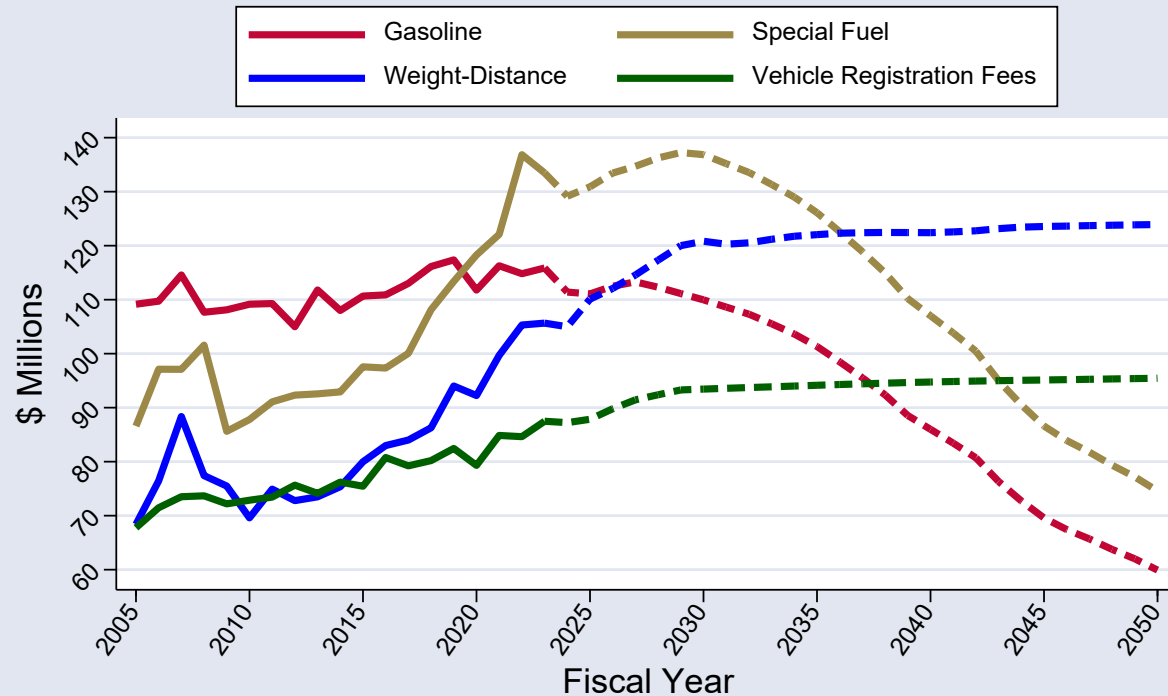


- State Road Fund received \$550 million in recurring revenues in FY23.
- NMDOT's July 2024 Road Fund Outlook forecasts the recurring revenues to shrink ~0.5% in FY24
  - Growth in Motor Vehicle Excise Tax and interest revenue were offset by declines in Gas, Special Fuel and Weight Distance Taxes
  - Since FY13, the State Road Fund recurring revenues have grown at an annual average rate of 3.5%.
- Biggest revenue sources are:
  - Gasoline Tax
  - Diesel Tax
  - Weight-Distance Tax
  - Vehicle Registration Fees

\*Based on NMDOT's July 2024 Road Fund Outlook

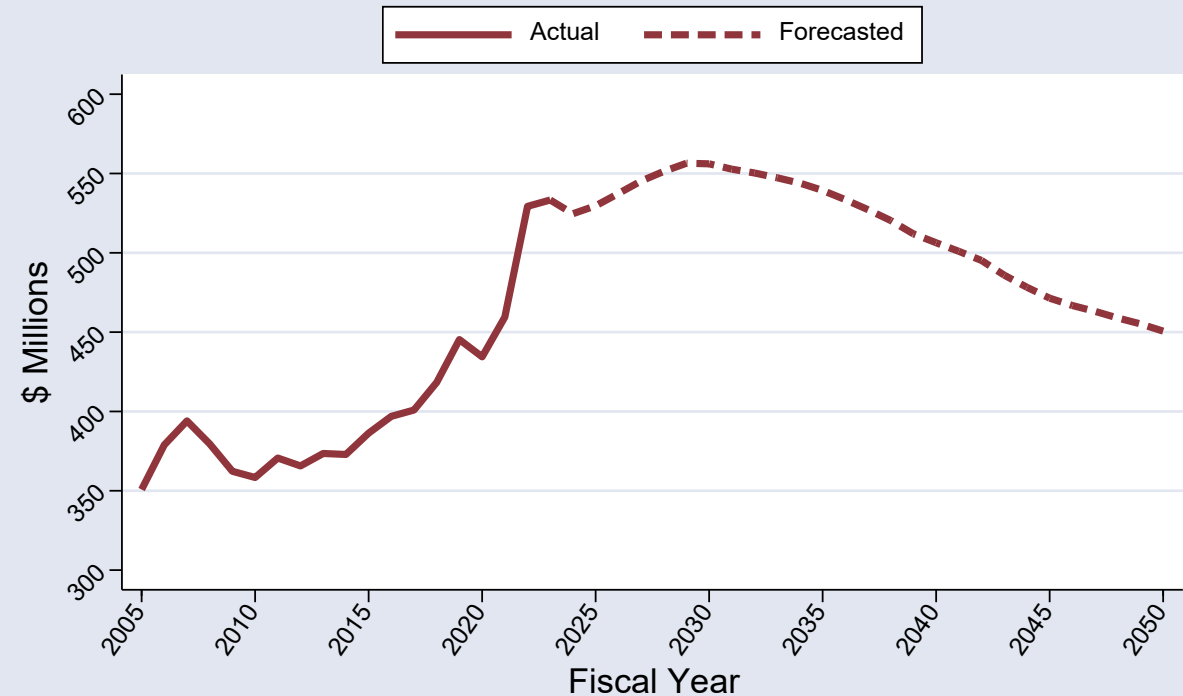
# Long Term State Road Fund Outlook

## Four Major State Road Fund Revenue Sources



Near term forecast based on NMDOT's July 2024 Road Fund Outlook.  
Longer term forecast based on projections from S&P Global.

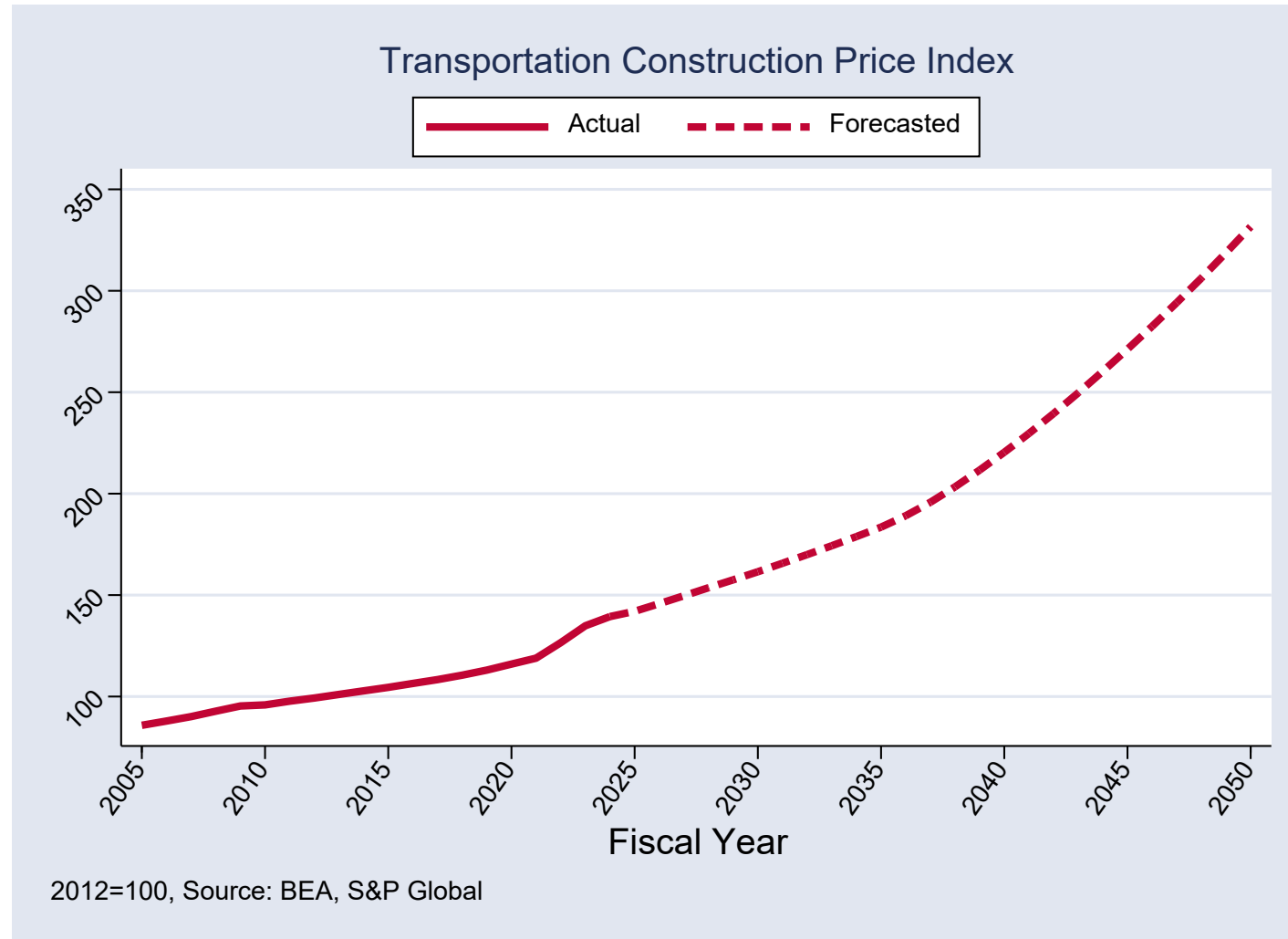
## Total Road Fund Revenues



Near term forecast based on NMDOT's July 2024 Road Fund Outlook.  
Longer term forecast based on projections from S&P Global.

- Over the next 5 years, State Road Fund revenues are expected to grow at an annual average rate of 1.2%, slowly shrinking thereafter.
  - Future short-term growth mainly driven by commercial vehicle revenue sources and is tied to overall economic activity.
  - Future long-term revenue expectations being pulled down by declining revenues from gasoline and diesel taxes based on assumptions around fuel economy standards and national trends towards increased adoption of electric vehicles.

# State Road Fund – Future Issues



- Road construction costs are expected to grow 138% between 2024 and 2050. 5.1% average annual growth rate.
- State Road Fund recurring revenue is expected to shrink 14% between 2023 and 2050. -0.5% average annual growth rate.

# State Road Fund – Future Issues

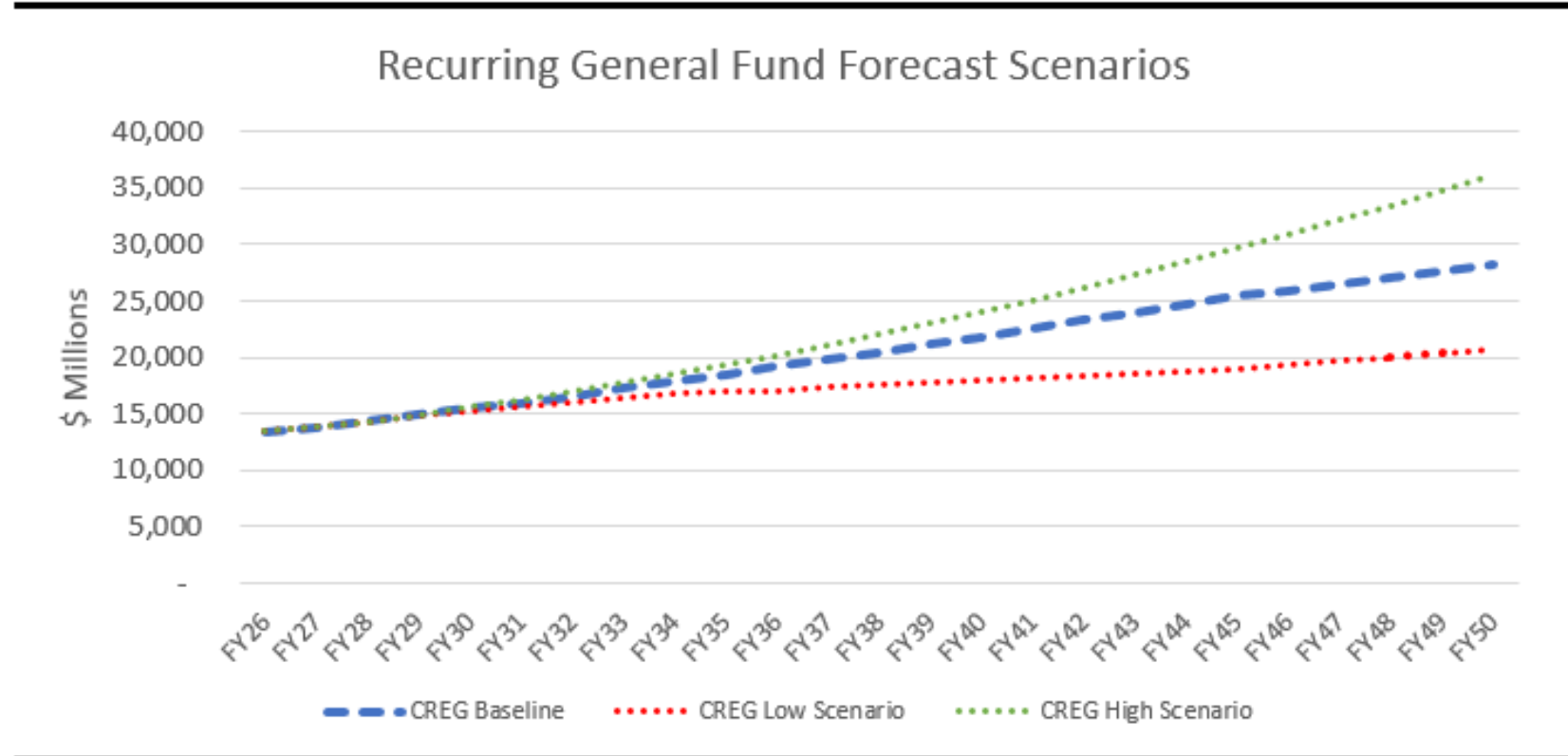
- Weakening connection between road use and fuel use
  - Motor fuel taxes are New Mexico State Road Fund's largest revenue source
- New Mexico fuel taxes have not been revised for inflation since:
  - FY1996 – Gasoline Tax
  - FY2004 – Diesel Tax
- New Mexico's gasoline tax, at 17 cents per gallon
  - 4<sup>th</sup> lowest in the nation
  - US average 32.44 cents per gallon
- New Mexico's diesel tax, at 21 cents per gallon
  - 9<sup>th</sup> lowest in the nation
  - US average 34.74 cents per gallon
- New Mexico's passenger vehicle registration fees are significantly lower than the US average.
- Major concerns for future of State Road Fund – Increased fuel efficiency of vehicles and adoption of electric vehicles
- To mitigate the loss in fuel tax revenues, other states have explored:
  - Additional registration fees
  - Road User Charges

# N.M. General Fund

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# General Fund Long-Term Forecast Scenarios

- Benchmarked to FY29 in the August 2024 forecast with legislative adjustments.
- Oil and Natural Gas forecast
  - Consensus analysis with State Investment Council and CREG
  - Assume Rystad Energy Oil and Natural Gas production turning point for New Mexico in baseline scenario is FY30
- Assume GRT and PIT forecast adjustments for changes in oil and gas production
- High Scenario – assume Moody’s optimistic scenario for New Mexico economy, higher oil and natural gas prices and production
- Low Scenario – assume Moody’s mild recession in FY25 coupled with low oil and natural gas prices and production



Source: S&P, Moody's Analytics, Rystad Energy, CREG Analysis 2024



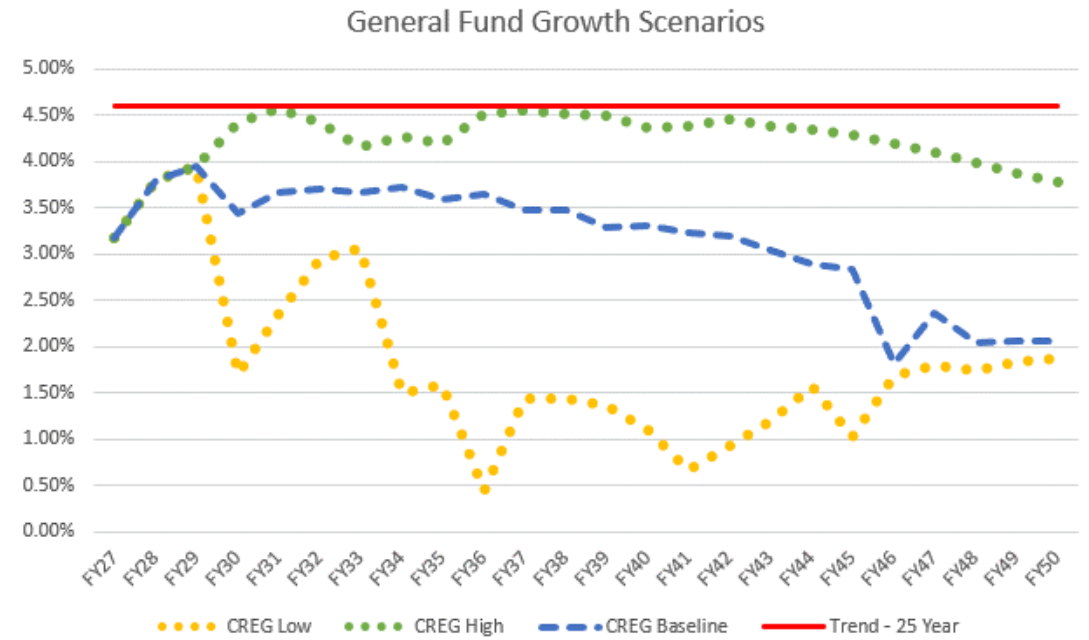
# Major Assumptions

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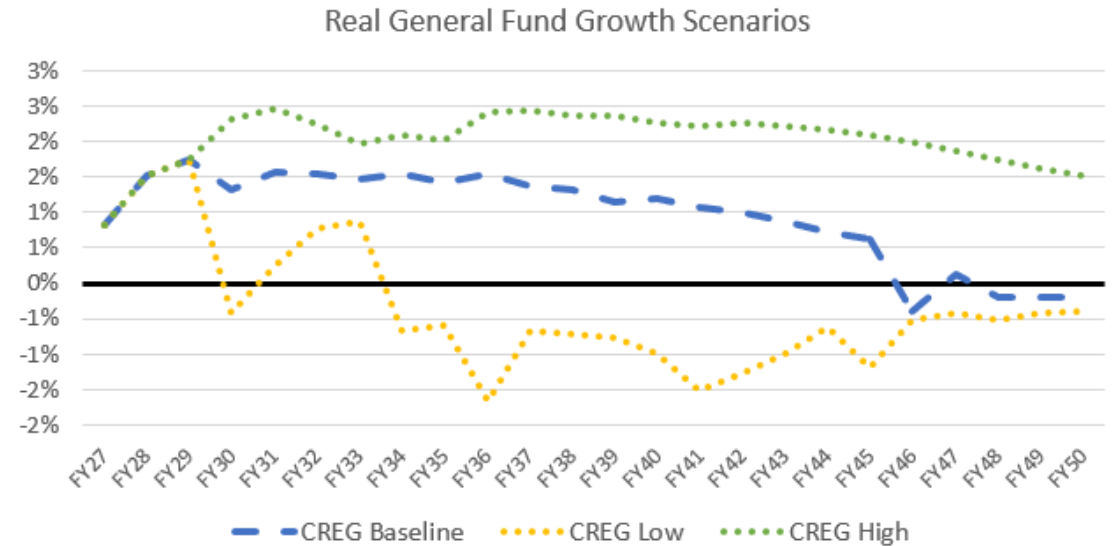
- Assume all state tax expenditures remain as per current law
- Assume no change to federal-level income tax
  - Tax Cuts & Jobs Act (TCJA) renewed as projected in national forecasters' baselines
- Assume no change in current tax rates or personal or corporate income brackets
- Assume no change in state population outlook or labor force participation

# General Fund Scenarios Outlook

- Trend Analysis, extended to 25-year (1999-2023) Growth Rate for General Fund
  - The trend growth rate – centers the long-term outlook to current 25-year general fund growth
  - Above average General Fund growth rates in FY22 and FY23 have contributed to a higher trend rate of 4.6%
- Extending to the 25-year trend, only the high scenario reaches growth rates at or just below trend
- Past downturn in oil and natural gas production, growth rates in the baseline outlook drop significantly below trend
- In real terms, only the low scenario would see general fund contraction in near-term
- The models and estimates trends are useful for planning, budgeting, and policy purposes



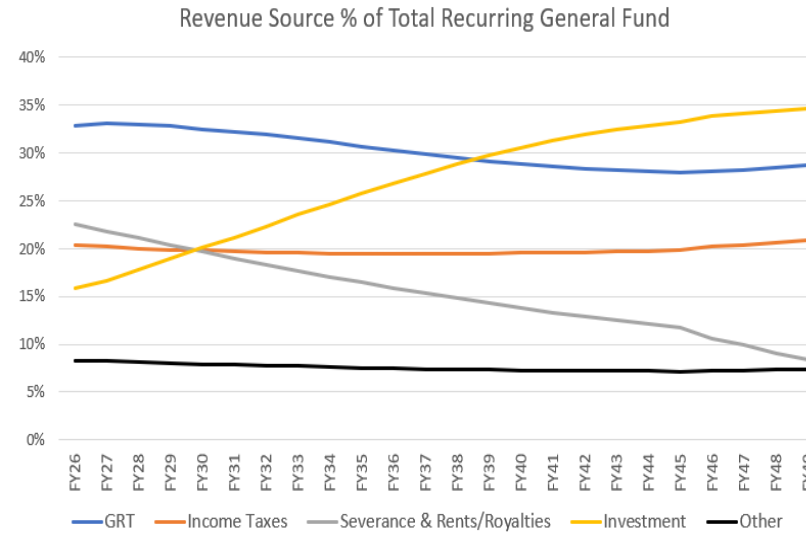
Source: S&P, Moody's Analytics, Rystad Energy, CREG Analysis 2024



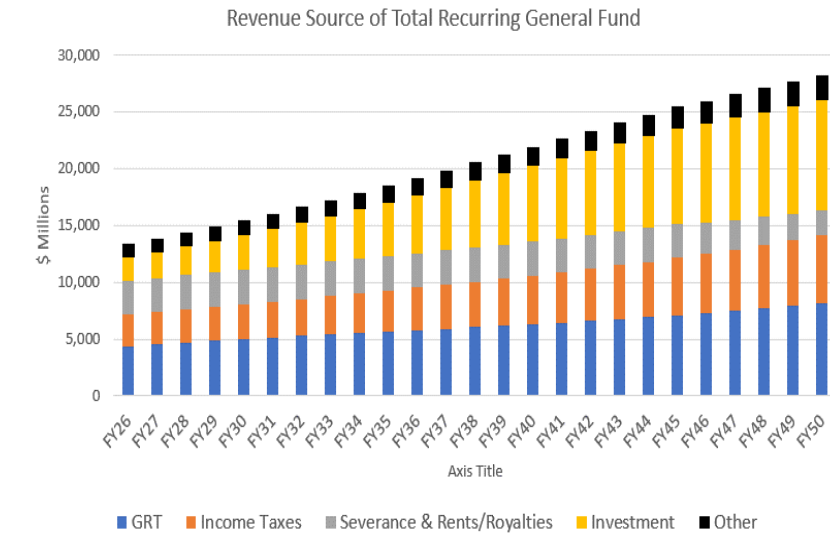
Source: S&P, CREG Analysis 2024

# General Fund by Component

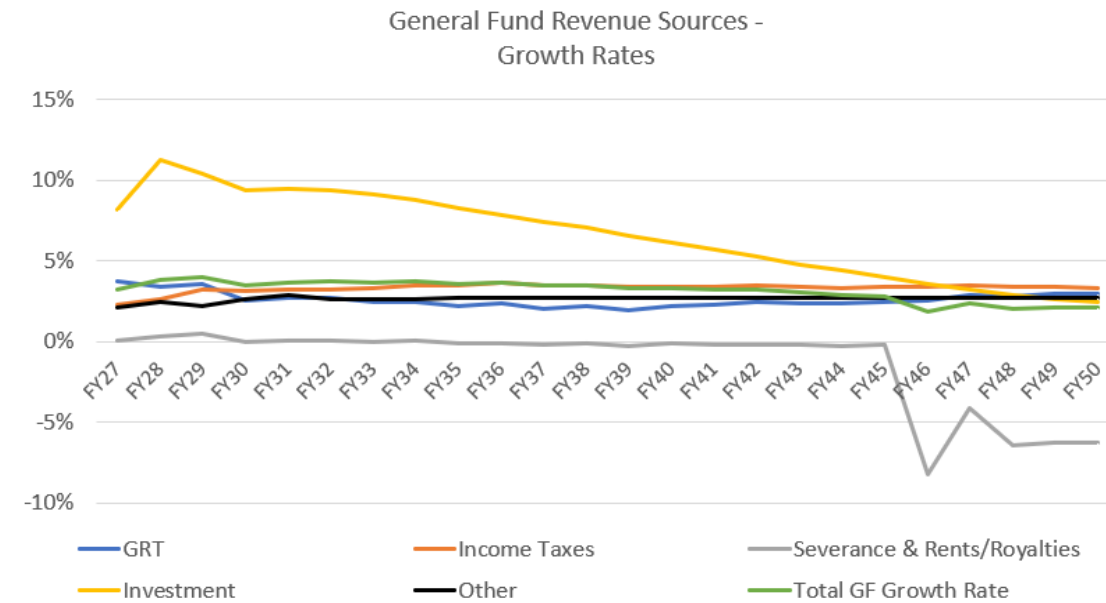
- Direct Severance Revenue as a percentage of General Fund declines from 23% to 8%.
- Recent investments in permanent funds lead to strong growth in investment earnings
- Investment earnings rise from 15% to 35% of General Fund to become largest revenue source by FY40.
  - Investment yields can be volatile, but general fund is protected by 5-year market value averaging
- Decades of investment into the permanent funds have provided general fund stability and the state is now benefiting from that revenue stability
- Investment revenue is not tax-based and its growth offsets New Mexicans' tax burden
- Investment earnings are expected to grow at a decreasing rate due to the expected decline in the oil and gas sector but still at a positive rate
  - Averaging a growth rate of 8% in the 2030s
  - Averaging a growth rate of 4% in the 2040s



Source: S&P, Moody's Analytics, Rystad Energy, CREG Analysis 2024



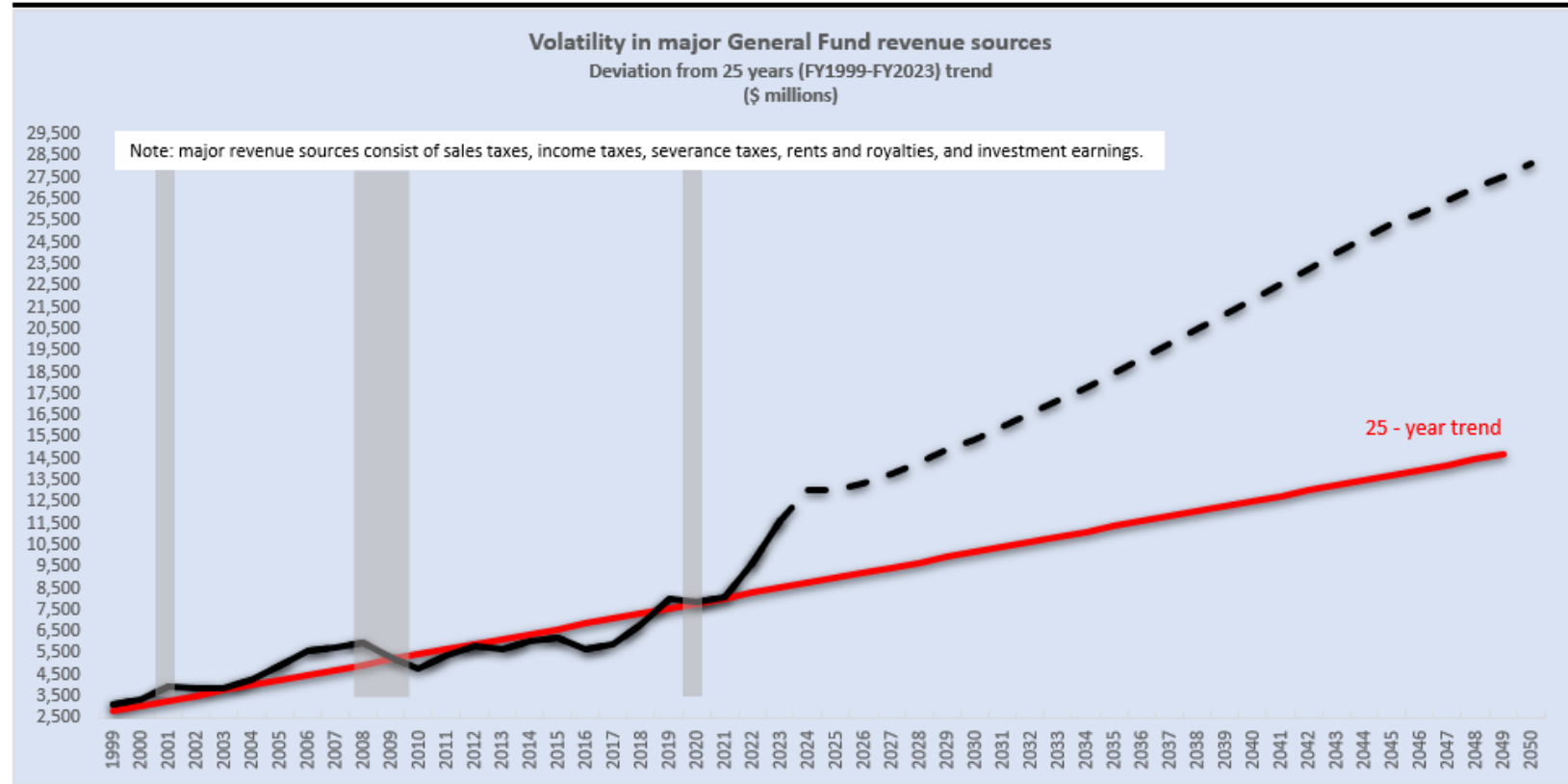
Source: S&P, Moody's Analytics, Rystad Energy, CREG Analysis 2024



Source: S&P, Moody's Analytics, Rystad Energy, CREG Analysis 2024

# General Fund Scenarios Conclusion

- Forecast revenue is well above the 25-year trend level but
  - Growth rate below trend rate
  - Expect fluctuations as there will be recessions and shocks
- Risks and Sustainability of Long-Term Forecast
  - Recession Cycle
  - State Legislation
  - Federal Legislation
  - Federal Fiscal Policy
  - Federal Funding: National Labs, Military Installations
  - Environmental Disaster Economic Impacts
  - Future Pandemic
  - Technology Innovations



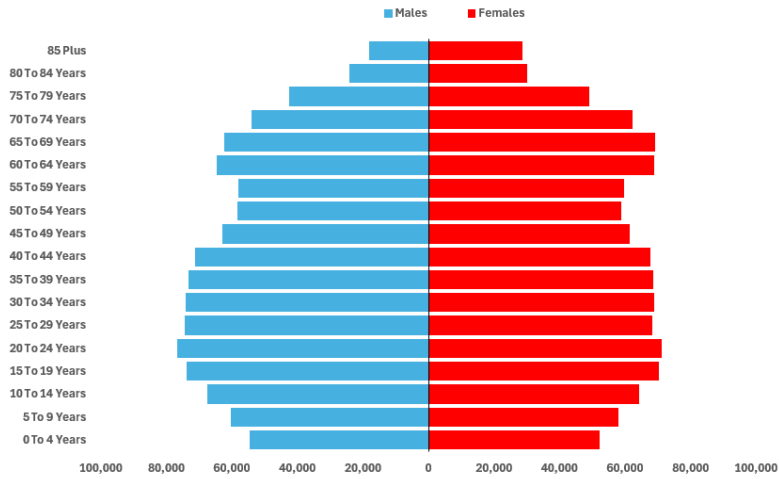
Source: CREG Analysis 2024. Gray shaded areas indicate U.S. Recessions

# Appendix

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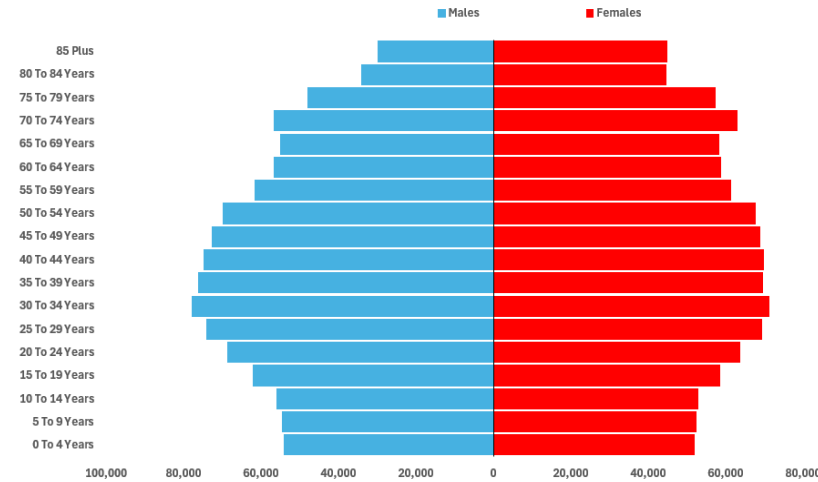
# New Mexico's Population by Age and Sex: 2025 to 2050

New Mexico's Population Pyramid by Age and Sex: 2025



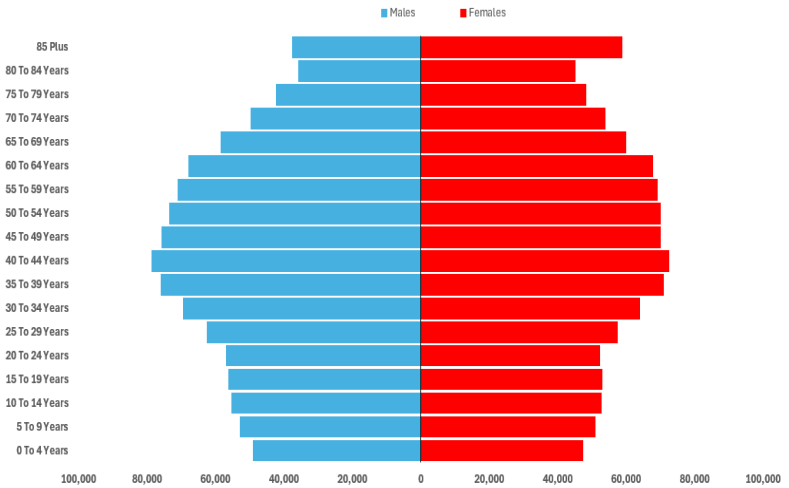
Source: University of New Mexico, Geospatial and Population Studies (2022)

New Mexico's Population Pyramid by Age and Sex: 2035



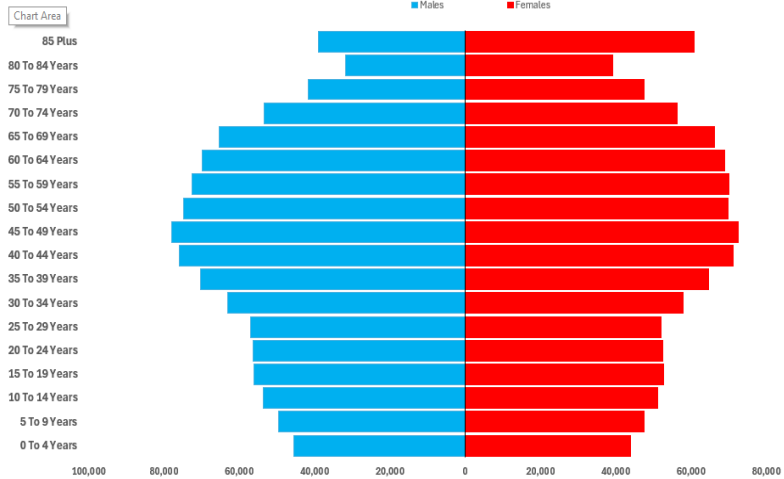
Source: University of New Mexico, Geospatial and Population Studies (2022)

New Mexico's Population Pyramid by Age and Sex: 2045



Source: University of New Mexico, Geospatial and Population Studies (2022)

New Mexico's Population Pyramid by Age and Sex: 2050

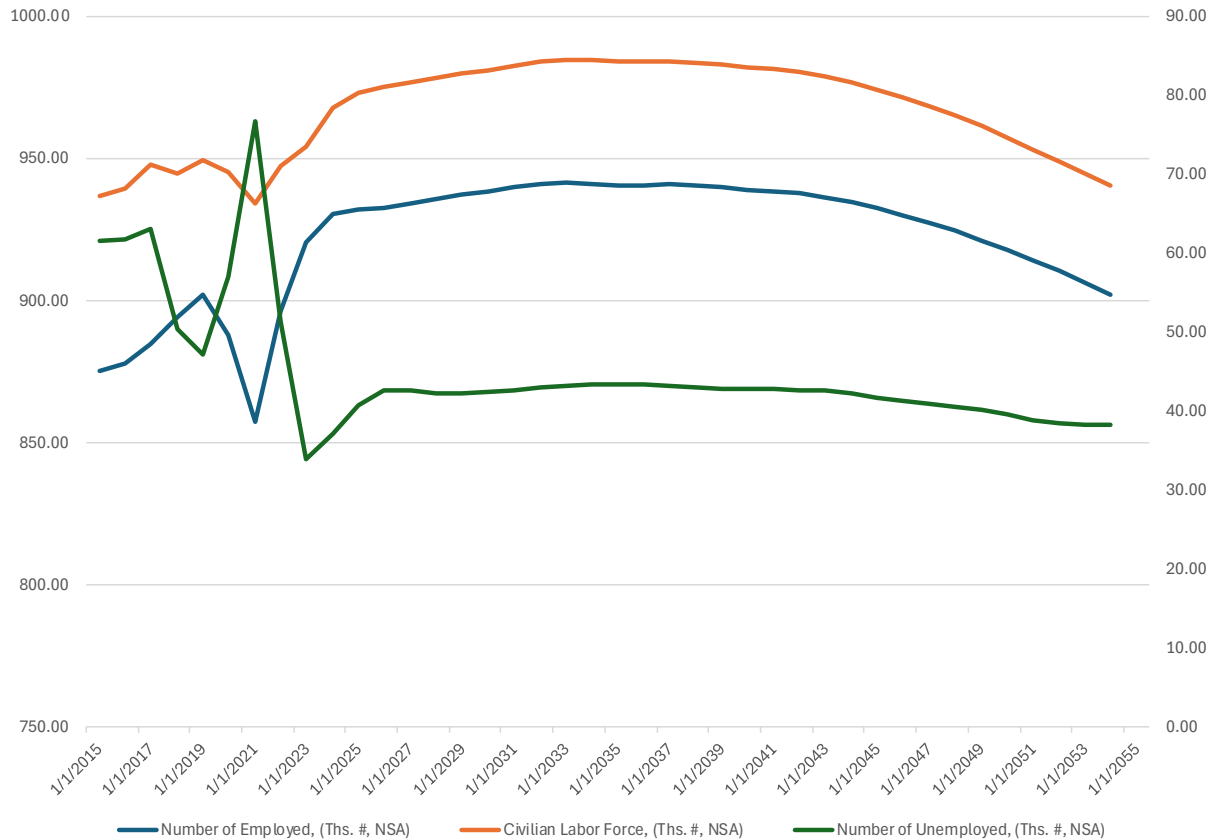


Source: University of New Mexico, Geospatial and Population Studies (2022)

- UNM's Geospatial and Population Studies estimated the state's population by age and sex
- The population is expected to age and birth rates moderate
- The shifts in the population provide insight into future service needs, labor force size, and tax revenue

# New Mexico's Population by Age and Sex: 2025 to 2050

New Mexico's Employed, Unemployed, and Civilian Labor Force: FY2015 to FY2055  
Moody's Estimates: FY2024 to FY2055



Moody's Analytics July 2024 Estimates

- The state's labor force is the result of past demographic shifts
- The size of our labor force is partly influenced by the birth rates, death rates, and past migration
- The number of employed is projected to plateau in the next ten years
- Employment will start to decline in FY2027
- A similar trend is evident in the civilian labor force and the number of unemployed