



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

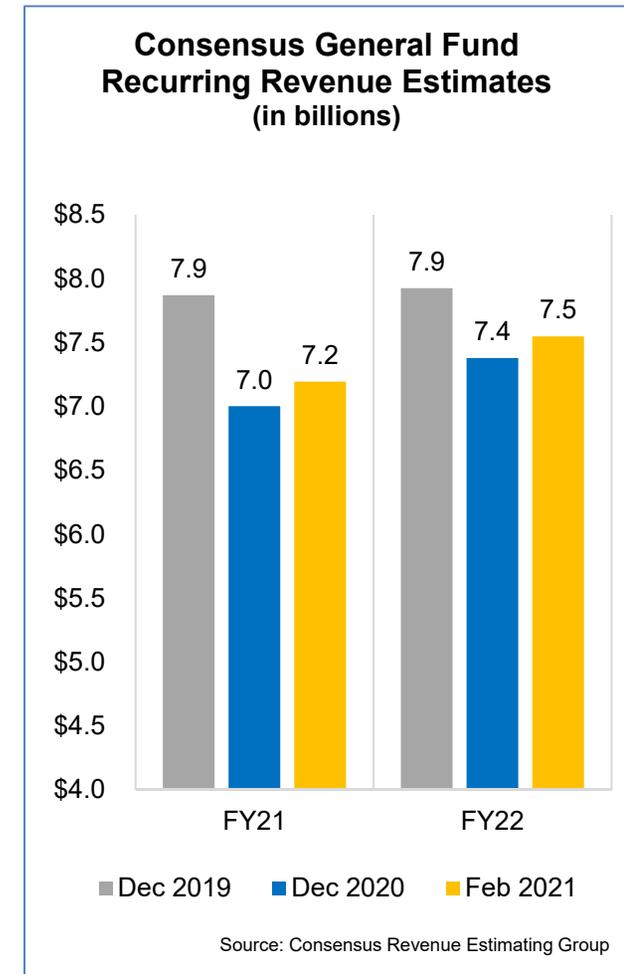
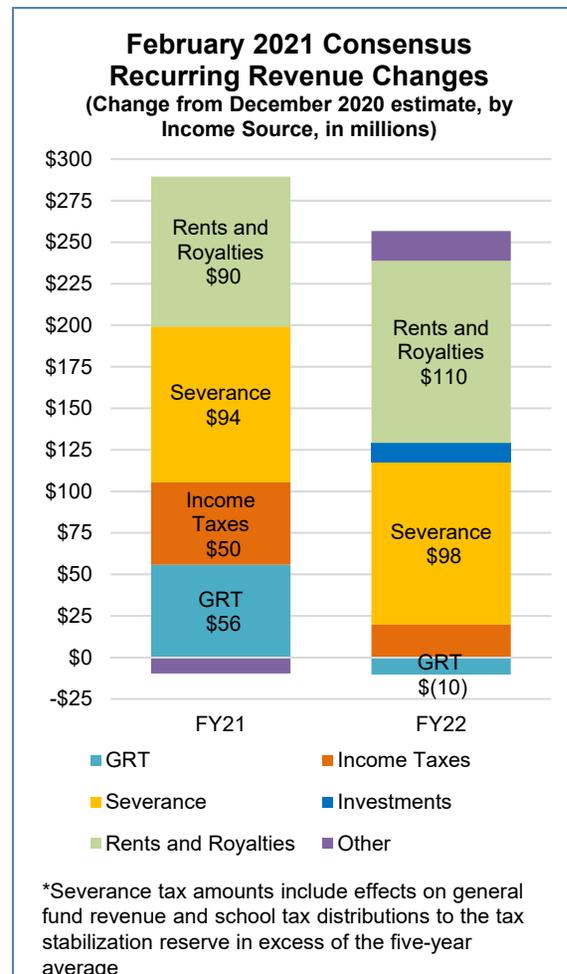
Post-Session Fiscal Report

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Presented to the
Revenue Stabilization and Tax Policy Committee
June 9, 2021

Improved economic outlook and faster-than-expected recovery in oil prices led to upward revisions to the mid-session revenue forecast in February 2021.

- Upward revisions primarily in oil- and gas-related revenues, as well as income taxes
- “New Money” – FY22 recurring revenue less FY21 recurring appropriations – projected at \$338.6 million, or 4.7 percent
- FY20 ending reserve balance of \$2.5 billion, or 35.4 percent



Lawmakers increased recurring budgets by 5.3 percent to \$7.45 billion. The 2021 session also included \$928.6 million of additional non-recurring appropriations.

2021 GAA - New General Fund Spending Increases (in millions)	
Remove Credits from SEG	\$51.7
Extended Learning Programs	\$78.9
Replace Federal Funds	\$121.6
1.5% Compensation	\$63.9
ERB Increase	\$34.0
Medicaid	\$14.2
Secretary of State-Elections	\$5.9
NMED Staffing	\$2.3
DOH Facilities Staffing/Public Health Services	\$3.0
All Other	\$2.5
Total New Recurring	\$378.0

Source: LFC Files

2021 Non-Recurring Appropriations (in millions)	
Special and Supplemental Appropriations	\$151.5
Roads and Capital Projects (GAA)	\$300.0
Teacher Affordability Scholarship Fund	\$20.0
College Affordability Endowment	\$15.0
Other Fund Transfers	\$15.0
Statewide Broadband	\$85.0
Unemployment Trust Fund Loans	\$100.0
Other Supplemental GAA	\$16.6
LEDA Recovery Grants	\$200.0
Capital Projects (HB 285)	\$18.2
All Other	\$6.9
Total Nonrecurring	\$928.6

Source: LFC Files



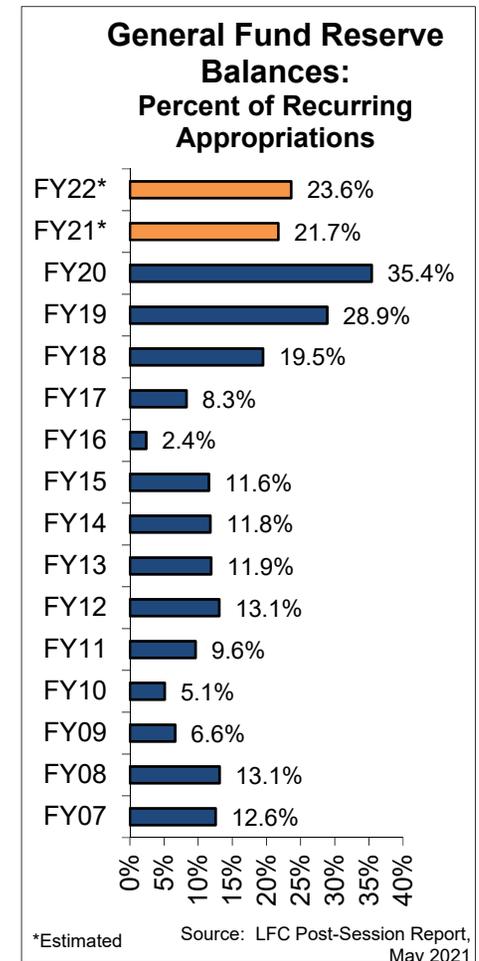
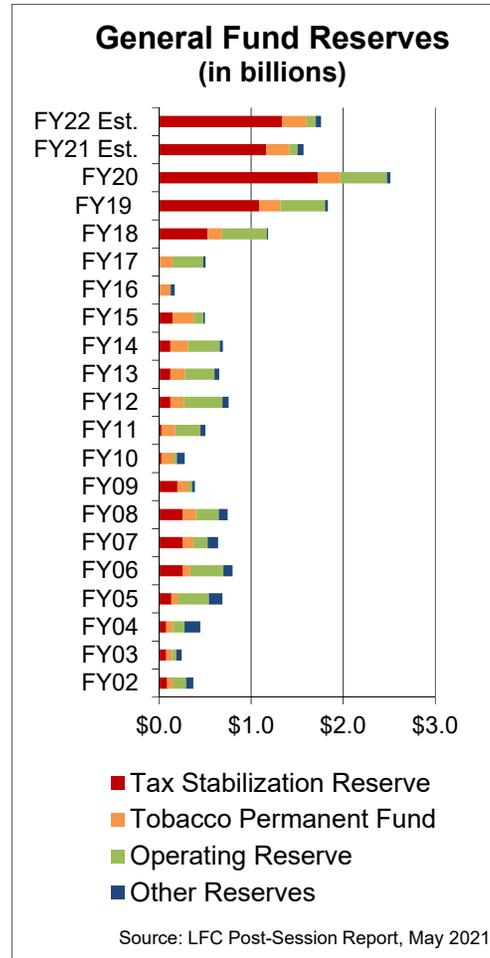
- 2021 regular session also included \$199.7 million of nonrecurring revenue reduction for a gross receipts tax deduction for certain food service establishments and \$600 personal income tax rebates for low-income individuals.

At the end of the session, general fund reserve balances were projected to end FY21 at \$1.57 billion and to end FY22 at \$1.76 billion.

- Projected draw from reserves in FY21 of \$1.085 billion (based on the February consensus revenue estimate)

General Fund Reserve Balance Projections (in millions)		
Reserve Fund	FY20	FY21 est.
Operating Reserve	\$507.2	\$88.9
Appropriation Contingency Fund	\$8.7	\$50.7
State Support Reserve	\$29.1	\$15.4
Tobacco Settlement Permanent Fund	\$241.3	\$251.4
Tax Stabilization Reserve	\$1,727.3	\$1,163.4
Total Balances	\$2,513.6	\$1,569.8

Source: LFC Post-Session Report, May 2021



General Fund Financial Summary:
2021 Regular and First Special Session (Post-Veto)
(millions of dollars)

June 1, 2021
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	Actual FY2020	Estimate FY2021	Estimate FY2022
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue			
February 2021 Consensus Revenue Forecast	\$ 7,859.6	\$ 7,194.6	\$ 7,548.1
2021 Recurring Revenue Legislation (post-veto)		\$ (0.1)	\$ (81.5)
Total Recurring Revenue	\$ 7,859.6	\$ 7,194.5	\$ 7,466.6
<i>Percent Change in Recurring Revenue</i>	<i>-1.9%</i>	<i>-8.5%</i>	<i>3.8%</i>
Nonrecurring Revenue			
June 2020 Special Session Legislation (SB5 Sweeps) ²	\$ 28.8	\$ -	\$ -
June 2020 Special Session Legislation (SB5 Road Swaps) ²	\$ 75.0	\$ -	\$ -
February 2021 Consensus Revenue Forecast	\$ 37.0	\$ 62.8	\$ -
Enhanced FMAP/Medicaid Reversion	\$ 135.4	\$ -	\$ -
Transfers/offsets from Coronavirus Relief Fund	\$ 46.2	\$ -	\$ -
Federal Stimulus Funds	\$ -	\$ 750.0	\$ -
2021 Nonrecurring Revenue Legislation (post-veto)		\$ (199.7)	\$ (3.8)
Total Nonrecurring Revenue	\$ 322.3	\$ 613.1	\$ (3.8)
TOTAL REVENUE	\$ 8,181.9	\$ 7,807.6	\$ 7,462.8
APPROPRIATIONS			
Recurring Appropriations			
2019 Session Legislation & Feed Bill	\$ 7,085.3	\$ -	\$ -
2020 Regular Session Legislation & Feed Bill	\$ 6.8	\$ 7,621.4	\$ -
2020 Special Session Solvency Savings ¹	\$ -	\$ (411.9)	\$ -
2021 Regular and First Special Session Legislation & Feed Bill (post-veto)		\$ 11.8	\$ 7,449.7
Total Recurring Appropriations	\$ 7,092.1	\$ 7,221.3	\$ 7,449.7
2020 Special Session Federal Funds Swaps	\$ -	\$ (146.6)	
Total Operating Budget	\$ 7,092.1	\$ 7,074.7	\$ 7,449.7
Nonrecurring Appropriations			
2019 Session Nonrecurring Appropriations	\$ 431.9	\$ -	\$ -
2020 Session Nonrecurring Appropriations & Legislation	\$ 506.3	\$ 320.0	\$ -
2020 First Special Session Solvency Savings ¹	\$ (96.5)	\$ (20.0)	\$ -
2020 Second Special Session Appropriations	\$ -	\$ 329.2	\$ -
2021 Regular and First Special Session Nonrecurring Appropriations (post-veto)		\$ 928.6	\$ -
Total Nonrecurring Appropriations	\$ 841.7	\$ 1,557.8	\$ -
Subtotal Recurring and Nonrecurring Appropriations	\$ 7,933.8	\$ 8,632.6	\$ 7,449.7
Audit Adjustments			
2020 GAA Undistributed Nonrecurring Appropriations ²	\$ (259.5)	\$ 259.5	
2019 GAA Undistributed Nonrecurring Appropriations ³	\$ (2.1)		
TOTAL APPROPRIATIONS	\$ 7,672.2	\$ 8,892.1	\$ 7,449.7
Transfer to (from) Reserves	\$ 509.7	\$ (1,084.5)	\$ 13.1
GENERAL FUND RESERVES			
Beginning Balances	\$ 1,834.1	\$ 2,513.9	\$ 1,570.1
Transfers from (to) Appropriations Account	\$ 509.7	\$ (1,084.5)	\$ 13.1
Revenue and Reversions	\$ 240.9	\$ 308.7	\$ 207.6
Appropriations, Expenditures and Transfers Out	\$ (71.4)	\$ (168.0)	\$ (30.0)
Ending Balances	\$ 2,513.9	\$ 1,570.1	\$ 1,760.9
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>35.4%</i>	<i>21.7%</i>	<i>23.6%</i>

Notes:

1) Laws 2020 First Special Session, Chapter 3 and Chapter 5

2) Many nonrecurring appropriations, including specials and supplementals in the 2020 GAA, had authorization to spend in FY20 or FY21 - amounts that were not allotted in FY20 become encumbrances for FY21

3) Includes special appropriations of the 2019 GAA that had authorization to spend in FY19 or FY20 but were never requested for allotment by the agency - includes \$350K State Engineer, \$500K Office of Military Base Planning and Support, and \$1.2M Department of Finance and Administration

* Note: totals may not foot due to rounding

General Fund Financial Summary

LFC Post-Session Report, May 2021

https://www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Post_Session_Fiscal_Reviews/May%202021.pdf



Revenues are currently tracking about \$350 million above the consensus estimate. Additional revenue will result in a smaller draw from reserves to cover the FY21 budget.

FY21 General Fund Revenue Tracking vs. Forecast
(in millions)



* Includes excess Oil and Gas Emergency School Tax revenues going to tax stabilization reserve (TSR)

Source: DFA General Fund Report, LFC Files

New Mexico has received over \$19 billion in federal funds, including direct payments to individuals, support to businesses, and funding to state and local governments.

Stimulus Funding by Category to All New Mexico Governments, Businesses, Individuals, and Other Entities
(as of April 18, 2021, in thousands)

	ARPA	CRRSA	CARES	Other Three Acts	Total
Direct Payments to Individuals	\$2,583,471		\$1,787,812		\$4,371,283
Business Support	\$56,234		\$3,363,824		\$3,420,058
State Gov. General	\$1,752,683		\$1,250,000		\$3,002,683
Additional Unemployment Benefits	\$275	\$650	\$2,377,551		\$2,378,476
K-12	\$1,019,616	\$463,069	\$130,837		\$1,613,522
Healthcare Providers			\$792,563	\$1,176	\$793,739
Local Gov. General	\$702,975				\$702,975
Housing and Rental Assistance	\$206,348	\$200,000	\$71,656		\$478,004
Childcare and Early Ed	\$324,495	\$82,158	\$29,443		\$436,096
Higher Education	\$215,080	\$120,602	\$75,316		\$410,998
Covid Testing and Vaccination	\$170,923	\$140,265	\$8,632	\$86,071	\$405,891
Airports, Roads and Other Transportation	\$4,547	\$104,909	\$158,846		\$268,302
Food Assistance	\$18,078	\$4,435	\$215,049	\$6,675	\$244,237
Medicaid FMAP*				\$365,000	\$365,000
FEMA	\$1,129		\$71,634		\$72,764
Substance Use / Mental Health Grants	\$16,682	\$16,852	\$2,000		\$35,534
Older Americans Support	\$9,096	\$1,113	\$6,585	\$1,556	\$18,350
Head Start	\$8,306	\$2,064	\$6,192		\$16,562
DOH Other Programs		\$627	\$1,449	\$10,783	\$12,859
Economic Development			\$11,440		\$11,440
UI Administration and Reemployment			\$5,430	\$5,263	\$10,693
Justice and Courts		\$117	\$9,451		\$9,568
Income Supports for TANF Recipients	\$6,385				\$6,385
Museum, Arts and Library Supports	\$4,020		\$1,325		\$5,345
Abuse and Violence Prevention	\$2,272	\$1,502	\$610		\$4,383
Election Support			\$3,890		\$3,890
Foster Care Supports		\$2,147			\$2,147
UNM HSC Health Education			\$191		\$191
Subtotal to State Entities	\$3,724,508	\$1,123,023	\$1,705,831	\$463,592	\$7,016,954
GRAND Total	\$7,102,615	\$1,140,510	\$10,381,726	\$473,324	\$19,098,175

Note: For full details of stimulus funding by category to state agencies, see Attachment A
*Staff estimate the increased FMAP at appx. \$75 million per quarter. FFIS estimates show \$136.8 million in increased FMAP to New Mexico through 6/2020. The estimate in the table adds an additional three quarters at \$75 million each to this estimate.

Source: FFIS



LFC Hearing Brief

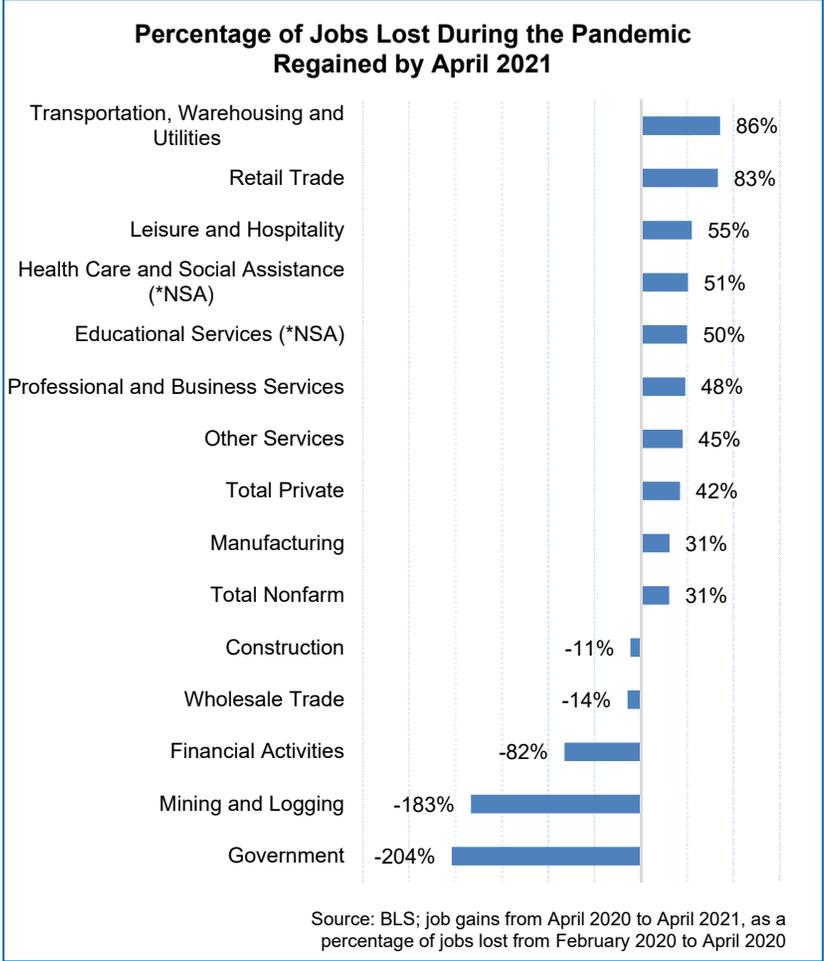
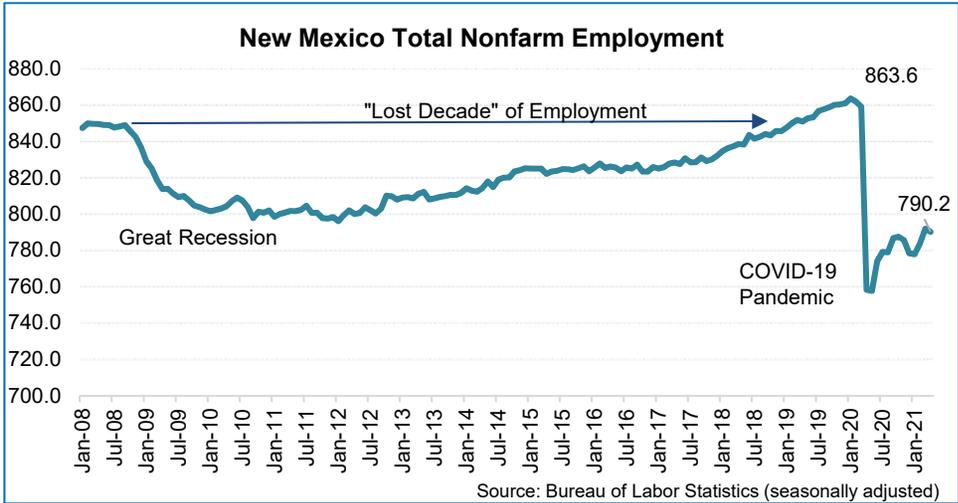
Tracking Federal Stimulus Funds, April 2021

<https://www.nmlegis.gov/handouts/ALFC%2042921%20Item%201%20Federal%20Relief%20Funds%20Brief%204.29.21.pdf>

Tracking Federal Stimulus Funds, May 2021

<https://www.nmlegis.gov/handouts/ALFC%2051821%20Item%2011%20Hearing%20Brief%20-%20Federal%20Relief%20Funds%20May%202021.pdf>

Employment is recovering, but remains 8 percent (71.7 thousand jobs) below pre-pandemic levels, and below employment levels in the Great Recession.



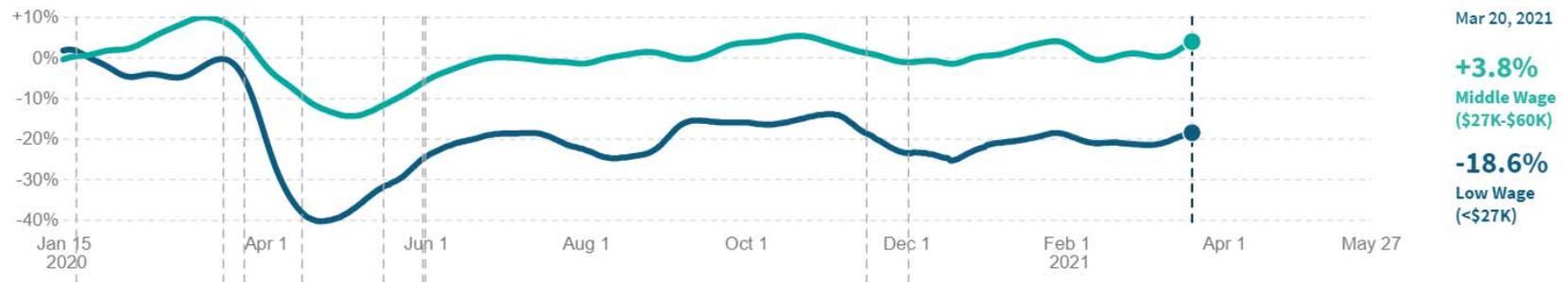
- As of April 2021, the state had regained 31 percent of jobs lost in the pandemic
- New Mexico’s unemployment rate in April 2021 was 8.2 percent
- UNM’s Bureau of Business and Economic Research estimates the state will not reach pre-pandemic employment levels until 2024



High-wage employment resumed pre-pandemic levels in July 2020, but low-wage employment remains down 18.6 percent as of mid-March 2021.

Percent Change in Employment*

In **New Mexico**, as of **March 20 2021**, employment rates among workers in the bottom wage quartile **decreased** by **18.6%** compared to January 2020 (not seasonally adjusted).



data source: **Earnin, Intuit, Kronos, Paychex**

*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.

last updated: **May 19, 2021** next update expected: **May 28, 2021**

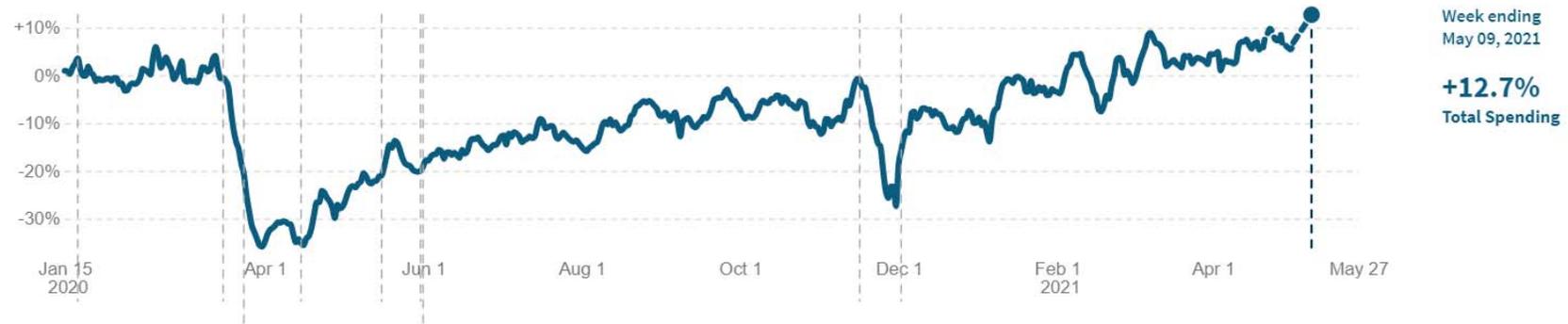
visit tracktherecovery.org to explore



Vaccine rollout, statewide business re-openings, and federal stimulus checks are boosting consumer spending and supporting stronger-than-estimated GRT collections.

Percent Change in All Consumer Spending*

In **New Mexico**, as of **May 09 2021**, total spending by all consumers **increased** by **12.7%** compared to January 2020.



data source: Earnin, Intuit, Kronos, Paychex

*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

last updated: **May 19, 2021** next update expected: **May 27, 2021**

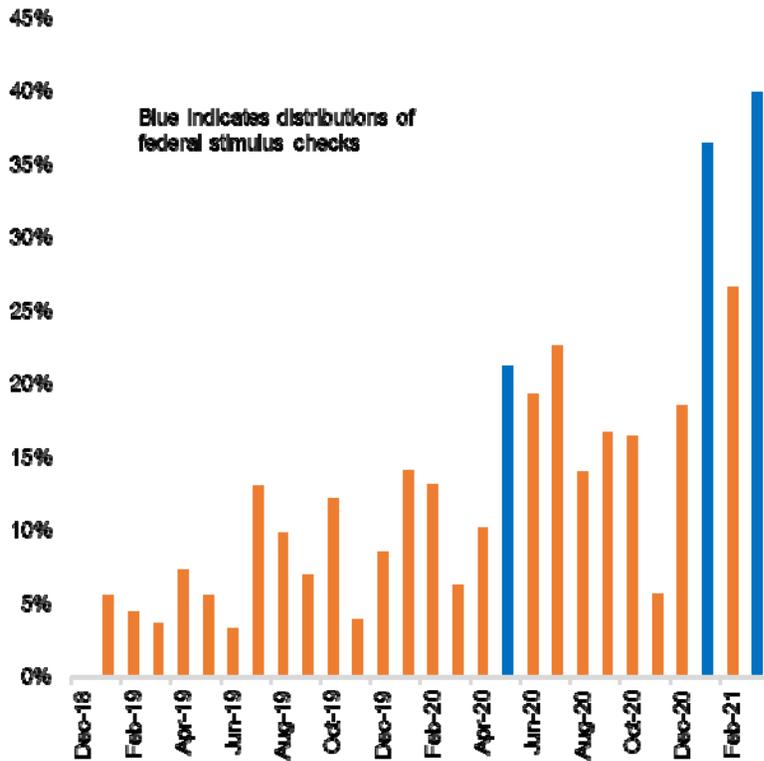
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- Although unemployment remains high, consumer spending in New Mexico began exceeding pre-pandemic levels in 2021.
 - This is the case for all income earners, largely due to federal transfer payments through stimulus checks and enhanced unemployment benefits



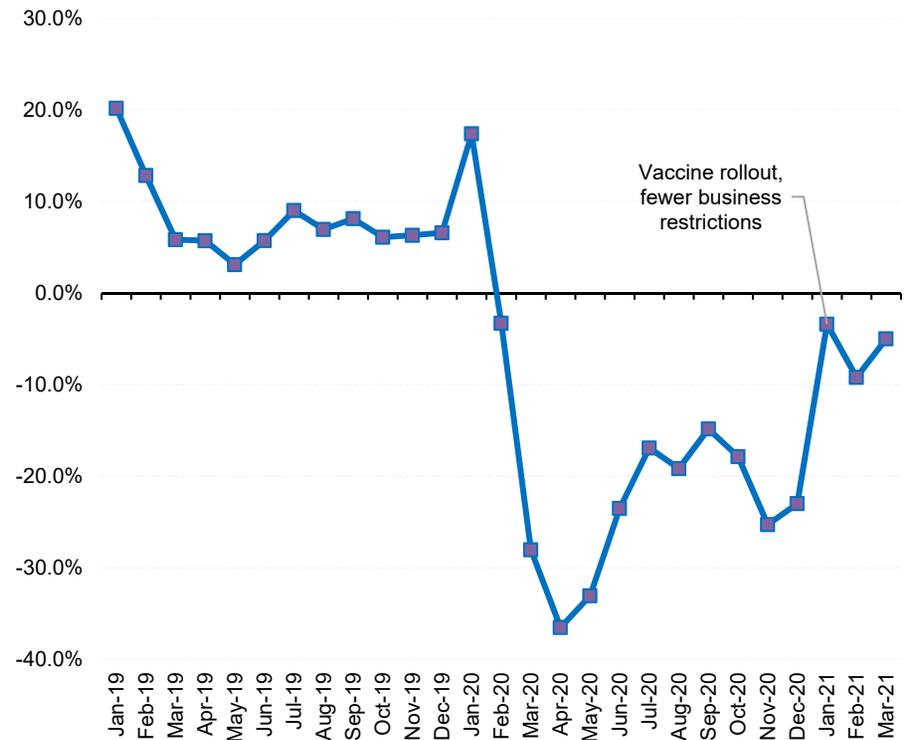
Retail spending remains high, and the leisure and hospitality sector is improving.

General Fund Retail Trade MTGR
(monthly percent change from same month in 2018)



Source: RP500, author's calculations

Leisure & Hospitality MTGR
(percent change from same month in 2018)



Note: includes data for Accommodation and Food Services and for Arts, Entertainment, and Recreation

Source: RP500, author's calculations



Eighteen of the state's 33 counties are showing year-over-year growth for FY21 through March.

Matched Taxable Gross Receipts by County FY21 vs FY20 thru March					
Jurisdiction	Year-over-Year Amount	Year-over-Year Percent	Jurisdiction	Year-over-Year Amount	Year-over-Year Percent
Bernalillo County	\$326,354,719	2.3%	McKinley County	-\$61,626,994	-6.9%
Catron County	\$1,980,036	6.8%	Mora County	\$878,419	3.1%
Chaves County	-\$57,235,718	-5.7%	Otero County	\$46,428,917	6.1%
Cibola County	\$7,447,039	2.7%	Quay County	\$7,665,457	7.0%
Colfax County	\$15,279,229	6.6%	Rio Arriba County	-\$5,503,158	-1.8%
Curry County	\$1,320,078	0.2%	Roosevelt County	\$46,090,947	11.5%
De Baca County	-\$5,339,489	-24.6%	San Juan County	-\$240,267,959	-10.8%
Dona Ana County	-\$15,346,583	-0.5%	San Miguel County	-\$17,155,233	-5.6%
Eddy County	-\$2,363,725,864	-38.0%	Sandoval County	\$73,050,641	5.6%
Grant County	-\$40,389,054	-10.4%	Santa Fe County	-\$283,516,365	-8.6%
Guadalupe County	\$20,734,461	29.5%	Sierra County	\$7,734,991	5.6%
Harding County	-\$1,302,998	-10.5%	Socorro County	\$4,134,195	2.7%
Hidalgo County	\$63,293,401	115.5%	Taos County	-\$53,720,799	-9.3%
Lea County	-\$1,953,914,282	-35.8%	Torrance County	\$145,534,012	88.5%
Lincoln County	-\$762,891	-0.2%	Union County	-\$18,470,229	-22.0%
Los Alamos	\$133,633,607	10.2%	Valencia County	\$138,957,249	18.0%
Luna County	\$219,628,020	76.0%	Out of State	-\$430,317,298	-5.0%

Source: RP 500



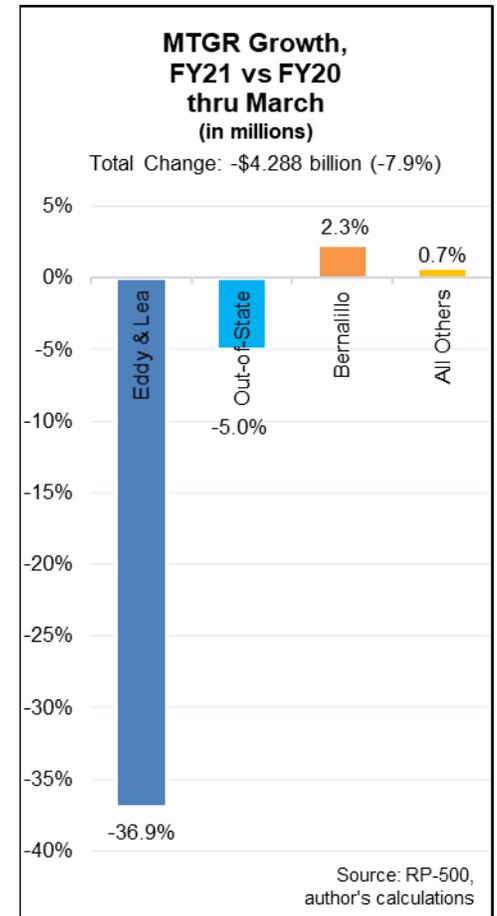
Counties still showing year-over-year declines are primarily rural, dependent on extractive industries, or dependent on tourism.

Overall GRT collections are still down compared with FY20. Year-over-year declines are driven primarily by reduced oil and gas drilling activity.

Matched Taxable Gross Receipts by Industry - FY21 vs FY20 thru March			
Industry	Matched Taxable Gross Receipts	Year-over-Year Growth	Year-over-Year Change
Mining, Quarrying, and Oil and Gas Extraction	\$3,240,256,658	-\$2,205,434,251	-40.5%
Utilities	\$2,235,729,799	\$113,274,658	5.3%
Construction	\$6,155,449,695	-\$695,090,685	-10.1%
Manufacturing	\$1,414,022,060	-\$151,275,484	-9.7%
Wholesale Trade	\$2,053,459,480	-\$585,434,104	-22.2%
Retail Trade	\$12,214,479,504	\$839,193,612	7.4%
Transportation and Warehousing	\$557,249,525	-\$180,760,916	-24.5%
Information	\$1,480,814,276	-\$737,651,972	-33.3%
Real Estate and Rental and Leasing	\$1,255,565,287	-\$164,932,052	-11.6%
Professional, Scientific, and Technical Services	\$4,964,460,809	-\$55,442,057	-1.1%
Administrative/Support & Waste Management/Remediation	\$2,500,834,503	\$269,317,031	12.1%
Health Care and Social Assistance	\$2,946,241,630	\$313,797,751	11.9%
Leisure and Hospitality Services	\$3,067,478,008	-\$646,526,727	-17.4%
Other Industries	\$5,590,611,659	-\$401,484,303	-6.7%
Total	\$49,676,652,892	-\$4,288,449,498	-7.9%

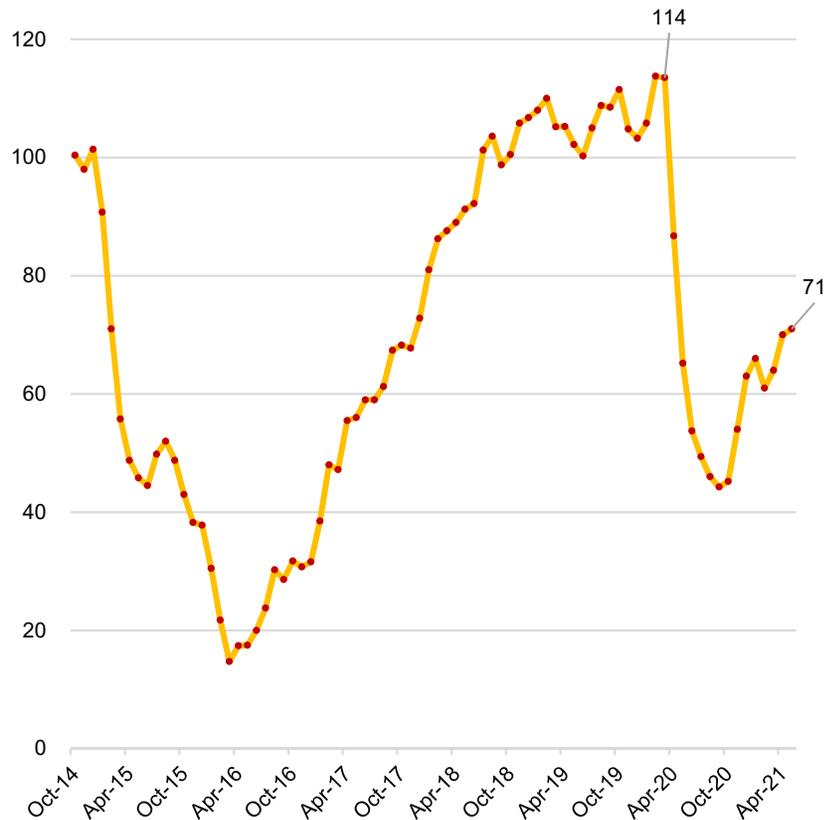
Source: RP500

- Most declines in mining, construction, and wholesale trade are in Eddy and Lea Counties and from out-of-state receipts.
- Most declines in the information industry are in Bernalillo County.
- Most declines in leisure and hospitality are in Bernalillo and Santa Fe Counties, but also in Dona Ana, Taos, Eddy, and Lea.
- Growth in retail is statewide, except for Eddy and Lea Counties.



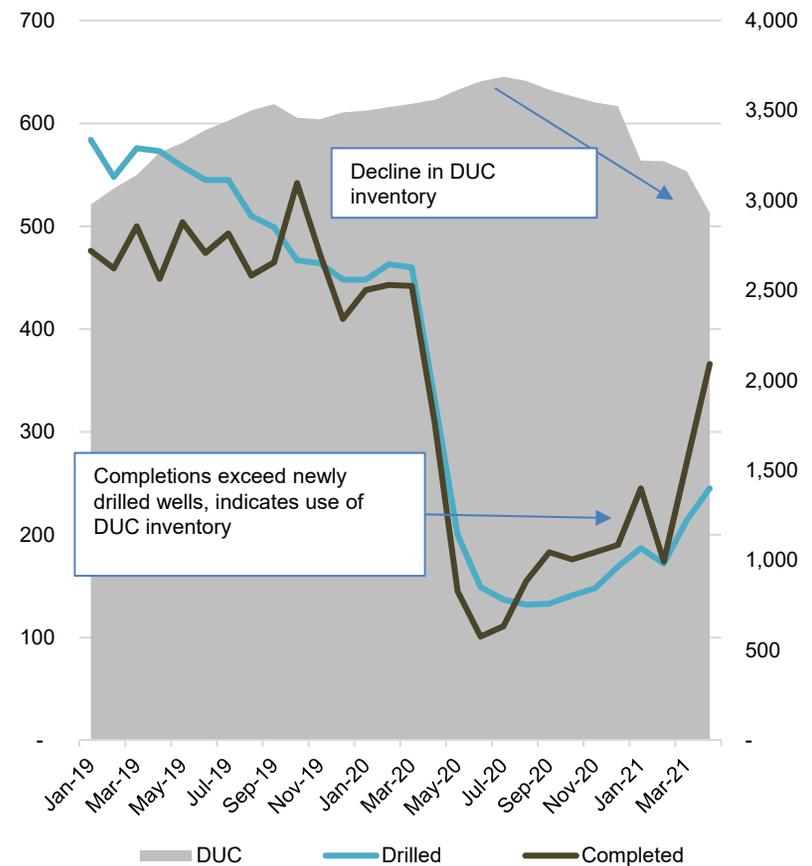
Despite fewer active drilling rigs, producers are completing inventories of drilled-but-uncompleted (DUC) wells...

New Mexico Active Rig Counts



Source: Baker-Hughes

Permian Basin Drilling Activity

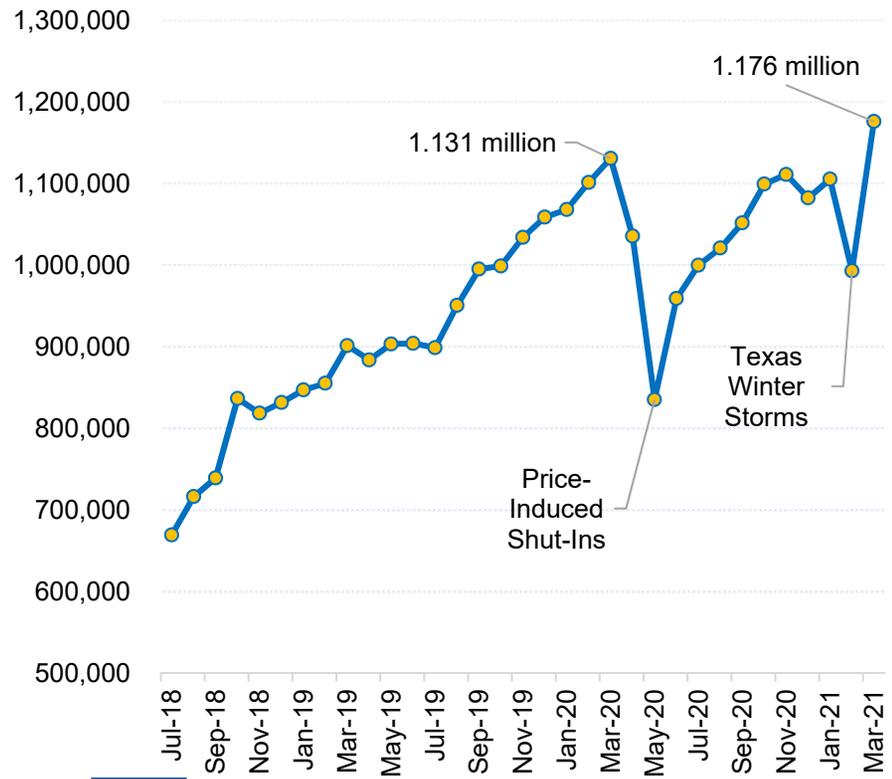


Source: EIA



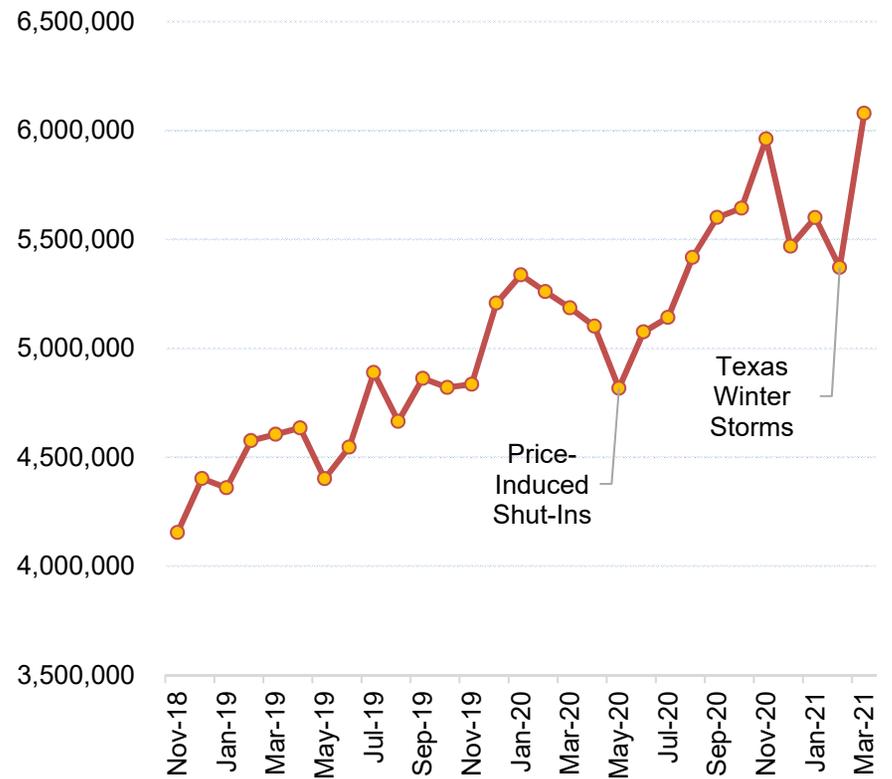
...leading to a recovery in New Mexico's oil and natural gas production.

**New Mexico Oil
Average Barrels Per Day**



Source: TRD's GenTax Reports

**New Mexico Natural Gas
Average MCF Per Day**

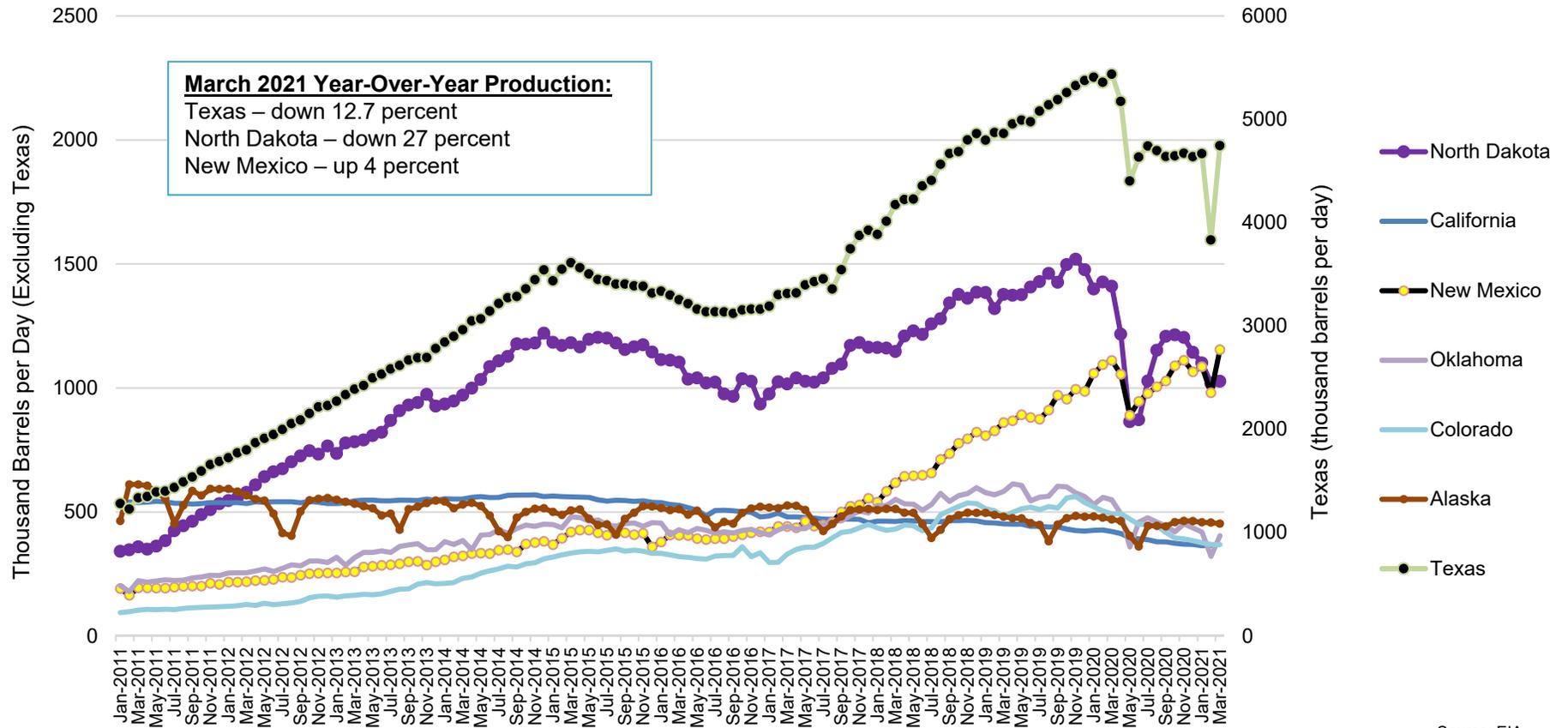


Source: TRD's GenTax Reports



New Mexico is the only top oil-producing state to have recovered to pre-pandemic levels of oil production.

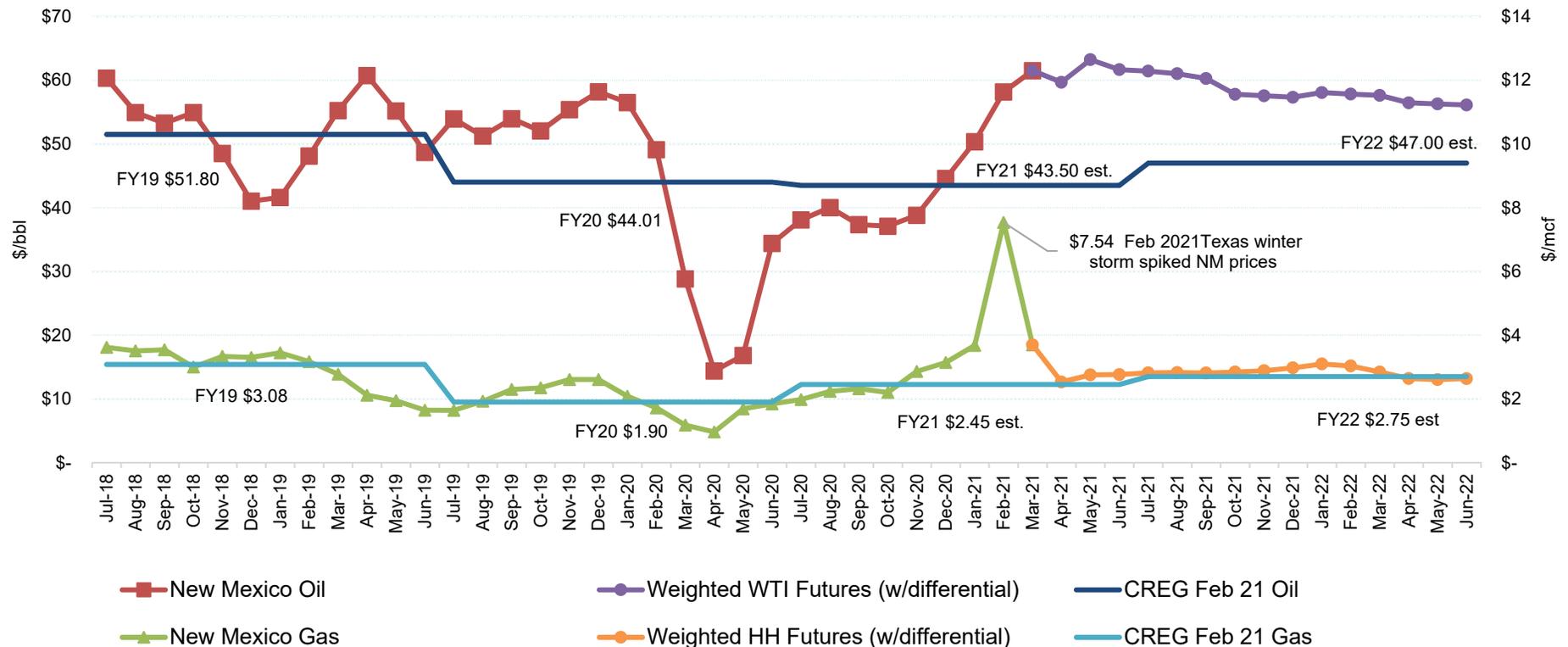
Top Oil-Producing States - January 2011 through March 2021
(Thousand Barrels per Day)



Source: EIA

Oil and natural gas prices are tracking ahead of the forecast. FY21 prices are currently on track to average about \$49/bbl for the year, and FY22 is on track to average about \$57/bbl.

Current Oil and Natural Gas Prices



Source: Weighted oil and gas prices derived from EIA, IHS and NYMEX Forecasts; Updated 05/14/21

What do changes in production and prices mean for New Mexico revenues?

- Based on February 2021 estimate for direct oil and gas revenues (production taxes and federal royalties),
 - A \$1 change in the annual average NM price of oil has about an \$23 million impact on the general fund
 - A \$0.10 change in the annual average NM price of natural gas has about a \$14 million impact on the general fund
 - Each additional million barrels of oil generates about \$3 million for the general fund
 - NM is currently on track to produce about 390 million barrels in FY21, 20 million barrels above the February 2021 projection
 - Each additional 10 billion cubic feet of natural gas generates about \$2 million for the general fund



Note: general fund impacts include effects on the tax stabilization reserve

2021 LEGISLATION AFFECTING REVENUES



Lawmakers provided over \$400 million in pandemic relief and economic stimulus legislation.

- Chapter 4 (Senate Bill 1) provides a temporary gross receipts tax (GRT) **deduction for certain food service establishments** (restaurants and bars, food trucks, craft distillers, small brewers, and winegrowers) from March 2021 to June 2021. The bill holds local governments harmless by providing for a distribution from the state to counties and municipalities in the amount of the lost GRT in those areas.
- Chapter 4 also provides a **\$600 personal income tax (PIT) rebates** to individuals with incomes less than \$31.2 thousand claiming the working families tax credit.
- Chapter 6 (Senate Bill 2) **waives fees** for all liquor license holders in 2021.
- Chapter 5 (Senate Bill 3) extends the **Small Business Recovery Act** through the end of May 2022. The bill increases the available funding for the program from the severance tax permanent fund (STPF) from \$400 million to \$500 million, expands the program to allow for loans up to \$150 thousand with a 10-year payback period, and allows proceeds from the loans to be used to make non-Covid-related business improvements to grow the business's e-commerce and sales capacity.
- Chapter 3 (House Bill 11) provides up to \$100 thousand in **Local Economic Development Act (LEDA) grants** to businesses to assist with rent, lease, and mortgage payments. Funding is prioritized to qualifying businesses demonstrating the greatest percentage reduction in annual revenues.

2021 Pandemic Relief and Economic Stimulus (estimated costs)		
Legislation	FY21	FY22
SB 1 – GRT deduction for food and beverage establishments	\$90.3	
SB 1 – PIT rebates of \$600 for low-income working individuals	\$109.4	
SB 2 – Waive fees for liquor license holders		\$3.8
HB 11 – LEDA Recovery Grants	\$200.0	
Total General Fund	\$399.7	\$3.8
SB 3 – Small Business Recovery Act Loans	*	*

* Reduced general fund earnings on severance tax permanent fund expected beginning FY23
Source: LFC Post-Session Report, May 2021



The 2021 regular session expanded certain tax expenditures and anti-pyramiding provisions.

- Chapter 116 (House Bill 291) increases the **working families tax credit** (WFTC) to 20 percent of the federal earned income tax credit through tax year 2022 and increases the credit to 25 percent beginning in tax year 2023. The final bill also expands the **low-income comprehensive tax rebate** (LICTR) to apply to higher incomes, provides for higher rebates, and creates an automatic inflation-adjustment to the rebate amounts.
- Chapter 66 (House Bill 278) expands the **manufacturing GRT deduction** to include the sale of tangible personal property to either a manufacturer or a manufacturing services provider. This deduction is intended to reduce pyramiding of GRT on the sale of tangible personal property to either a manufacturer or a manufacturing services provider. The measure also provides that receipts from selling or leasing qualified manufacturing equipment may be deducted from gross receipts if the sale or lease is made to a manufacturer or a manufacturing services provider.
- Chapter 7 (House Bill 255) creates **deductions** from GRT and the personal and corporate income taxes for liquor license holders in an amount equal to gross receipts from alcohol sales by lessees up to \$50 thousand of a dispenser's license, or up to \$25 thousand of a retailer's license, for four taxable years.
 - Chapter 84 (House Bill 15) extends the **sustainable building tax credit** for projects completed by April 2023 and credit claims made through the end of tax year 2024.



2021 Tax Expenditures and Anti-Pyramiding Legislation (estimated costs)		
Legislation	FY22	FY23
HB 291 - Working Families Tax Credit	\$24.9	\$22.6
HB 291 - Low-Income Comprehensive Tax Rebate	\$48.8	\$48.9
HB 255 - Gross receipts and income tax deductions for liquor license holders	\$5.1	\$5.1
HB 15 - Sustainable Building Tax Credit	*	*
HB 278 - Manufacturing Services GRT Deduction	\$3.0	\$3.0
Total General Fund	\$84.0	\$81.8
* Applicable to tax year 2024 and 2025		

Source: LFC Post-Session Report, May 2021

The Legislature also passed a number of other measures in the 2021 regular session that both reduce and increase general fund revenues.

- **Chapter 125 (Senate Bill 256)** mandates that 100 percent of projected remaining balances in the **fire protection fund** be distributed to the fire protection grant fund, a change that will reduce the annual reversions to the general fund by about \$20 million per year.
- **Chapter 136 (Senate Bill 317)** includes increases to the **health insurance premium surtax** by 2.75 percentage points and create the health care affordability fund.
- **House Joint Resolution 1** proposes a constitutional amendment to increase the distribution from the **permanent school fund** (a component of the land grant permanent fund earmarked for public schools) by 1.25 percentage points.
 - 60 percent of the additional distribution shall be for the provision of early childhood education and 40 percent shall be for enhanced instruction for students at risk of failure, extending the school year, and public school teacher compensation.
 - If passed by voters in the next election and approved by Congress, the measure would provide an additional \$221.5 million distribution from the permanent school fund in FY23 – about \$126.9 million for early childhood education and about \$84.6 million for public education.
- **Chapter 65 (House Bill 98)** is a **tax code clean-up** bill proposed by the Taxation and Revenue Department that makes a number of changes regarding information published for taxpayers, timing of deposits for income tax receipts, innocent spouse relief, wage garnishment for delinquent taxes and late filing fees, and references to the current U.S. Code. The bill also clarifies the use of alternative evidence in lieu of nontaxable transaction certificates and makes clarifying changes to several tax expenditures, including the rural jobs tax credit, healthcare practitioner deductions, and the food tax deduction.
- Among other bills enacted, **Chapter 69 (Senate Bill 218)** allows taxpayers to apportion and allocate income pursuant to New Mexico's Uniform Division of Income for Tax Purposes Act. **Chapter 83 (Senate Bill 410)** provides that New Mexico adopt the Multistate Tax Commission's uniform model statute for federal partnership audits. **Chapter 72 (Senate Bill 223)** authorizes the New Mexico Finance Authority to issue an additional \$22 million in cigarette tax revenue bonds for completion of the University of New Mexico's Comprehensive Cancer Center, a measure that will have a future impact by delaying the date in which those cigarette tax revenues would be distributed to the general fund.

The 2021 special session focused on legalizing and taxing recreational cannabis and expanded economic development measures through LEDA.

- **Chapter 4 (House Bill 2)** enacts the **Cannabis Regulation Act**.
 - Decriminalizes the possession, use, production, transportation, and sale of commercial cannabis for nonmedical adult use and creates a regulatory and taxation structure.
 - Creates a new Cannabis Control Division (CCD) within the Regulation and Licensing Department and requires the CCD to promulgate rules for licensing and regulating commercial cannabis activities no later than January 1, 2022. Commercial cannabis retail sales are required to begin no later than April 1, 2022.
 - CCD may promulgate rules that limit the number of cannabis plants a licensee may produce through the end of 2025, a provision that could affect the supply and price of commercial cannabis.
 - Enacts the Cannabis Tax Act (CTA), which imposes a cannabis excise tax of 12 percent on cannabis retailers and is applied to the price paid for a cannabis product. The tax does not apply to retail sales of medical cannabis sold to qualified patients or caregivers.
 - Imposes gross receipts tax on the sales of commercial cannabis and creates a new GRT deduction for medical cannabis sales.
 - On full implementation in FY23, revenues from the excise tax and GRT on commercial cannabis are estimated to generate at least \$30.8 million for the general fund and \$16.7 million for local governments. However, after accounting for the new GRT deduction for medical cannabis, net new revenue as a result of Chapter 4 in FY23 is estimated at \$19.2 million to the general fund and \$9.4 million for local governments. Revenues are expected to increase over 50 percent in FY24 as the legal market develops in the state.
- **Chapter 2 (Senate Bill 1)** expands the Local Economic Development Act (LEDA) to allow a permanent mechanism for tax revenue sharing for certain new, large LEDA projects.
 - Allows 50 percent of some state and local GRT and compensating revenue from large LEDA projects (over \$350 million in construction and infrastructure costs) to be placed into the LEDA fund to help with recruitment of those large projects.

Summary of 2021 Legislation

2021 Legislative Sessions Detail

	FY21		FY22		FY23		FY24		
	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	
REVENUE									
<u>2021 Regular Session:</u>									
Bill No.									
<u>Pandemic Relief</u>									
Ch. 4	SB 1	Restaurant Gross Receipt Tax Deduction		\$ (199.7)					
Ch. 6	SB 2	Waive 2021 Liquor License Fees		\$ -	\$ (3.8)				
Ch. 5	SB 3	Small Business Recovery Act		\$ -		\$ (5.0)		\$ (10.4)	
<u>Tax Package</u>									
Ch. 84	HB 15	Sustainable Building Tax Credit		\$ -		\$ -		\$ (2.2)	
Ch. 7	HB 255	Alcohol Deliveries		\$ (5.1)		\$ (5.1)		\$ (5.1)	
Ch. 66	HB 278	Manufacturing Services Gross Receipts		\$ (3.0)		\$ (3.0)		\$ (3.0)	
Ch. 116	HB 291	Tax Changes		\$ (73.7)		\$ (72.5)		\$ (100.1)	
Ch. 65	HB 98	Omnibus Tax Bill		\$ (1.0)		\$ (1.0)		\$ (1.0)	
<u>Other</u>									
Passed	HJR 1	Permanent Fund for Early Childhood, CA		\$ -		\$ 211.5		\$ 223.9	
Ch. 125	SB 256	Fire Protection Grant Fund Changes		\$ (19.1)		\$ (20.1)		\$ (20.6)	
Ch. 57	SB 160	Judicial Candidates in Voter Action Act		\$ 0.2		\$ 0.2		\$ 0.2	
Ch. 136	SB 317	No Behav. Health Cost Sharing/Health Insurance Premium Surtax		\$ 22.0		\$ 38.3		\$ 38.8	
Vetoed	SB 375	Officer Training & Certification (Law Enf. Prot. Fund)		\$ -		\$ (6.0)		\$ (6.0)	
<u>2021 First Special Session:</u>									
Ch. 4	HB 2	Cannabis Regulation Act	\$ (0.1)	\$ 0.3	\$ 19.2	\$ -	\$ 30.1	\$ -	
TOTAL REVENUE			\$ (0.1)	\$ (199.7)	\$ (79.3)	\$ (3.8)	\$ 162.5	\$ -	\$ 150.7

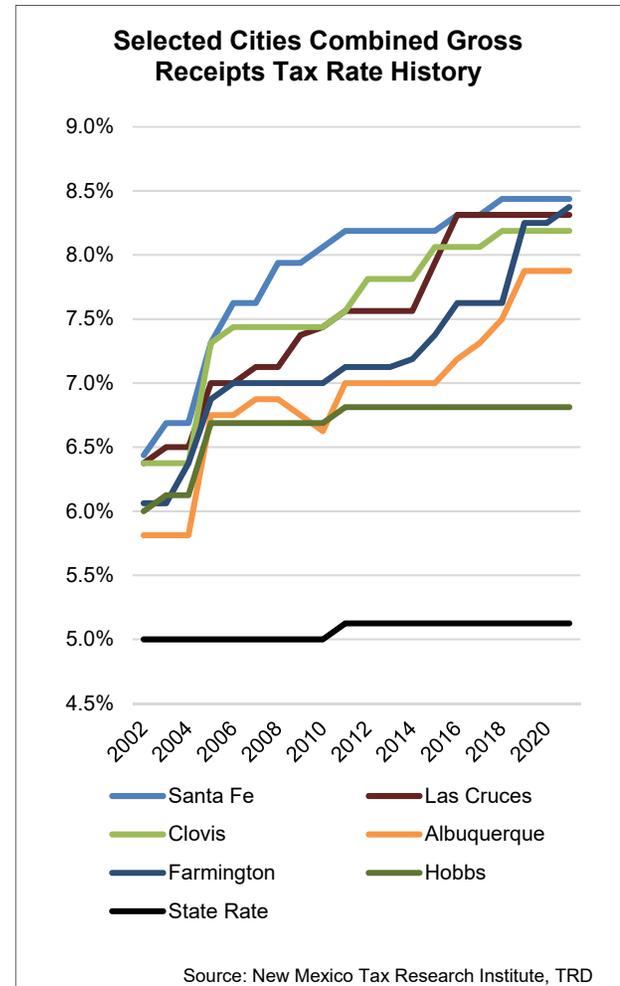


OUTLOOK FOR TAX ISSUES



Outstanding Tax Policy Issues

- Significant tax reform initiatives left undone (e.g. broadening the GRT base and eliminating certain tax expenditures, lowering GRT rates, addressing tax pyramiding for business-to-business services, etc.)
 - Senate Bill 211 attempted to reduce the state GRT rate by one-eighth percent; however, the bill did not attempt to make base-broadening measures to offset the costs and did not address rising local GRT rates.
- Personal income tax changes tend to focus on additional rates and brackets for top income earners, rather than incorporating adjustments to existing rates and brackets.
- As the world transitions away from fossil fuels, the state will likely need consider how wind and solar energy contribute to the recurring tax base, while balancing the taxation of renewable energy with the state's competitiveness for the industry to grow.
- Considerations for revenue stability and reducing state budget dependence on oil and gas revenues.



New Mexico has over 100 tax expenditures that cost over \$1 billion annually. The state's top ten tax expenditures account for over 75 percent of the total cost.

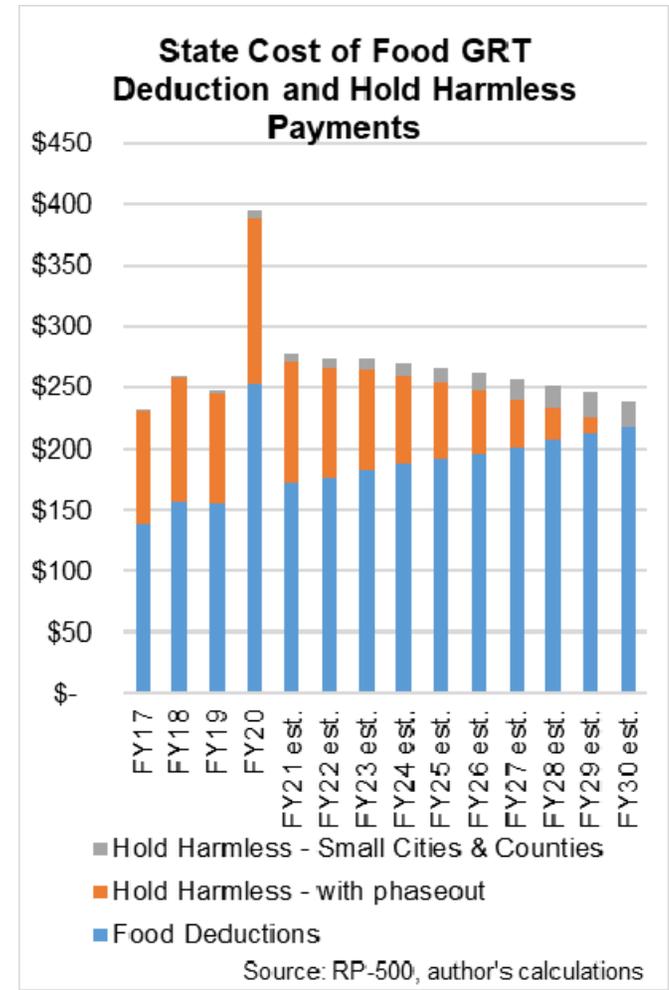
Tax Expenditure	5-Year Avg. Cost
Food GRT Deduction (includes hold harmless distributions to local governments)	\$278.5
Prescription Drugs GRT or GGRT Deduction	\$93.1
Health Care Practitioners GRT Deduction (includes hold harmless distributions to local governments)	\$71.3
Film Production Tax Credits/Film and Television Tax Credits	\$70.5**
Hospitals 50% (prior to 2019) or 60% (on and after 2019) GRT Deduction	\$68.0
Capital Gains PIT Deduction	\$60.1
Working Families Tax Credit	\$57.8*
NMMIP Assessment Credit	\$51.2
Apportionment Election of CIT (double/single sales - manufacturing or computer processing facility)	\$27.8
Receipts of Nonprofit Organizations Exemption from GRT, except State and Nat'l Labs	\$27.8

Source: TRD 2020 Tax Expenditure Report

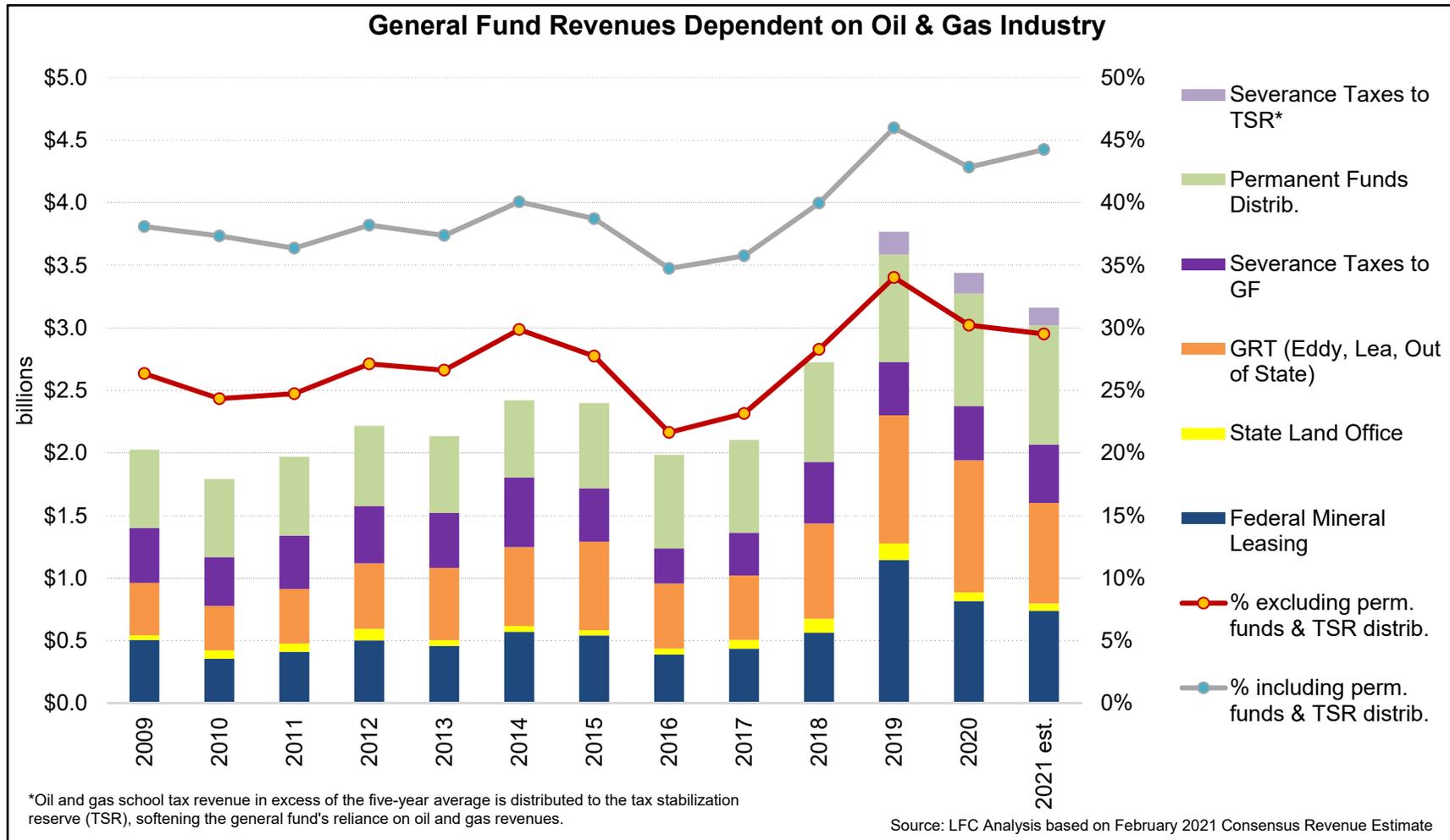
*The working families tax credit (WFTC) was expanded in the 2019 session at an estimated additional cost of about \$40 million per year. The WFTC was further expanded in the 2021 session at an estimated additional cost of \$25 million/year in FY22 and \$49 million/year in FY24.

**The film tax credit was expanded in the 2019 session and is estimated to reach a cost of \$145 million annually by FY23.

***The low-income comprehensive tax rebate was expanded in the 2021 session at an estimated additional cost of \$49 million per year. The current 5-year average cost for LICTR is about \$18 million.

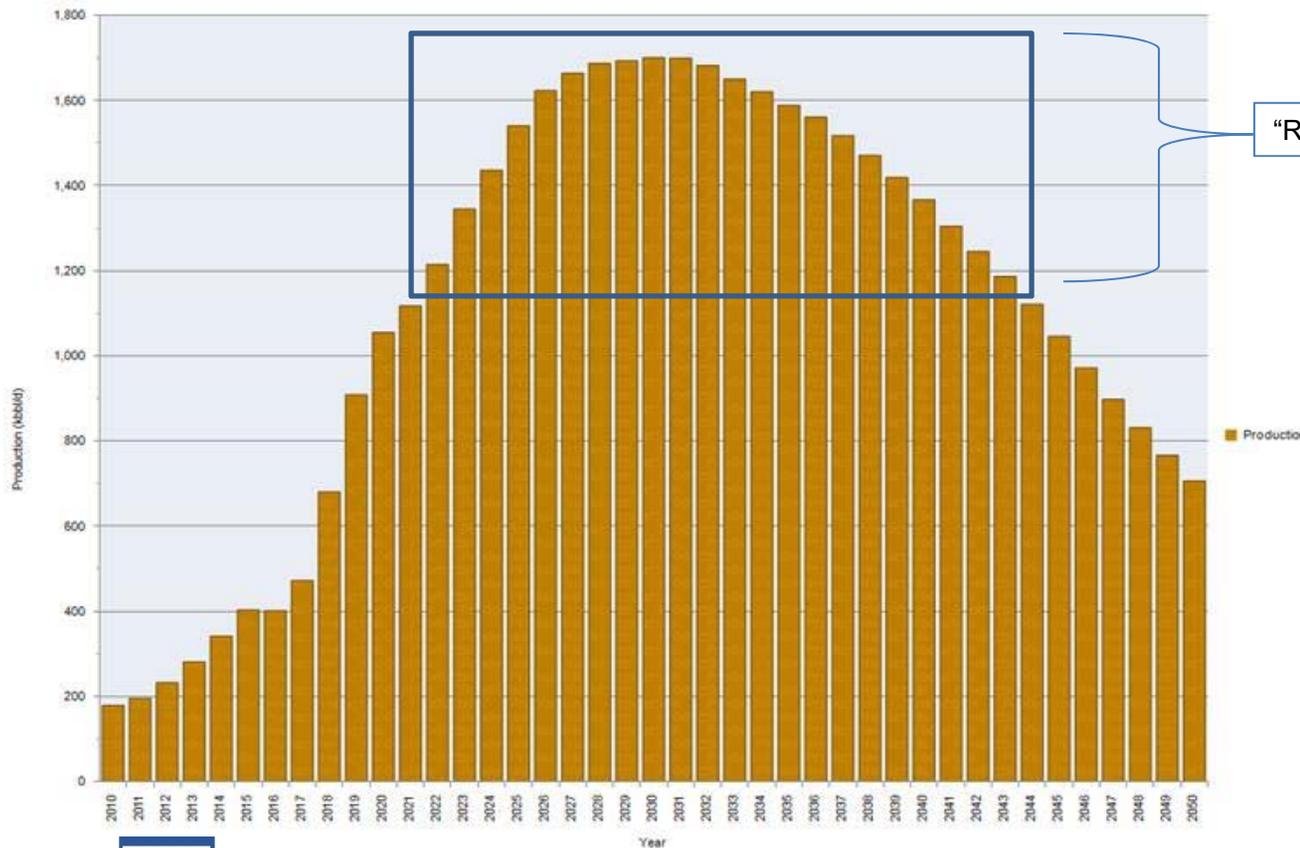


New Mexico's state budget remains heavily dependent on revenues from the oil and gas industry. In FY21, about 30 percent of state revenues are attributable to oil and gas activity.



While energy analytics firms expect NM oil production to continue growing for the next few years, production is currently expected to peak in the 2030s.

Rystad Energy – New Mexico Long-Term Oil Production Outlook



“Recurring” or “nonrecurring”?

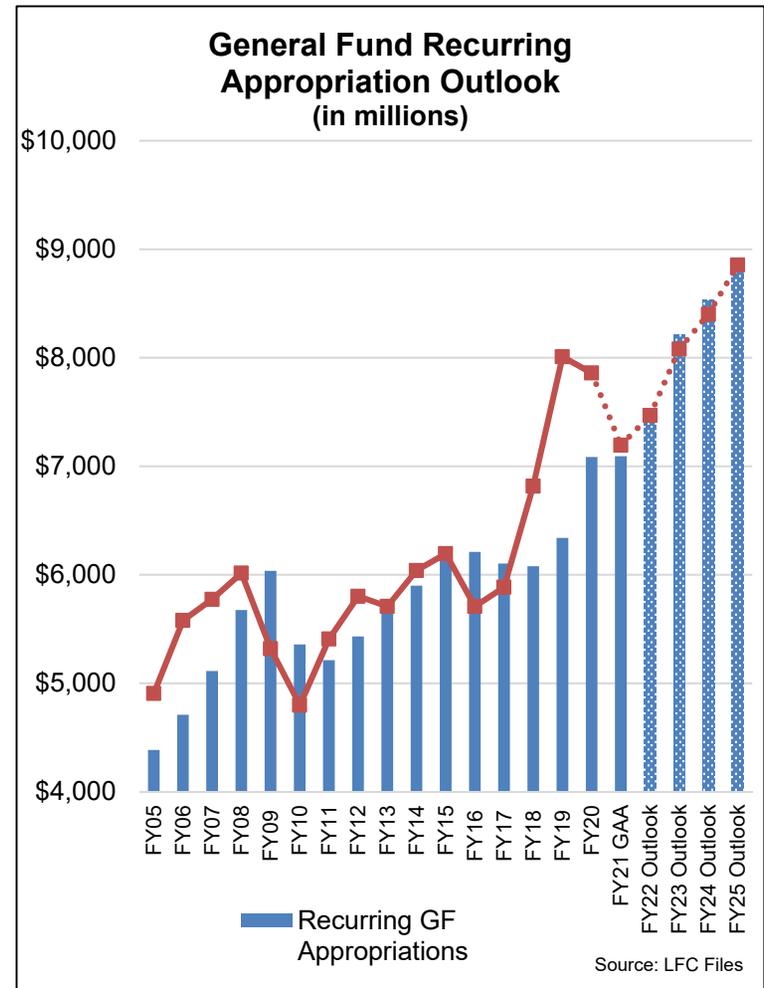
- The state will face tough choices in deciding how to treat general fund revenue growth from oil and gas revenues moving forward, particularly when growing recurring budgets
- Focus on diversifying and stabilizing state revenues



Source: Rystad Energy, UICde Profiles, version 2021-02-08

The state's budget needs are expected to grow.

- Base expectations in LFC's general fund appropriation outlook projects recurring budget growth of 3.8 percent, before adjustments.
 - Assumes public education spending will increase 4.5 percent, other state agency budgets will grow 2.5 percent to 3 percent, and Medicaid expenditures will grow 4 percent.
- The adjustment scenario shows an additional \$480 million of recurring budget needs in FY23. Adjustments include replacing federal funds and covering unfunded budget obligations based on 2021 legislation.
 - Replace enhanced FMAP for Medicaid (\$75 million)
 - Replace enhanced FMAP for DD (\$20 million)
 - Replace Public Education Reform Fund (\$50 million)
 - HB4 – Civil Rights Act (\$9 million)
 - SB42 – Increase ERB Contributions (\$34 million)
 - SB317 – No Behavioral Health Cost-Sharing and Health Insurance Premium Surtax (\$37.5 million)
 - HJR1 – LGPF for Early Childhood and Public Education Initiatives (\$211.5 million)
 - HB2 – Cannabis Regulation Act (\$17 million)



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QUESTIONS?

