

Fiscal Management Practices in New Mexico

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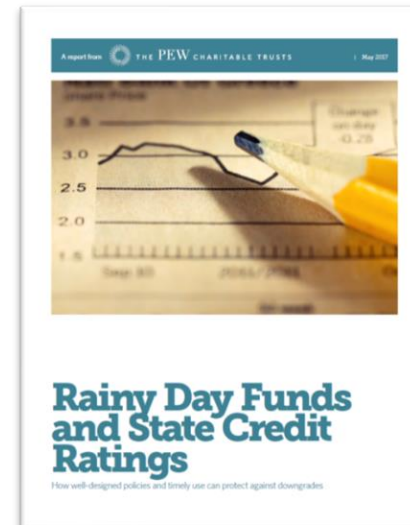
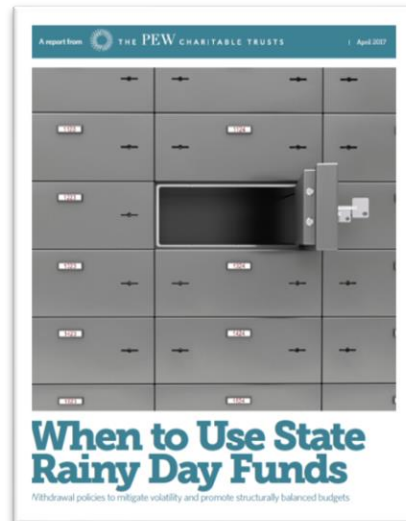
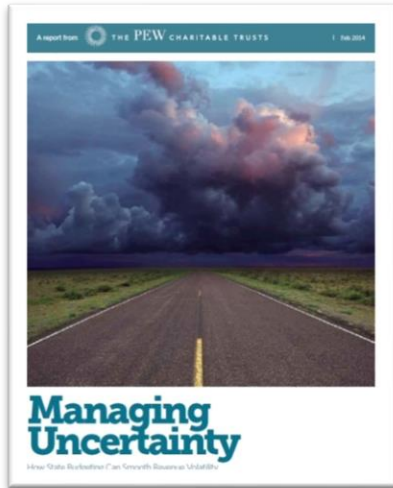
About The Pew Charitable Trusts

- The Pew Charitable Trusts is a research and public policy organization that helps state leaders develop and adopt **evidence-based policies**.
- Our experts **work directly with policymakers** and their staff to put in place targeted, evidence-based solutions to pressing challenges.

Fiscal management practices

- Rainy day funds
- Long-term budget assessments
- Budget stress testing

Rainy day funds



Rainy day funds: Best practices

- The purpose of the rainy day fund should be clear and well-defined in statute.
- Recurring budget stress tests should inform the size of the rainy day fund.
- Deposits and withdrawals should be tied to volatility.

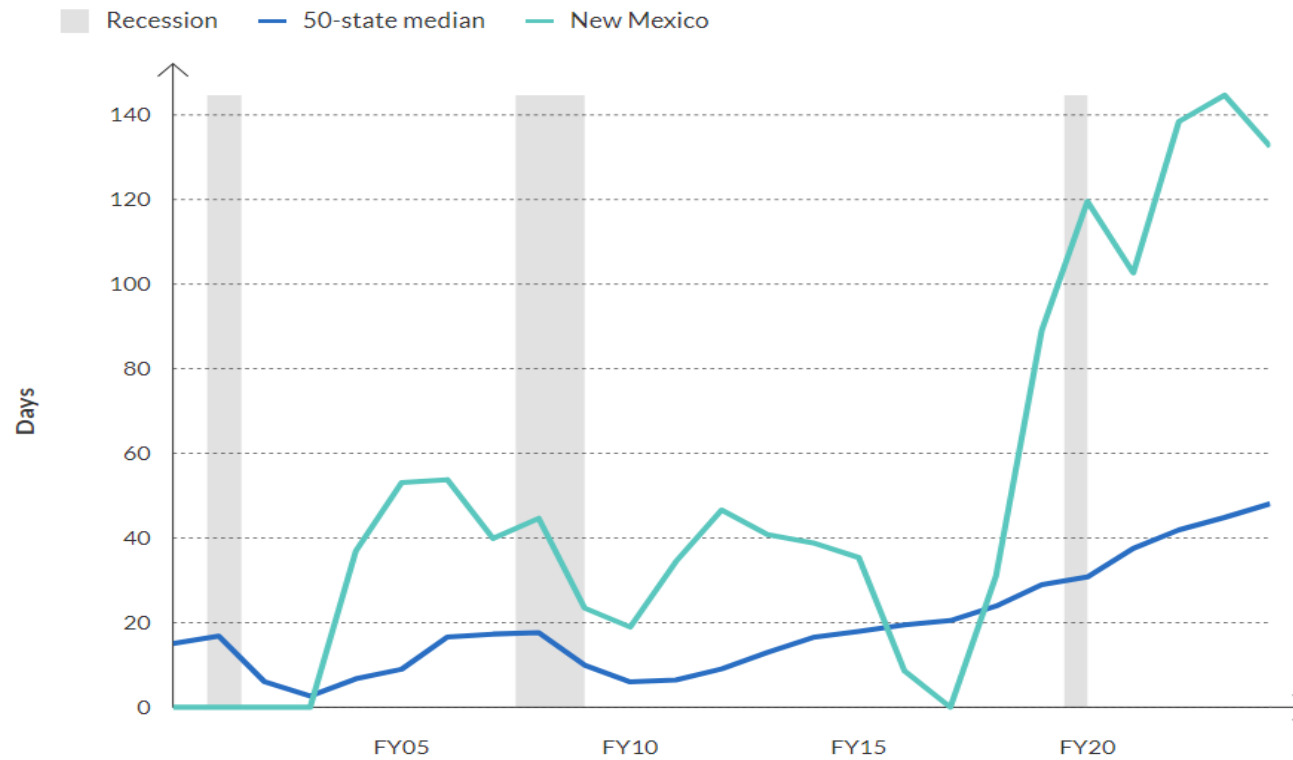
Rainy day funds: Deposit and withdrawal rules

State	Deposits Tied to Volatility	Withdrawals Tied to Volatility
Arizona	Yes	Yes
Colorado	No	No
New Mexico	Yes	No
Oklahoma	Yes	Yes
Texas	Yes	Yes
Utah	No	No

Rainy day funds: Number of days New Mexico could operate

Days Each State Could Run on Only Rainy Day Funds

Fiscal years 2000-2024 estimated

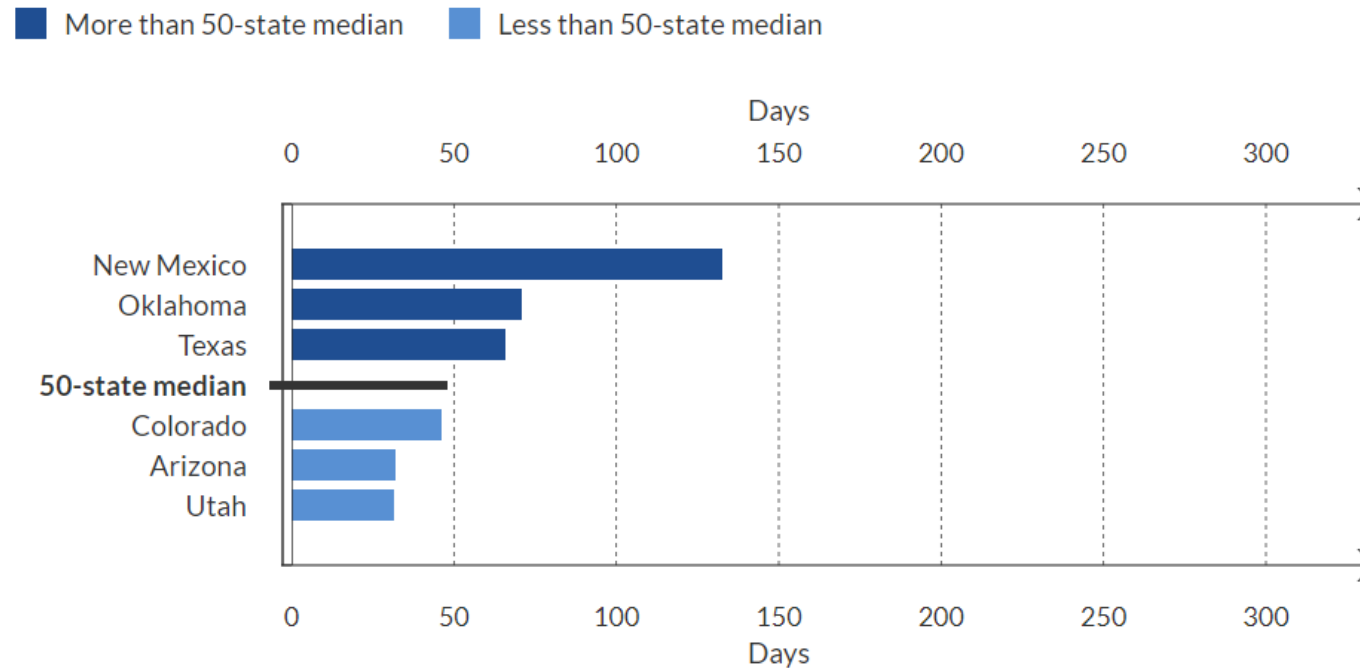


Source: The Pew Charitable Trusts, Fiscal 50

Rainy day funds: New Mexico and peer states

Days Each State Could Run on Only Rainy Day Funds

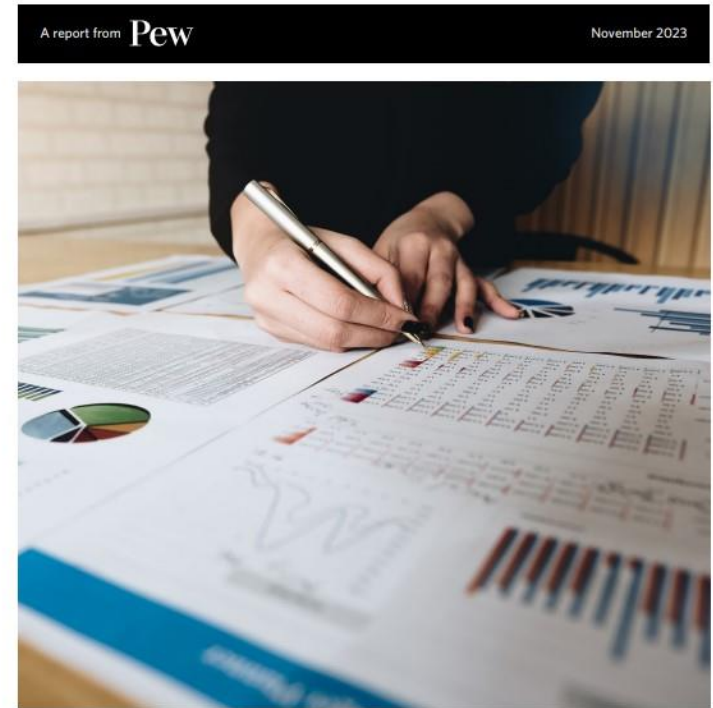
Fiscal year 2024 estimated



Source: The Pew Charitable Trusts, Fiscal 50

Why states should measure long-term budget sustainability

1. To have a lasting impact, state leaders need to ensure their decisions are affordable over the long-term.
2. Without adequate planning, budget deficits can lead to short-term fixes that ultimately make the problem worse.
3. States are proving that analytical tools can help them prepare for or prevent budget challenges.



Tools for Sustainable State Budgeting

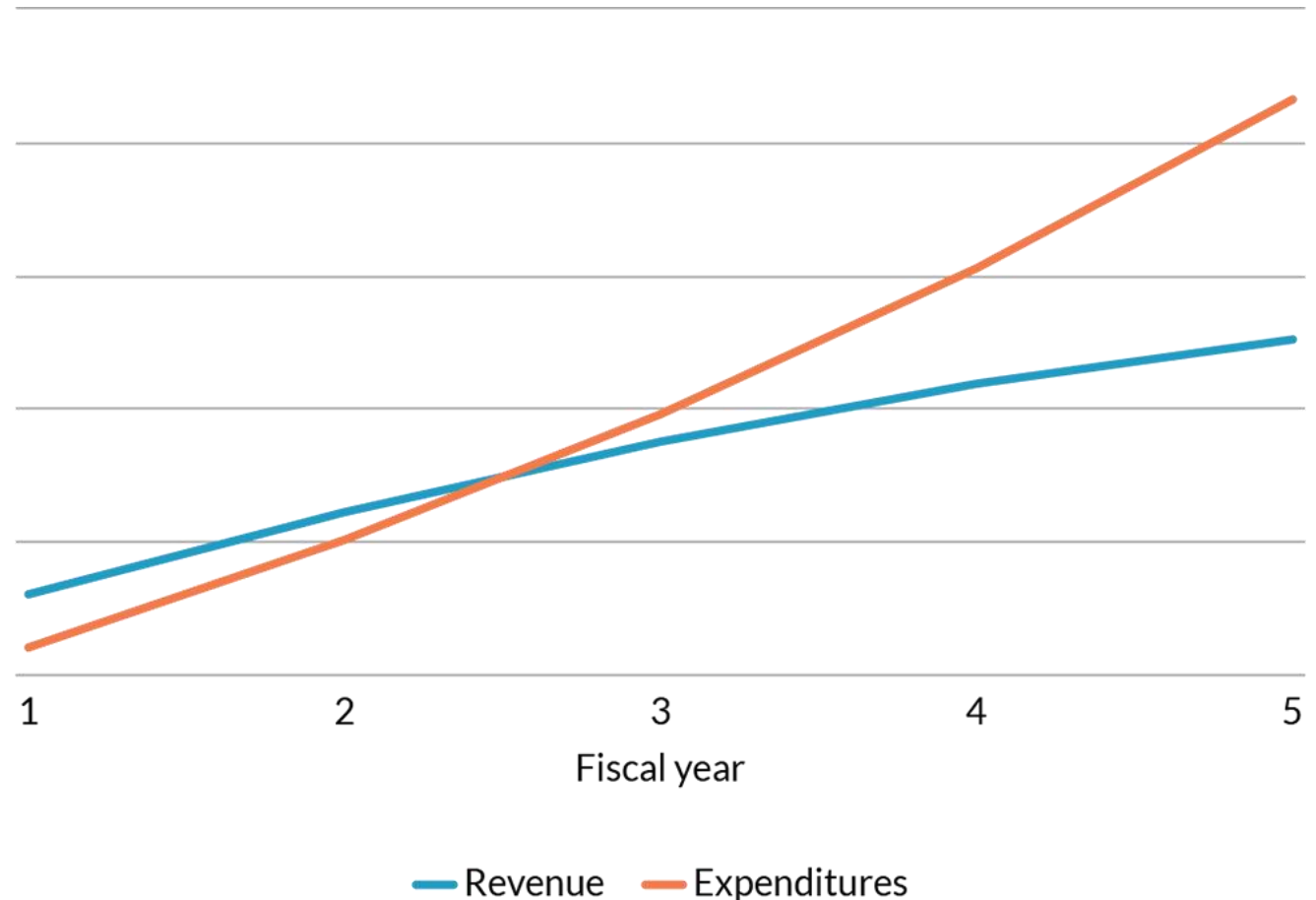
Long-term budget assessments and stress tests promote fiscal resilience

Analytical tools address two threats to fiscal sustainability

- Long-term budget assessments address structural deficits.
- Budget stress tests address temporary shortfalls.

What is a long-term budget assessment?

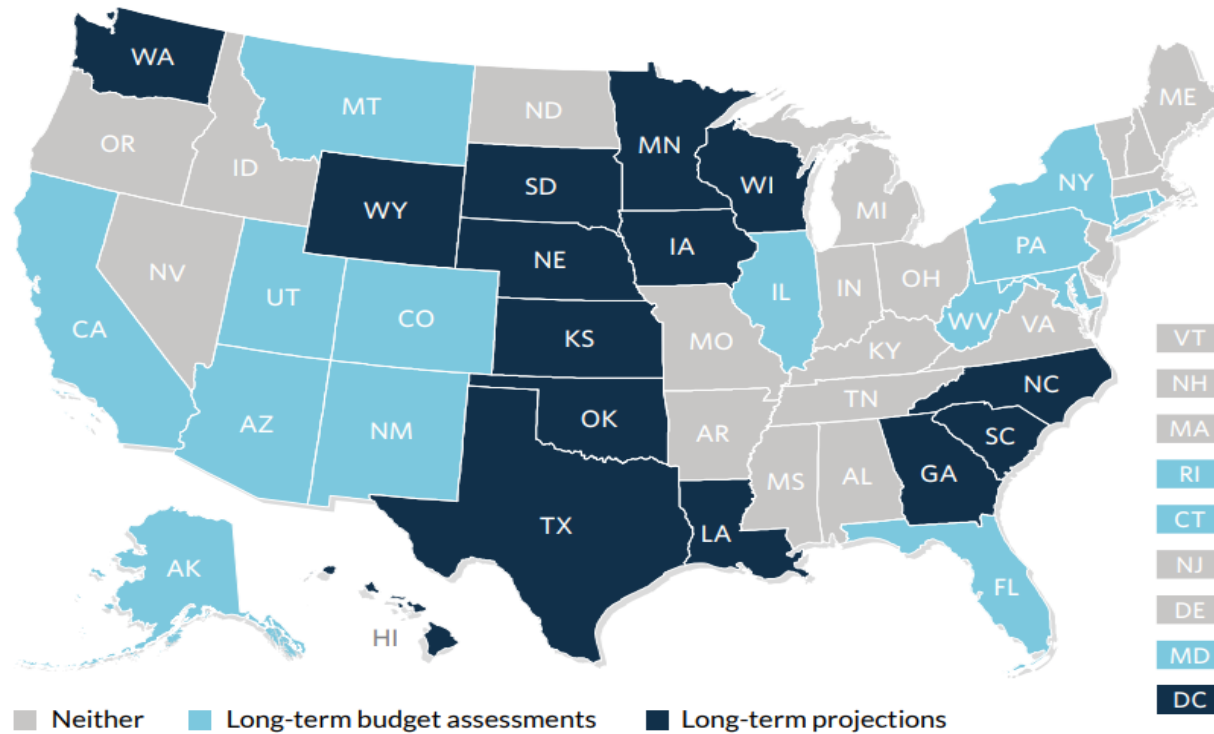
1. Identify key revenue and spending categories.
2. Project budget balance in these categories at least three fiscal years into the future.
3. Use projections to analyze ongoing fiscal sustainability and identify structural deficits.



Long-term budget assessments

30 States and DC Produced Either Long-Term Budget Assessments or Long-Term Projections

Analysis publication by state, 2018-23



Source: The Pew Charitable Trusts, Tools for Sustainable State Budgeting, Published November 2023

Long-term budget assessments: Leading practices

- Analyze revenue and spending across all funds and categories that could cause budget challenges.
- Project revenue and spending far enough into the future to account for deferred policy changes.
- Account for the impact of economic, demographic, and technological factors.
- Acknowledge uncertainty by showing how the numbers might vary under different scenarios, assumptions, or methodologies.
- Estimate whether ongoing spending aligns with ongoing revenue over the long term to assess structural balance.
- Analyze factors that could lead to long-term deficits, including identifying risks beyond the time frame of the analysis.

Long-term budget assessments: New Mexico example

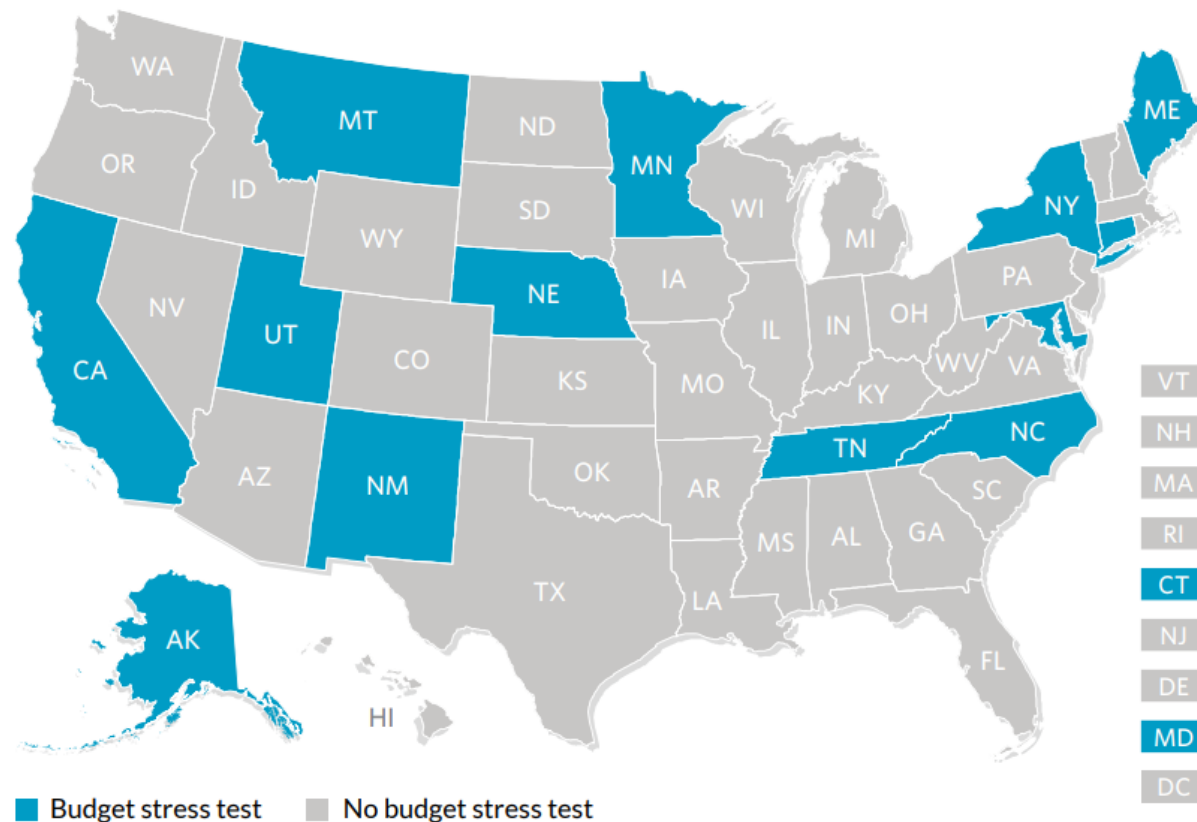


What is a budget stress test?

1. Identify a possible temporary scenario or range of scenarios that could cause budget stress.
2. Analyze the potential effects of the stress scenarios on general budget conditions.
3. Compare the negative effects of the scenarios with available or needed contingencies for addressing effects.

Budget stress testing

13 States Have Produced at Least 1 Budget Stress Test
Analysis publication by state, 2018-23



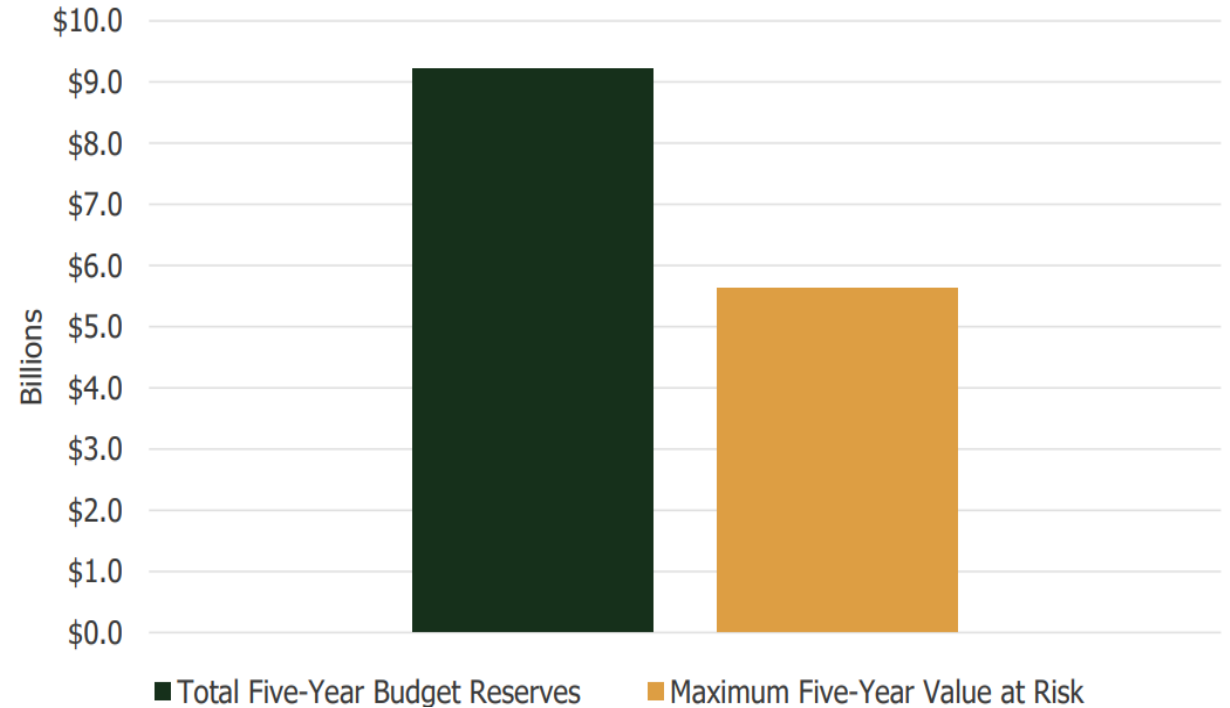
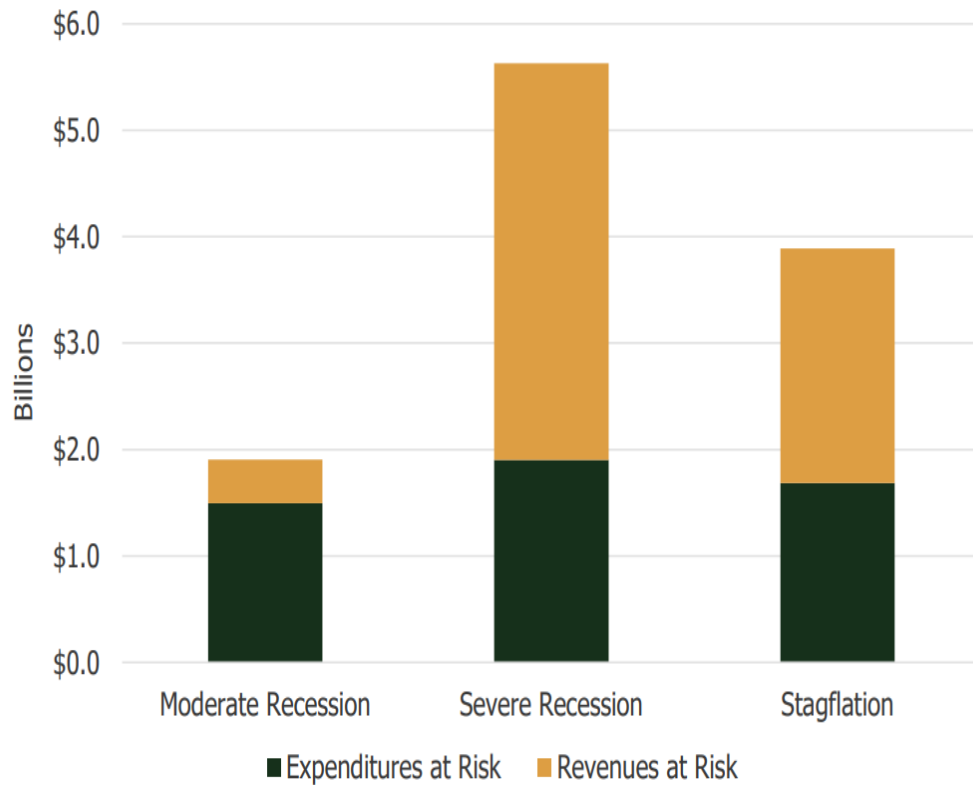
Note: Since publication, Colorado and Oklahoma have both completed a budget stress test.

Source: The Pew Charitable Trusts, Tools for Sustainable State Budgeting, Published November 2023

Budget stress testing: Leading practices

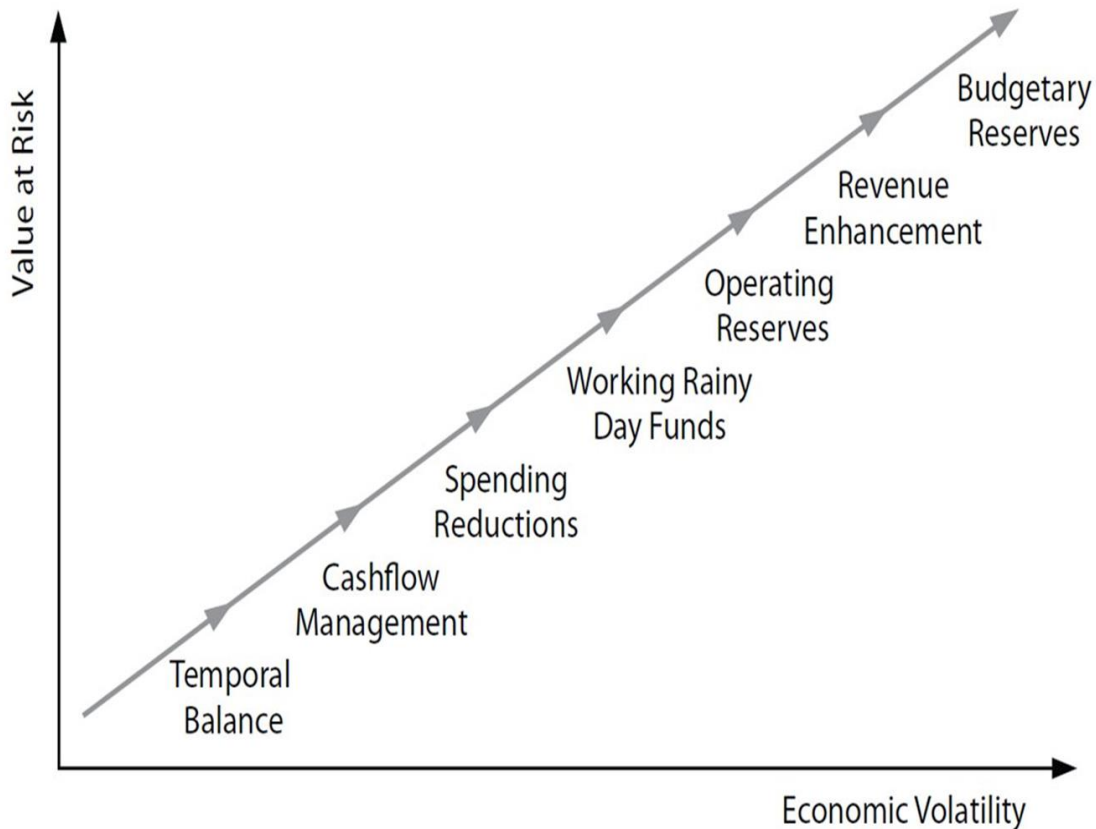
- Examine multiple scenarios or a range of scenarios and estimate the likelihood of each.
- Measure the effects of the scenarios on all major economically sensitive revenue sources and spending categories.
- Compare the effects of the scenarios to reasonable baseline expectations for revenue collections and spending.
- Project far enough into the future to account for the full multiyear effects of the scenarios on the budget.
- Identify a broad list of contingencies to balance the budget in the event of stress.
- Assess whether these contingencies would be sufficient to offset the measured effects and, if not, present options to improve preparedness.

Budget stress testing: Including expenditures



Source: Utah Office of the Legislative Fiscal Analyst

Building a fiscal toolkit



Source: [Kem C. Gardner Policy Institute at the University of Utah](#)

Temporal balance: matching ongoing expectations with more reliable revenue sources and using one-time windfalls for spending of limited scope.

Cashflow management: previous-year revenue collections carried into a succeeding fiscal year and budgeted for expenditure there.

Spending reductions: projects that can be delayed or lower-impact programs that can be eliminated or reduced.

Working rainy day funds: ongoing cash invested in infrastructure that can be replaced with debt financing for which a state has reserved capacity.

Operating reserves: unspent program balances, restricted account balances, spending triggers, and buffers that can be easily accessed.

Revenue enhancements: raising taxes or fees in areas with relatively inelastic demand functions (vehicle registration, property taxes, “sin” taxes).

Formal budget reserves: rainy day funds that can only be accessed when a state is in deficit.

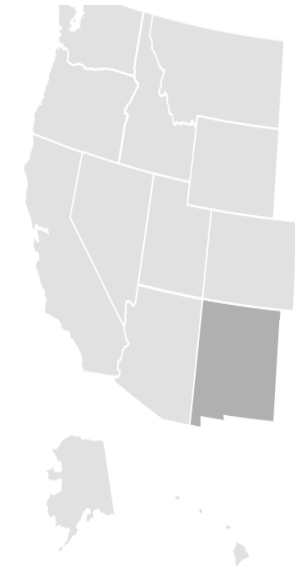
Fiscal 50: An updated resource for states

- State pages that help you keep track of trends in your home state.
- Interactive indicator pages with customizable and shareable data visualizations.
- “Budget Threads” – Pew’s read on the latest state fiscal news.

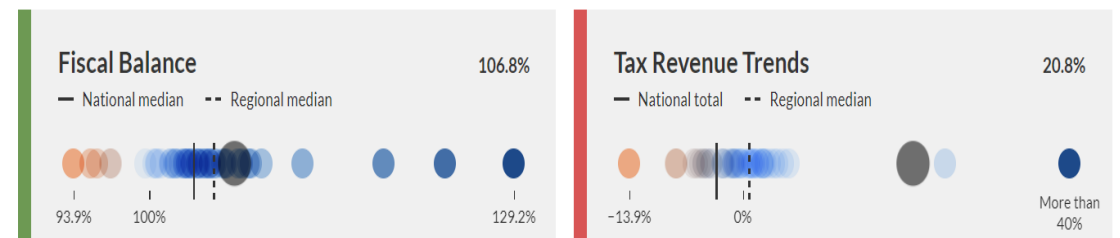
New Mexico

New Mexico raises 34.6% of its revenue from taxes, compared with 48.3% of total state revenue nationwide. Of its tax sources, New Mexico relies the most on severance taxes, followed by general sales taxes. New Mexico is the third most dependent on severance taxes among all the states. Across all 50 states, two-thirds of total state tax dollars come from levies on personal income (33.1%) and general sales of goods and services (32.3%).

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Fiscal Indicators for New Mexico



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